

Remarks at the Mid-Winter Congressional City Conference of the National League of Cities

March 2, 1981

It's a pleasure to be with you today for your annual Congressional City Conference. The last time I was in this room, not too many weeks ago, was for the National Prayer Breakfast. And I hope that what was said then and what I did then has had some lasting effect. I'm especially pleased to have been introduced by my longtime personal friend, Mayor Bill Hudnut.

I understand and appreciate the part your organization has played in the Pennsylvania Avenue development plan here in Washington. The new 12-story building you've constructed overlooking Western Plaza is a fine example of what can be done to revitalize the inner city. It should serve to stimulate others to invest in such worthwhile efforts.

As you're well aware, rejuvenation of the American economy is the number one priority of my administration. This, I believe, was the mandate of the voters last November. It was a mandate that I sought, yet something all elected officials should understand, because it's a mandate for all of us. The election did not commission me to attempt economic reform alone, but to work with elected officials -- Federal, State, and local -- to put America's economic house in order. And that's why I'm here.

We've got a job to do together, and I believe we should open a clean, clear line of communication now. Our job, of course, is to get the economy of the United States moving again. It's essential for you as representatives of the cities; it's essential for all of us as Americans. One thing is certain: The time for business as usual has passed.

In the last two decades, Americans have suffered oppressively increased taxation, inflation, unemployment, and interest rates. The middle class, the life-blood of democracy and the American way of life, cannot withstand these pressures indefinitely. And the economic tremors rippling through our economy suggest that these people are near the breaking point. I don't know how many of you earlier this morning might have had an opportunity to watch on television as some citizens were being interviewed who publicly have stated they are simply going to rebel at paying their income tax, and they're going to appeal to others to do the same.

We're suffering the worst inflation in 60 years. Almost 8 billion -- million -- Americans are continuing to be out of work. I've been here only a month, and I'm beginning to talk in billions when I mean millions. [Laughter] Interest rates have climbed to an unprecedented 20 percent, with home mortgage rates of 15 percent destroying for millions the dream of home ownership. Investment in industry is lagging behind our major competitors, with too much of the personal savings of our people flowing into nonproductive inflation hedges instead of job-creating, long-term investment or savings.

Millions of Americans feel that for them the standard of living is actually going down, and it is. It's shocking and a depressing fact that after being adjusted for the continued cheapening of the

dollar by inflation, the hourly earnings of American workers have dropped by 5 percent in the last 5 years. This is a complete reversal of the American experience and will have profound impact on the spirit of our people if something isn't done and done quickly.

And while our workers have been experiencing a decline in their standard of living, government has continued to spend money like there's no tomorrow. And come to think of it, that could be a self-fulfilling prophecy. In those same 5 years, those workers' taxes went up by 67 percent. Federal spending grew to 23 percent of the nation's gross national product, the highest peacetime share in our history. And the Federal Government has shown a deficit every year after 1969.

In fiscal year 1980 that deficit was \$59.6 billion, the second largest in history. And we face another deficit of similar magnitude in this year of fiscal 1981. Now, this kind of irresponsibility can't go on. What most Federal officials have been afraid to admit is that Federal spending has been for some time increasingly out of control. If left unchecked, the current situation would lead to a redoubling of the Federal budget within 5 years.

For a time, it's appeared that Congress had more solutions than the country had problems; or, put another way, I've said before that cures were developed for which there were no known diseases. Just conceiving of a program that might help someone somewhere was itself reason enough to pass a law and appropriate money. Eventually, with so many programs, safeguarding public funds became an impossible task. One government estimate suggested that between 1 and 10 percent of all spending on social programs was, and probably still is, being lost to fraud alone, at a cost of up to \$25 billion. When that cost or the cost of waste is added to that sum for fraud, the figures are even more appalling.

Of course, spending isn't the only aspect of government that seems out of control. In the last decade, American business and, yes, local government, has had to deal with an avalanche of Federal regulation. 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 cost of this has been staggering. An estimated \$100 billion per year -- now I can say billion -- is added on to the cost of everything we buy, just to pay for the cost of Federal regulations. And then there's the unseen cost which is harder to calculate but nonetheless devastating: Regulation tends to smother innovation, discourage new investment, increase labor costs, and reduce competition.

