

Ronald Reagan Presidential Library Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection:

Ronald Reagan Research Room Reference Material

Folder Title:

The Reagan Presidency: A Review of the First Year, 1981

To see more digitized collections visit:

<https://www.reaganlibrary.gov/archives/digitized-textual-material>

To see all Ronald Reagan Presidential Library Inventories, visit:

<https://www.reaganlibrary.gov/archives/white-house-inventories>

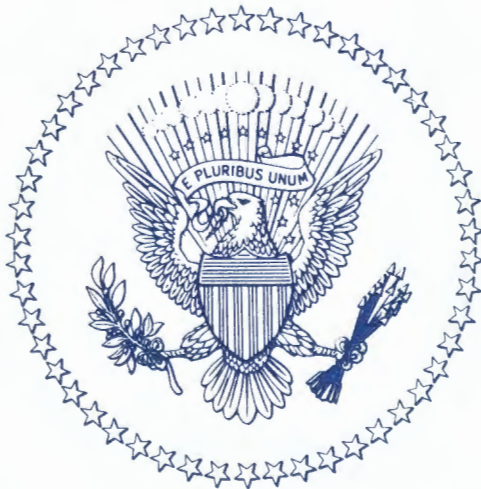
Contact a reference archivist at: **reagan.library@nara.gov**

Citation Guidelines: <https://reaganlibrary.gov/archives/research-support/citation-guide>

National Archives Catalogue: <https://catalog.archives.gov/>

Last Updated: 04/19/2024

THE REAGAN PRESIDENCY



A REVIEW OF THE FIRST YEAR

1981

THE
REAGAN
PRESIDENCY

A NEW BEGINNING:

A REVIEW OF THE FIRST YEAR

1981

A Report Compiled and Edited by the
White House Office of Public Affairs

Michael E. Baroody - Director

Editors:

Barbara Gleason
Christopher Rizzuto

Editorial Assistance From:

Pamela Lowe
Jane Chenoweth

TABLE OF CONTENTS

I.	The Reagan Presidency in 1981: A New Beginning	1
II.	A Summary of Major Accomplishments	3
III.	A Chronology of the First Year	7
IV.	The Office of the Vice President	17
V.	President Reagan's Economic Policy	
	- An End to Business-As-Usual	19
	- Cutting the Growth of Federal Spending	23
	- Reducing the Tax Burden	24
	- Regulatory Reform	28
	- Monetary Policy	29
	- Preserving the Social Safety-Net	30
VI.	Making Government Work	
	- Effective Management of the Executive Branch	31
	- A Shift Back to State and Local Government	36
	- The Campaign Against Waste and Fraud	39
	- Private Sector Initiatives	42
VII.	Other Domestic Concerns	
	- Additional Economic Issues	
	Domestic Finance	44
	Tax Policy Details	45
	- Commerce and Trade	
	Antitrust Enforcement	48
	Consumers	49

Small Business	50
Transportation	52
Science and Technology	56
International Trade	57
- Human Concerns	
Education	60
Older Americans	64
Handicapped	67
Health Care	69
Welfare	71
Housing	72
Civil Rights	74
Law Enforcement	76
Immigration and Refugees	79
Minorities	80
Labor	84
Women	86
Veterans	88
- Food and Agriculture	
Farming	89
Food and Nutrition	90
- Natural Resources and Environment	
Energy	92
Environment	95
VIII. A Comprehensive Program for National Defense	
- The Need for Action	98
- Peace Through Strength	100

- Efficiency and Savings	104
- Manpower and Recruitment	105
- Arms Control Considerations	106
- Getting the Job Done	106
IX. Reasserting U.S. Leadership	
- Initiatives for Peace and Freedom	109
- Restoring Military Strength and Economic Health ...	111
- Relations with the Soviet Union	111
- Promoting Peaceful Progress	113
- Renewed Alliances and New Friendships	114
The United States in the United Nations	118
Global Issues	121
Intelligence	123
X. Ronald Reagan the Communicator	124
XI. Meetings with Foreign Leaders	125
XII. Graphs	
- Inflation	21
- Interest Rates	22
- Tax Reductions: Family of Four	26
- U.S.-Soviet Military Production	99
- U.S. Defense v. non-Defense Spending	103

A NEW BEGINNING

It was a time of crisis and renewal. Not since the opening days of Franklin Roosevelt's New Deal had an incoming President been faced with such a broad array of challenges; and not since the New Deal had an incoming President gone to the people and the Congress with so sweeping a series of initiatives -- a program designed to turn the nation around and restore American strength, prosperity and greatness.

In January of 1981 the people of this country had just suffered through the first back to-back years of double-digit inflation since World War I. Interest rates were climbing above 20 percent -- higher than they had been since the Civil War. American workers were just saddled with the largest tax hike in history, yet yearly budget deficits were continuing to rise and the national debt was ready to break through the trillion-dollar mark.

Overseas, both our allies and our adversaries had begun to doubt the resolve of the most powerful nation on earth. America was perceived by many as an inconsistent friend and uncertain foe. Our defensive capability was seriously in question. During a period when NATO had been removing nuclear warheads, the Soviet Union was deploying new ones. Strategic Arms Limitation Talks were dead and the global balance of power was threatened.