This Federal Goliath, unleashed and uncontrolled, brought us to the economic brink that is now confronting this Nation. Too many officials appear to feel totally helpless in the face of the monumental task of restoring order to the Federal Government's economic policies. Perhaps no one had the clout to get the job done. Whatever the reason, we now have much work to do. Together, we can put our economic house in order again and regain control of this situation.

We must realize that the economic crisis confronting America is not the result of a natural disaster or a catastrophe beyond our control. Inflation, unemployment -- all of it -- was basically caused by decisions that we, as a people, made. Now the only power needed to restore America's strength is willpower.

You may have heard a rumor to the effect that I've submitted a program to Congress, a four-part program which will get this country moving in the right direction again, I believe, increase the standard of living for our people, and cut the inflation and unemployment rates.

First, I've asked for a substantial reduction in the growth of Federal expenditures. Second, I've asked for a significant reduction in Federal tax rates. And third, I've asked for the prudent elimination of excessive regulation. Fourth, while recognizing the independence of the institution, I have pledged to work with the Federal Reserve Board to develop a monetary policy which is consistent with those policies.

Let me refer back to the second of those points and just add this one fact. All of us must accept the fact which has been proven in this century, proven here in our own country several times, that a reduction in Federal tax rates does not necessarily result in a reduction in tax revenues. The economy expands, it reduces the burden for the individual, but the overall share goes up as the base of the economy is broadened.

Now, these four complementary policies form an integrated and comprehensive program, the details of which have been examined by the best economic minds in the country, people who are working with me on a daily basis. However, this program now faces a political gauntlet of interest groups. And, may I say, I know that in many instances there's legitimate concern, concern that some worthwhile program is now going to be unable to meet the purpose for which it was founded. And yet at the same time, I'm finding it increasingly difficult not to call some of the interest groups selfish interest groups, because we are not cutting at the muscle fiber of these programs.

And this is where you come in. You are not only important because of the power you wield on Capitol Hill, but also because you are looking out for the interests of millions of citizens who inhabit the great urban areas of America. You and I have shared goals. We both want what is best for those who live in our cities, just as I'm sure we both want what is best for the people of this country, wherever they reside.

Now, I know that you, like all Americans, recognize the importance of getting our economic house in order. The plague of inflation and stagnation is brutalizing this country. I don't have to remind you of the effects on local government: The cost of every service you provide skyrockets; tax revenue declines when businesses close their doors; and when coupled with the increased unemployment, the economic burden reaches a critical stage. Local government was not designed to withstand this kind of economic upheaval. Unless something is done to turn the economy around, local governments will suffer right along with many other respected American institutions.

On principle, we should never forget this: There is no better Federal program than an expanding American economy.

Even as our program for economic recovery awaits action by the Congress, we've already started to do what we can within the executive branch to cut back spending and regulation.

The Office of Management and Budget is now putting together an interagency task force to vigorously attack waste and fraud. Highly motivated and expertly trained professionals will be appointed as Inspectors General to the Cabinet departments.

We've suspended for 2 months the flood of last-minute rulemaking done by the previous administration so that we can look closely at it. We've eliminated the ineffective and counterproductive wage and price standards of the Council on Wage and Price Stability. We accelerated the decontrol of domestic oil. We have concentrated our efforts to enhance the effectiveness of the Paperwork Reduction Act of 1980. We placed a freeze on Federal hiring.

We've also begun taking action on particularly controversial rules. For example, rules mandating extensive bilingual education programs, passive restraints in large cars, the unnecessary labeling of chemicals in the workplace, controls on garbage truck noise, and increased overtime payments for executives have been withdrawn or postponed. These actions alone are expected to save the American public and industry almost \$1 billion annually.

The administration will be reviewing a host of other regulations in the near future. Vice President Bush, who will be meeting with your executive committee this afternoon, is heading a special Presidential task force to clear away many regulatory roadblocks, as many as possible. His role in our regulatory reform effort should suggest the importance that we place on this issue. I'm aware that Bill Hudnut is circulating a questionnaire regarding regulatory relief which will be presented to the Vice President and the Task Force on Regulatory Relief this afternoon.

Now, all of this is being done to start us on the road toward recovery. What is important is that we begin. I'm sure we'll get there -- if we work together.