Believing that the American people had sent him to Washington to end the decades of government mismanagement that had produced these problems, President Reagan immediately began to work changes that would return the country to the policies that had once made it great.

"For years, Government spending and taxation have grown faster than the underlying economy," the President said. "The American people elected us to reverse that trend, and that's just what we've begun to do."

Under the President's leadership, the Congress in 1981 passed the largest spending reductions in the history of the nation, and was warned that more were needed. American workers received the largest tax rate cut in history and business and industry were given new incentives to produce and invest.

Initiatives by the Vice President's Task Force on Regulatory Relief reduced the pace of new Government regulations by more than one-third while the Federal Reserve followed a policy of slow and steady money growth. By the end of 1981, the President's fight against waste and fraud had saved the taxpayers \$2 billion, the size of the Federal bureaucracy had been cut, and power and responsibility that did not belong in Washington was being returned to state and local government. Moreover, prime interest rates had

fallen six points, inflation was in single digits and the rate of increase in the cost of government had been cut nearly in half.

A recession caused by past policy mistakes gripped the country at year's end, but for the first time in many years, Americans felt there was hope. In December, President Reagan said America was "on the path of what will cure this recession," but he warned the cure would not be quick. "You can't undo in 11 weeks what it took several decades to create."

In addition to his domestic achievements, the President also made considerable headway in meeting foreign challenges. He came into office espousing the view that in order to regain respect overseas, the United States must once again become a strong, reliable partner in the search for peace. Mr. Reagan immediately set the nation upon that course, proposing a major rearming of our armed forces. Despite repeated predictions that the Congress would not go along, the country by the end of the year was pledged to substantial increases in defense spending. It was in that context that the President in November made a dramatic speech calling for nuclear arms reductions with the Soviet Union. In the President's view, the U.S. would for the first time in a number of years come to the bargaining table in a position of military strength.

Beyond the matter of national defense, President Reagan engaged in a number of other foreign policy initiatives in 1981; the Habib mission to the Middle East; laying the basis for a Caribbean Basin plan; new efforts to achieve allied unity; a new plan for Namibian independence...

As the year came to a close, it was clear that there were many challenges still ahead, both at home and abroad, but it was equally clear that 1981 had indeed been a "new beginning". The "Reagan Revolution" was underway; its course was set. Gradually, the country was moving toward a restoration of strength at home and abroad. Of equal importance, the President's view was that the American people had begun to believe in themselves once again -- to believe that they could shape their own destiny and once again enjoy the fruits of a peaceful, more prosperous world.

At the close of the Yorktown Bicentennial celebration, the President said, "We have been trusted with freedom and must ensure it for our children and for their children...We have economic problems at home and we live in a troubled and violent world. But there is a moral fibre running through our people that makes us more than strong enough to face the tests ahead." Quoting Thomas Paine, he said, "We have it in our power to begin the world over again." He added, "We only have to act worthy of ourselves."

A SUMMARY OF MAJOR REAGAN ACCOMPLISHMENTS IN 1981

A foundation for economic recovery has been put in place.

1.) The largest tax cut in history has been enacted: to total \$280 billion by 1984; \$750 billion by 1986.

- individual rates to fall by 25 percent by 1984
- savings incentives such as expanded IRAs
- accelerated write-offs for business

2.) The growth of federal spending has been cut in half: it was growing at over 14 percent per year on average over the last three years -- it is now down to 7-1/2 percent.

-- Total budget savings of \$40 billion for fiscal '82. Safety-net firmly in place.

-- Waste and fraud campaign producing results -- \$2 billion saved in six months.

- Brought in 1179 indictments, 656 convictions for fraud.

- Uncovered over \$1.2 million in counterfeit food stamps in just one investigation in just one city alone (Chicago).

-- New debt collection emphasis also paying off. For example:

- Cross-match of Social Security lists found 8500 dead people still being sent checks.

- Farmer's Home Administration already reduced backlog of bad debts by \$1 billion.

3.) Regulatory activity has been cut substantially.

-- Number of new pages in the Federal Register is running one third below last year:

- in first 10 months of '80 -- 73,061 pages,
- in first 10 months of '81 -- 51,412 pages,
21,649 pages less.

-- The number of new rules is one-half of last year's total.

- For the first time, an effective White House review procedure is in place. A total of more than 2500 regulatory reviews completed this year. \$2 billion saved in operating costs, about \$5 billion in capital cost savings this year alone.
- 4.) At year's end, some results are beginning to show.
- Inflation and interest rates have been the greatest obstacles to recovery -- both down dramatically.
 - Year should end with inflation rate under 10 percent for first time since 1978. Was 13.3 in 1979 and 12.4 in 1980. October rate was 4.4 percent.
 - Prime interest rates were 21.5 percent last December; peaked again last summer but have fallen fast since -- to 15-1/2 percent.
- 5.) President Reagan is making government work. Flexibility and authority is being restored to state and local government through federalism approach.
- The President obtained some grant consolidation; not all he wanted but a start. Had asked for block grants to replace about one-in-five of federal programs; got a little more than one-in-ten.
 - 57 categorical programs combined nine block grants by Congress; paperwork, regulations vastly reduced -- and overhead costs. Example:
 - HHS block grant regulations take only six Federal Register pages, replacing 318 pages of former federal rules.
 - The President also made Cabinet government a reality -- five Cabinet Councils have met 129 times this year; met with full Cabinet 29 times.
- 6.) A strong, productive relationship has been established with Congress.
- From the beginning, President Reagan has sought to meet the Congress half way, frequently traveling to Capitol Hill to talk with the leadership. Held regular meetings with both Republicans and Democrats in the White House.

- Had to use the veto only once -- on the 1982 Continuing Resolution. Action produced compromise with Congress the same day.

- Has begun to build a philosophical coalition in the House and in the Senate. Not only working well with Democrats, but Republicans in House have had one of the lowest Presidential disagreement rates in years.

- President Reagan has won seven straight major victories on key votes:

- Gramm Latta I
- Gramm Latta II
- Tax Cuts
- AWACS
- Defense Appropriations
- Foreign Aid
- Continuing Resolution

7.) The first comprehensive strategic force modernization plan in 20 years has been developed. Modernization plan includes development of the:

- MX, B-1 (followed by "Stealth"), upgrading of communications and control systems, a new Trident II submarine missile, and enhanced strategic defense to protect mainland U.S.

- Plan will help to close "window of vulnerability"; double number of U.S. strategic weapons able to survive a Soviet strike by 1990.

- All can be paid for from defense funds already in the budget. Strategic weapons over next five years will account for less than 15 percent of overall defense spending compared to 20 percent in 60s.

8.) U.S. has furthered the cause of peace and freedom in the world.

- Call for so-called "zero-option" concerning intermediate range nuclear missiles in Europe illustrates commitment to arms reduction; also proposed to open strategic arms negotiations with the Soviet Union as soon as possible next year.

- Ambassador Philip Habib's mission brought cessation of hostilities in Lebanon when fighting was imminent last May.

- Life brought to stalled talks on Camp David autonomy.

- U.S. leadership led to start-up of stalled Namibian independence efforts; U.S. reconvened allied groups of U.S., U.K., Canada, West Germany and France to try to work out genuine independence for Namibia.
- President sent two AWACS to stations in Egypt to shore up air defenses there after Sadat assassination led to period of heightened tensions.

9.) More consistent, effective relations have been established with world leaders.

- President met several times each with leaders of Great Britain, W. Germany, France (strengthen alliance). Also four times with Trudeau, three times with Lopez-Portillo (new emphasis on North America).
- President held total of 72 meetings with foreign leaders, including the two summits at Ottawa (developed nations) and Cancun (Third World issues).
- President's message of economic self-development, more trade than aid, was supposed to provoke hostility at Cancun. Provoked dialogue instead.

A CHRONOLOGY OF THE FIRST YEAR

- January 20 President Reagan sworn into office, first ever on West front of the Capitol; immediately announces a freeze on federal hiring.
- January 20 The President announces his nominees for the Cabinet.
- January 21 The President swears-in the White House staff; requests resignations of Carter appointees.
- January 22 The President signs memorandum to Executive departments and agencies ordering reductions in federal spending for consulting contracts, superfluous office redecoration and other non-essentials.
- January 22 The President signs an Executive Order establishing the Task Force on Regulatory Relief, chaired by Vice President Bush, to identify and lessen needlessly burdensome government regulations.
- January 28 The President signs an Executive Order decontrolling oil to promote more prudent conservation and vigorous domestic production.
- January 29 The President signs an Executive Order eliminating the wage and price program of the Council on Wage and Price Stability.
- January 29 First nationally televised Presidential news conference.
- February 3 Senate completes action on Cabinet nominations; Cabinet completed.
- February 4 The President meets with the bipartisan Congressional leadership in his first trip to Capitol Hill after inauguration.
- February 5 The President makes his first nationally televised address to the nation outlining the state of the economy and describing his plans for recovery.
- February 7 The President approves an Act to provide for a temporary increase in the public debt to \$985 billion.
- February 13 The President withdraws 33 budget rescission proposals — totalling \$1.4 million dollars; converts them to deferrals to help curtail the growth of government.

February 17 The President signs an Executive Order requiring Office of Management and Budget review of proposed new regulations to improve their quality and lessen their burden.

February 17 The President issues an Executive Order ending all emergency building temperature restrictions.

February 17 The President issues an Executive Order allowing the Export Administration Act of 1979 to be implemented with minimum regulatory burden.

February 18 The President makes televised address to joint session of Congress; outlines his Program for Economic Recovery Recovery.

February 24 The President issues an Executive Order suspending litigation against Iran; implements the Claims Settlement Agreement agreed upon by the U.S. and Iran before the release of the hostages.

February 24 The President issues an Executive Order extending the Atomic Energy Act, saying failure to continue peaceful nuclear cooperation with the European Atomic Energy Community would be against U.S. nonproliferation objectives and jeopardize U.S. defense and security.

February 26 The Administration formally constitutes five Cabinet Councils.

March 2 The President issues an Executive Order establishing the President's Economic Policy Advisory Board, chaired by George Shultz; will advise the Administration on domestic and international economic policy.

March 2 The President speaks at the Mid-Winter Congressional City Conference of the National League of Cities in Washington, D.C.

March 5 The President approves federal aid to Atlanta in the wake of child killings there.