Now, there are those who oppose almost everything in the economic program. They oppose the program, but for the most part they offer no alternative. Well, hoping things will get better won't make it so. I've been told that some Members of Congress disagree with my tax cut proposal. Well, you know it's been said that taxation is the art of plucking the feathers without killing the bird. [Laughter] It's time they realized the bird just doesn't have any feathers left. [Laughter] Maybe some of you have heard me put it a different way on several occasions when I've said that robbing Peter to pay Paul won't work anymore, because Peter's been bankrupt for some time now. [Laughter]

Nevertheless, the real threat to recovery comes from those who will oppose only a small part of the overall program, while supporting the overall effort. Needless to say, the small portion these parochial groups oppose always deals with the cuts that affect them directly. Those cuts they oppose. They favor cutting everybody else's subsidy as an important step in ending inflation and getting the country moving again. The accumulative effect of this shortsightedness can be damaging. We're all in the same boat, and we have to get the engines started before the boat goes over the falls.

Now, we've tried to be as fair and evenhanded in developing our package as was humanly possible. It's important to remember, when someone says that the administration is planning to cut the budget, what we really mean is we're planning to cut the growth in the fiscal year '82

budget from 16 percent to 7 percent. And even with our cuts, that 7 percent means that spending in fiscal year '82 will go up over fiscal year 1981 by about \$40 billion.

Within this restructuring that we've proposed, some programs are eliminated, but others are strengthened. And we did nothing to weaken the social safety net which protects the truly needy in this society. As a matter of fact, when we reformed welfare in California, we discovered that the really truly deserving people that we were trying to help weren't helped as much as they should be helped, simply because of excesses administratively, duplication, and people who were not truly needy. We had spread ourselves so thin, that we didn't have the resources available to really take care of those with great need.

Full retirement benefits for more than 31 million social security recipients will be continued, along with an annual cost-of-living increase. The Medicare program will not be cut, nor will veterans pensions, nor supplemental income for the blind, aged, and disabled. The school lunch and breakfast programs will continue for the children of low-income families, as will nutrition and other special services for the aging. And, yes, there will be no cut in Project Head Start or summer youth jobs. When considering these essential programs, please remember the very best thing that can be done to strengthen things like social security is to get the American economy going and put people back to work, so they will be paying into the trust fund once again.

Now, I know there will be those who will charge that we're requiring sacrifices from the rest of the government, but not from the Defense Department. They'll suggest this proves we're not evenhanded as we promised. Well, I would remind those of you who wish to get beyond the slogans to examine my appointment to the job of Secretary of Defense. Cap Weinberger is anything but a big spender and was once given a nickname here in government to confirm that fact. So although the international situation dictates more spending for defense, it does not mean the Defense Department will be free from the cut-and-trim philosophy of this administration. I can assure you that Cap is going to do a lot of trimming over there in Defense to make sure the American taxpayer is getting more bang for every buck that is spent. I've even heard that there was a sigh of relief in several other departments when it was learned that Cap-the-Knife was going to Defense, and not to those other departments. [Laughter]

In our attempt to be evenhanded, we tried, whenever possible, to cushion the budget blows. In the case of money going to the cities, yes, undeniably, we're cutting the amount of money the cities could have expected had we continued through the economic crisis with a business-as-usual attitude. But while we are reducing some of these subsidies, we are at the same time converting many categorical grants into block grants, thus reducing wasteful Federal administrative overhead and giving local governments more flexibility and control. And corresponding to that, we're working to end duplication of Federal programs and reforming those that are not cost-effective.

Take, for example, the Urban Development Action Grants program, UDAG. I want to let you all know that we've decided to preserve the UDAG function in the Presidential program. But here's what we are doing. The UDAG function and the Community Development Grant program will be combined into a Community Development Support program, and we will be sending legislation up to the Hill in the near future to enable the UDAG function to continue.

As I said, we will be funding this new community support function at a slightly smaller amount than before, but we will be providing greater flexibility and autonomy to localities which show the ability to run these programs effectively. We believe the reduction will be largely covered by the elimination of administrative overhead. We're cutting fat, not muscle.

We're giving local government the power to decide what will be done with the money. Handled efficiently, the level of benefits may not suffer as might be suggested at first glance. However, there could well be something in local government that can and should be cut back during these times of economic hardship. If so, you will set your own priorities. You, not some Washington bureaucrat, will decide where the cuts will be made if cuts are necessary.

I know that accepting responsibility, especially for cutbacks, is not easy. But this package should be looked at by State and local governments as a great step toward not only getting America moving again but toward restructuring the power system which led to the economic stagnation and urban deterioration.