March 6 Nationally televised Presidential news conference.

March 9 The President proposes replacing federal hiring freeze with permanent federal hiring guidelines; part of budget package to be sent to Congress. Plan will reduce federal civilian employment by 33,000 in fiscal '81.

March 10 The President submits to Congress more details of the Program for Economic Recovery outlining 200 additional budget cuts.

- March 13 The President directs the Federal Emergency Management Agency to replenish the national stockpile of strategic materials stored for defense purposes.
- March 19 The President meets with the Automobile Task Force, headed by Secretary of Transportation Drew Lewis, to discuss the situation in the U.S. auto industry.
- March 20 The President outlines his political philosophy in a speech at the Conservative Political Action Conference dinner in Washington, D.C.
- March 24 The President announces his decision to have Vice President Bush chair the Administration's "crisis management" team, as part of the National Security Council system.
- March 26 The President issues an Executive Order to establish the Council on Integrity and Efficiency in federal programs to be chaired by Edwin L. Harper; the Council will identify and eliminate federal waste, fraud and abuse.
- March 26 The United States declares Poland should be allowed to resolve its own problems without interference from any outside power.
- March 30 Attempted assassination of President Reagan by John Hinckley, Jr.; Press Secretary James Brady also shot and gravely wounded; Secret Service Agent Timothy McCarthy and D.C. Metropolitan Police Officer Thomas Delahanty also wounded; incident occurred after President spoke to AFL-CIO members at the Washington Hilton Hotel.
- March 31 The President approves an Act providing for cuts in dairy price supports.
- April 1 The Administration withholds aid to Nicaragua because of that country's arms trafficking to El Salvadorian guerillas.
- April 1 President Reagan amends the Generalized System of Preferences in an Executive Order; allows Third World countries favorable trade treatment.
- April 6 The President proposes to ease 34 environmental and safety regulations to help restore the auto industry by eliminating the need for \$1.4 billion in capital costs; proposal will lower consumer prices by \$9.3 billion over the next five years.

- April 8 The President issues an Executive Order establishing the Presidential Advisory Committee on Federalism and Coordinating Task Force on Federalism chaired by U.S. Senator Paul Laxalt, to better define the relationship between federal and state power.
- April 11 The President returns to the White House after 12 days in the hospital.
- April 21 The President announces his decision to sell AWACS planes to Saudi Arabia.
- April 22 The President sends to the Senate the nomination of Ernest LeFever to be Assistant Secretary of State for Human Rights and Humanitarian Affairs.
- April 23 The President directs federal agencies to develop more effective debt collection practices.
- April 24 The President lifts the Soviet grain embargo.
- April 28 The President makes a nationally televised speech before a joint session of Congress; discusses his Program for Economic Recovery.
- May 1 Japanese government announces its voluntary decision to limit auto exports to the U.S. for two years.
- May 4 The Administration submits proposals to Congress for welfare cutbacks which would reduce welfare costs by \$1 billion in 1982.
- May 4 The Administration reverses the policy of activist currency intervention. U.S. will now only intervene in foreign exchange markets in times of emergency to protect U.S. dollar.
- May 5 The President terminates eight unnecessary federal advisory committees in an effort to reduce the size of government.
- May 5 The President announces Philip Habib's mission to Israel, Lebanon and Syria to explore ways to reduce tension produced by Syria's deployment of surface-to-air missiles in Lebanon.
- May 6 The Administration orders the Libyan diplomatic mission closed.
- May 7 The House approves the Reagan bipartisan (Gramm-Latta) budget resolution.

May 12 The Senate approves the President's budget, incorporating major features of the House supported Gramm-Latta I spending resolution.

May 12 HHS Secretary Schweiker announces President's proposed Social Security revisions to return the system to financial stability yet protect basic benefits; proposals included changes in benefits to future early retirees and a three-month deferral of the 1981 cost of living increase for beneficiaries.

May 14 House and Senate conferees agree on the budget resolution.

May 17 The President addresses the 1981 graduating class at Notre Dame University commencement exercises.

May 20 The House agrees to the Conference Report on the budget

May 21 The Senate agrees to Conference Report on the budget.

May 27 The President addresses the 1981 graduating class at West Point commencement exercises.

May 28 In a formal letter to Congressional leaders, the President further defines the Administration's Social Security proposals outlining his commitment to three reforms and principles; asks for a bipartisan effort to save the Social Security system.

June 2 The President extends the Trade Act to promote better relations with Romania, Hungary and the People's Republic of China.

June 5 The President approves the Supplemental Appropriations and Rescission Act providing additional funds for certain agencies and rescinding funds for others.

June 5 The President issues an Executive Order establishing the Task Force on the Arts and Humanities, co-chaired by Hanna H. Gray, Charlton Heston and Daniel J. Terra; to find ways to enhance private sector support for the arts and humanities.

June 5 Ernest LeFever asks that his name be withdrawn as the President's nominee to be Assistant Secretary of State for Human Rights and Humanitarian Affairs.

June 12 The President proclaims July 17, 1981, National P.O.W.-M.I.A. Recognition Day.

June 16 Nationally televised Presidential news conference.