But for many of this country's major cities, economic stagnation is not a recent phenomenon. Increasingly, while power centralized in Washington, D.C., many great urban areas declined. I've always thought that Washington didn't have the same problems other cities did, to a certain extent because they grabbed hold of the fastest growing industry in America. [Laughter]

Many cities cannot even remember a time when they were economically healthy, but they were not always blighted with seemingly unsolvable problems. In the last century, American cities were shining examples of enterprise. They were places of optimism, where free men and women working together didn't know the meaning of the word "impossible." Alexis de Tocqueville noted the vitality of American cities when touring this country in the 1830's. He observed: "Towns are like great meeting houses with all the inhabitants as members. In them the people wield immense influence over their magistrates and often carry their desires into execution without intermediaries."

He described a land and a people which seem a far cry from those of today. But why? We're the same people. If we're not, what is different? Well, the answer to that is the increased intervention by Federal authority. Only 50 years ago, Americans still felt they could accomplish anything, and they did. Today, the descendants of these pathfinders peer through a maze of government regulations and often give up even before they've tried.

Local officials who once saw the local voters as boss now look to Washington, D.C., before considering a move. And what once was a Federal helping hand is quickly turning into a mailed fist. Instead of assistance, the Federal Government is giving orders. They call them mandates. More often than not the command comes from Washington, but few funds to implement the order can be found in the envelope. Mayor Koch of New York has detailed the problem of mandates better than anyone. Last year, he said his city was driven by 47 Federal and State mandates, with a total cost of \$711 million in capital expenditures, 6.25 billion in expense-budget dollars, and \$1.66 billion in lost revenue. And people wonder why New York sings the blues.

Not only are the funds not available to meet all these mandates, often the mandates themselves are impossible to fulfill. In Fairfax County, Virginia, for example, students come from 50 different language backgrounds, 15 of which are spoken by more than 20 students. Were it able to follow the former HHS guidelines, the county would incur the expense of sponsoring bilingual programs in 15 different languages, including Urdu, Hindi, and Laotian.

Now, bilingual education -- there is a need, but there is also a purpose that has been distorted, again at the Federal level. Where there are predominantly students speaking a foreign language at home, coming to school and being taught in English, and they fall behind or are unable to keep up in some subjects because of the lack of knowledge of the language, I think it is proper that we have teachers equipped who can get at them in their own language and understand why it is they don't get the answer to the problem and help them in that way. But it is absolutely wrong and against the American concept to have a bilingual education program that is now openly, admittedly dedicated to preserving their native language and never getting them adequate in English so they can go out into the job market and participate. [Applause] Thank you.

Today, I renew a pledge I made to your conference in Atlanta in December. I will examine the mandates issued by the Federal Government and take action to remove any undue burden placed upon local governments throughout this country.

Centralization of power in the hands of the Federal Government didn't happen by accident. Over the years local officials helped create this power flow by turning to the Federal Government for solutions to local problems. It appeared to be an easy way out. But now you're becoming more aware that to get a job done, the very last thing you should ask for is Federal money. [Laughter] First, there are so many strings attached that Federal projects take a lot longer to complete. And second, local money pays the bill anyway. Once the Federal vacuum cleaner gets through with the pockets of the local taxpayers, there isn't enough spare change left to run local government. [Laughter]

What we must do is strive to recapture the bounty of vigor and optimism de Tocqueville found in American cities. We can start by reestablishing the proper relationship between the Federal, State, and local governments. The block grant program in our package is the first step. It cuts considerable redtape and returns power and decisions to the cities for money taken by the Federal Government. It is something that we, in the years ahead, can build upon.

Shortly, my administration will announce the creation of a federalism task force to find out, specifically, what can be done to reestablish the balance between the levels of government. Your input and participation will be important in this process. Working together, we can establish a dialog about the proper functions of the respective levels of government and go about restructuring the federal system to maximize efficiency and freedom.

That is, as I've said, just a start. But it is a step, a first step, in the right direction. I hope in the years to come we'll be in direct communication. It'll take teamwork to get this country back on the right track, and it won't happen overnight. You can count on my cooperation to make the cities of America once again the thriving areas of commerce, culture, and freedom that once attracted the attention of people the world over. If we don't start now, who will, and when?

Thank you.

Note: The President spoke at 12:20 p.m. in the International Ballroom at the Washington Hilton Hotel.