- June 16 The President issues an Executive Order establishing the Presidential Advisory Commission on National Housing Policies chaired by William McKenna.
- June 25 The Senate approves the Omnibus Budget Reconciliation Bill.
- June 26 The House passes the Reagan bipartisan (Gramm-Latta II) budget, cutting the rate of federal spending growth in half.
- June 29 The President speaks at the annual convention of the National Association for the Advancement of Colored People (NAACP) in Denver.
- July 7 The President nominates Sandra Day O'Connor of Arizona to be the first woman Justice of the Supreme Court.
- July 8 President Reagan establishes the Military Manpower Task Force to determine effectiveness of the all-volunteer armed forces.
- July 16 The President announces U.S. policies for preventing spread of nuclear explosives and strengthening peaceful nuclear cooperation.
- July 17 The Administration releases a national energy plan, stressing a free market approach to the nation's energy problems.
- July 20-22 The President attends Ottawa Economic Summit Conference.
- July 22 The President establishes Federal Regional Council to form interagency coordinating groups.
- July 27 The President makes a television address to the nation to appeal for citizen support for his tax plan.
- July 29 Congress passes the President's Economic Recovery Tax Act of 1981 — the largest tax cut in history.
- July 30 The President announces major immigration and refugee policy.
- July 30 The President speaks at the annual convention of the National Conference of State Legislatures in Atlanta.

July 31 The House and Senate agree on the Conference Report on the Omnibus Budget Reconciliation Bill.

August 3 The President responds on national television to an illegal strike by air traffic controllers; announces that those who do not return to work in 48 hours will be dismissed from the government.

August 5 The Administration announces 11 guidelines to revise the Clean Air Act, proposing them to the Congress as a basis for amending the Act.

August 6 The President signs legislation passed at his request transferring the Maritime Administration from the Department of Commerce to the Department of Transportation, thus consolidating transportation agencies within DOT.

August 13 The President signs into law the Economic Recovery Tax Act of 1981 and the Omnibus Budget Reconciliation Act of 1981; holds an informal press conference.

August 14 The President issues an Executive Order to coordinate federal response actions on environmental hazards.

August 20 Two U.S. Navy fighters shoot down two attacking Libyan fighters during a training exercise in the Mediterranean.

September 9 The President orders the termination of the six river basin commissions established to carry out the Water Resources Planning Act.

September 15 The President announces a program to increase participation of historically Black colleges and universities in federal programs.

September 18 The President speaks at the dedication of the Gerald Ford Presidential Museum in Grand Rapids, Michigan; meets with President Lopez Portillo of Mexico, Prime Minister Trudeau of Canada and Former President Giscard d'Estaing of France.

September 22 The President establishes the Presidential Commission on Broadcasting to Cuba.

September 24 The President addresses the nation on national television on his Program for Economic Recovery; proposes additional spending cuts of \$8.4 billion for fiscal '82; withdraws Social Security reform proposals and calls for appointment of bipartisan commission.

- September 25 The President cancels proposed school lunch regulations defining "ketchup as a vegetable."
- September 25 Sandra O'Connor sworn in as the first woman Justice of the Supreme Court.
- September 28 The President outlines the Administration's plans to combat crime in America in speech to the International Association of Chiefs of Police in New Orleans.
- September 29 The President issues an Executive Order and proclamation on interdicting illegal aliens attempting to enter the U.S.
- September 30 The President signs a bill raising the national debt ceiling to more than \$1 trillion dollars.
- October 1 The Administration authorizes sales to the USSR of an additional 15 million metric tons of grain in the current year.
- October 1 Nationally televised Presidential news conference.
- October 1 The President signs an Executive Order allowing Fort Allen to be used for the immediate relocation and temporary housing of Haitian nationals.
- October 2 The President announces five-part comprehensive plan for modernization of U.S. strategic forces including his decision on the B-1 bomber and MX missile.
- October 8 The Administration announces a series of nuclear energy policy initiatives to help meet America's need for new energy supplies.
- October 8 Former Presidents Nixon, Ford and Carter meet with the President in the White House then depart for Cairo to attend President Sadat's funeral.
- October 14 The President establishes Task Force on Private Sector Initiatives; will promote private sector involvement in meeting social problems.
- October 18-19 The President attends the Yorktown Bicentennial celebration in Yorktown, Virginia, with French President Mitterrand.

- October 20 The President establishes the President's Foreign Intelligence Advisory Board, chaired by Anne Armstrong; will enhance U.S. security by improving the quality and effectiveness of intelligence available to the U.S. The President also names members of the Intelligence oversight Board to ensure the legality of the intelligence community.
- October 21-24 The President attends Cancun Summit.
- October 28 Senate approves sale of five AWACS planes to Saudi Arabia.
- November 3 The President signs Veteran's Health Care Training and Small Business Loan Act of 1981 extending programs for Vietnam-era veterans.
- November 6 President Reagan announces a policy favoring the extension of the Voting Rights Act.
- November 9 The President submits to the Senate the nomination of Elliott Abrams to be Assistant Secretary of State for Human Rights and Humanitarian Affairs.
- November 10 Nationally televised Presidential news conference.
- November 12 The President meets with OMB Director David Stockman, declines his resignation offer; Stockman discusses controversial Atlantic Monthly article in press conference.
- November 17 The President announces all branches of the U.S. military achieved their recruiting goals for fiscal '81 -- the most successful year since the start of an all volunteer force in 1973.
- November 17 The Senate confirms the nomination of Elliott Abrams to be Assistant Secretary of State for Human Rights and Humanitarian Affairs.
- November 18 The President addresses the nation and the world via satellite to propose elimination of intermediate range, land-based missiles in Europe.
- November 23 The President issues his first veto; disapproves of the continuing resolution for fiscal '82 appropriations. Later the same day, after compromise with Congress is achieved, the President signs legislation temporarily extending the continuing resolution for fiscal '82 appropriations through December 15, 1981.
- November 23 Presidential Press Secretary James Brady returns to his home after an eight month hospital stay.

November 29 Richard Allen, National Security Advisor, takes administrative leave of absence.

November 30 Beginning of U.S.-Soviet European arms reductions talks with U.S. negotiator Paul Nitze and Soviet negotiator Yuliy Kvitsinskiy.

December 1 The President meets with officials of the Teamsters Union.

December 2 The President meets with members of the AFL-CIO Executive Council to discuss future consultations on national issues.

December 3 The President meets with Housing Commission and construction industry leaders; announces revision of pension plan regulations to permit construction-oriented pension funds to invest assets in home mortgage markets.

December 4 The President issues an Executive Order giving U.S. intelligence agencies authority to collect information in an aggressive but responsible manner; will revitalize America's intelligence system and protect U.S. interests from security threats.

December 9 The President lifts the ban on federal reemployment for fired air traffic controllers, allowing them to be considered for jobs in all agencies but the Federal Aviation Administration.

December 10 The President bans U.S. travel to Libya and calls on American corporations to return their 1500 U.S. employees to the United States as a precautionary step to assure the safety of American citizens in wake of reports of Libyan assassination plot against U.S. leaders.

December 10 The House passes the Continuing Budget Resolution with \$4 billion in domestic appropriations cuts asked for by the President.

December 11 The Senate passes the Continuing Budget Resolution.

December 11 The House passes the first Foreign Aid Appropriations Bill since 1979.

December 12 Martial law declared in Poland.

December 15 The President signs the Continuing Budget Resolution.

OFFICE OF THE VICE PRESIDENT

Vice President George Bush established himself during 1981 as a close and trusted advisor to President Reagan. With an office in the West Wing, the Vice President participated in virtually every Presidential meeting of substance.

Shortly after taking office, the President named the Vice President Chairman of the Administration's Task Force on Regulatory Relief, which oversees the implementation of the third major leg of the Economic Recovery Program (following tax and spending reductions). This Task Force took the lead in developing Executive Order 12291, which the President signed on February 17. It provides for central OMB review and coordination of Executive Branch regulatory activities under the supervision of the Task Force, which met regularly throughout the year. The subject of regulatory relief is so enormously complex that this Task Force will be in effect through the Administration's term in office.

In the first year, approximately 100 major existing regulatory and paperwork issues were targeted for review. More than one-third of these reviews resulted in some form of definitive agency action. Final actions already taken are estimated to have saved the economy several billion in annual recurring costs and \$3.8 - \$5.9 billion dollars in one-time capital investment costs. (See section on Regulatory Reform for further detail.)

In February, the President announced the establishment of a task force, with the Vice President as Chairman, to coordinate federal efforts and assist local authorities in the investigation of the deaths of 28 children in Atlanta, Georgia. The Vice President was also actively involved on behalf of the Administration with organized labor and the heads of Black colleges and universities.

Mr. Bush was also named Chairman of the Administration's Crisis Management team as part of the National Security Council system. He was also responsible for coordinating the preparation of substantive issues for the President's Ottawa Summit meetings.

In December, when martial law was declared in Poland, the Vice President was made head of the Special Situation Group to monitor the crisis and coordinate information from, and directions to, all relevant government agencies.

The Vice President lunches regularly with the President and has made it his practice to give advice and counsel to the President in these and other private sessions. The Vice President's every day responsibilities include attending high-level meetings on both foreign and domestic issues with the President and working with members of the House and of the Senate -- he serves as President of the Senate and maintains an office there and an active staff -- toward the enactment of Administration goals on the Hill.

As one of the primary spokesmen for the President's economic package, the Vice President travelled extensively throughout the United States advocating the budget and tax proposals. Another important part of the Vice President's domestic travels involved speaking engagements at Republican party functions and fundraisers. In 1981, The Vice President travelled to 35 states on behalf of the President and the Republican party. He raised more than \$3 million speaking before Republican functions and helped the Party raise more than \$5 million dollars through direct mail solicitations from the major Republican committees.

Also, the Vice President travelled to nine nations in Europe, Central and South America, the Caribbean and Asia. He met at home or abroad with more than 130 foreign leaders. From March to December, he flew more than 110,000 miles advancing the domestic, foreign and political positions of President Reagan's Administration.

PRESIDENT REAGAN'S ECONOMIC POLICY

"It's time to recognize that we've come to a turning point. We're threatened with an economic calamity of tremendous proportions, and the old business-as-usual treatment can't save us. Together, we must chart a different course."

President Reagan
Address to the Nation
February 5, 1981

An End to Business-As-Usual

Signalling an end to the high taxes and spending of previous decades, President Reagan took office promising a new course in the direction of government and national policy.

The mismanagement of government and excessive taxing and spending policies of the past were taking a heavy toll. As the President stated in his February televised address to the American people, the nation was "in the worst economic mess since the Great Depression." Early action was needed, but early results could not be promised. The challenge that confronted the President and his new Administration emerges from a look at some of the economic indicators of the time:

-- The second straight year of double-digit inflation had just ended and the January rate was nearly 13 percent;

-- Unemployment had been through the worst six-year period since World War II and prospects were bleak for early improvement;

-- Interest rates were surging with the prime at 21-1/2 percent on January 1;

-- The nation had experienced its second straight year of declining productivity;

-- Americans' personal savings rate was the lowest in 30 years; in January, it was less than 5 percent;

-- Real weekly earnings had dropped by 14 percent since 1972;

-- Federal taxes had nearly quadrupled over the past 15 years, and federal spending had more than doubled in the past five;

-- The federal budget had been balanced only once in the last 20 years;

-- Federal regulations were costing Americans more than \$100 billion a year.

On February 5, after 16 days in office, President Reagan addressed the American people, detailing the country's economic problems and outlining his plans for confronting them. Thirteen days later, on February 18, the President went before a joint session of the Congress to present his four-part Program for Economic Recovery.

His program emerged from an intensive period of review conducted by the President and involving his entire Cabinet. The process was complex. It was also, necessarily, abbreviated. The comprehensive review that would normally take months was compressed to weeks so the program could be announced -- with further details promised for March 10 -- in time to be included in Congressional discussions leading up to passage of the First Budget Resolution by May 15.

While the process was not simple, it was guided by a simple truth -- that the creativity and ambition of the American people, freed from the obstacles government puts in their way, are the vital forces of economic growth. President Reagan's program provided a plan to reduce the burdensome, intrusive role of the federal government and increase the incentives for Americans to work, save and invest. The plan President Reagan unveiled to the Congress in February had four parts:

- Reduce the growth of federal spending;
- Reduce federal tax rates;
- Relieve the burden of federal regulations;
- Encourage a stable monetary policy by the Federal Reserve.

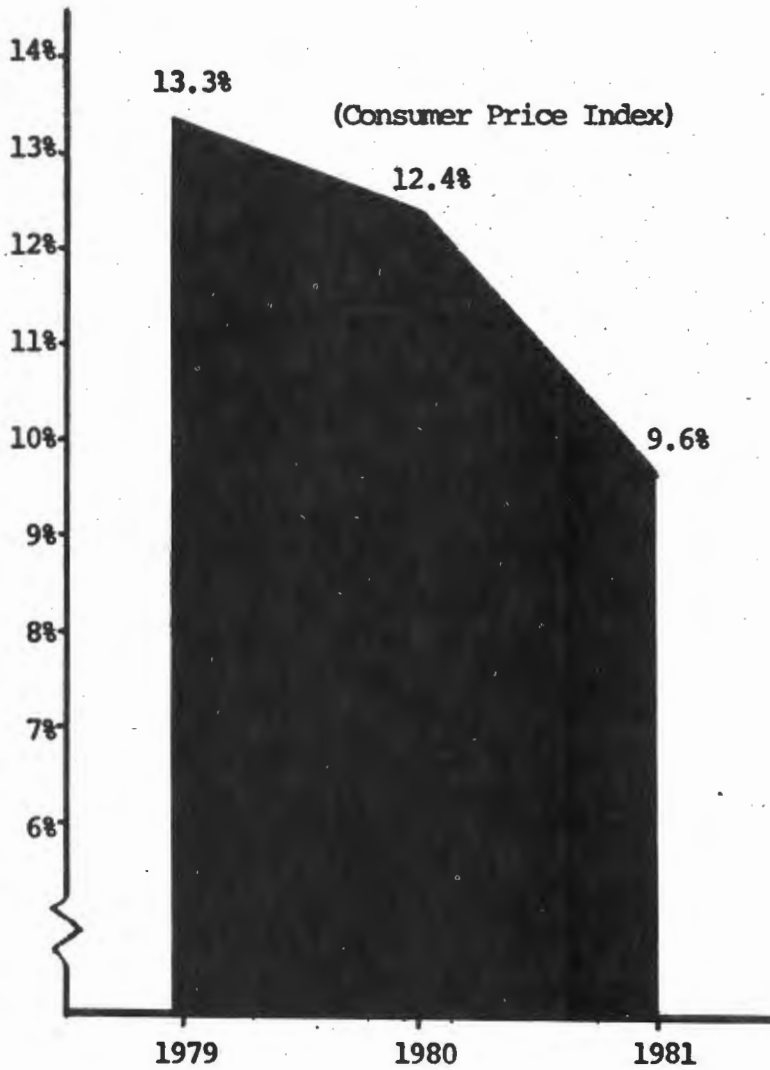
Not a one-year program, the President's plan envisioned a tax cut phased in over three years, continued spending restraint year-after-year, constant review and refinement of federal regulations, and a permanent end to stop-and-start monetary policy.

1981 was to be just the beginning. But as the year ended, with much of the Program for Economic Recovery in place, there were already promising signs:

-- Inflation for the year was estimated at 9.6 percent, the first single digit year since 1979;

INFLATION:

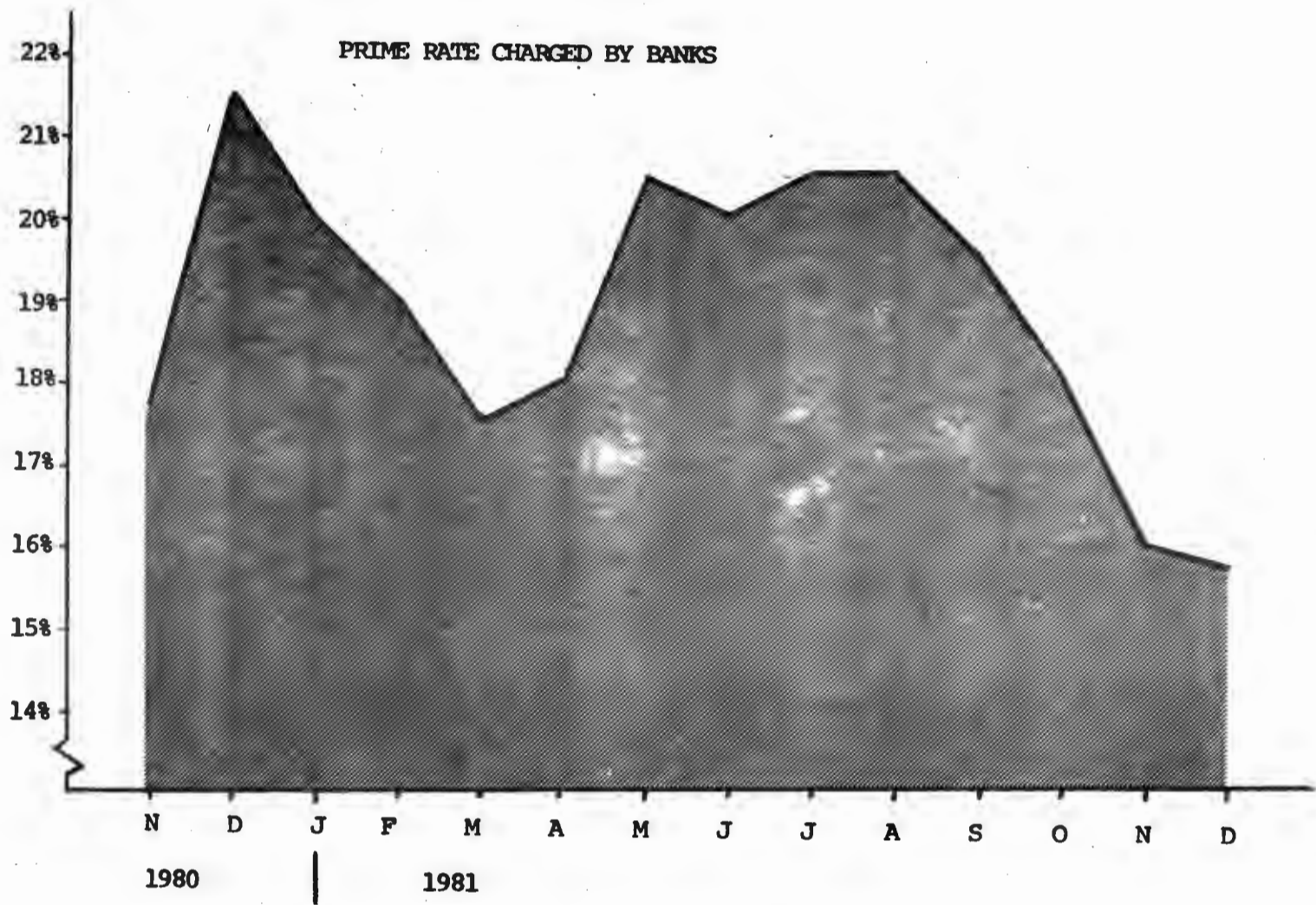
FIRST TIME BELOW
DOUBLE-DIGITS IN 3 YEARS



(ESTIMATED)

Source:

Based on data supplied by Department of Labor, Bureau of Labor
Statistics.



Source: Joint Economic Committee, 1981

-- The American personal savings rate, the lowest in the industrialized world, had risen from 4.6 percent in January to 5.9 percent in October, the first month of the tax cut;

-- Interest rates, which started the year at 21-1/2 percent for the prime, and stayed over 18 percent through much of the year, started to fall by late summer and hit 15-1/2 percent by December.

Cutting the Growth of Federal Spending

When President Reagan took office, a budget for fiscal '82 had already been proposed by the outgoing Administration and fiscal '81 was three months old. To restrain current year spending as much as possible, the President offered a proposal to rescind past appropriations. The Congress approved rescissions of \$12.1 billion in fiscal '81 and subsequent years, by far the largest amount ever at one time.

The President's budget revisions for fiscal '82 contained \$48 billion in proposed savings from program cuts, entitlement reforms, reduced subsidies to the non-needy, grant consolidations and cost recovery through users fees.

On April 28, in a televised address, President Reagan told the Congress, "It's been half a year since the election that charged all of us in this government with the task of restoring our economy....Six months is long enough. The American people now want us to act and not in half-measures."

Nine days later, the House of Representatives passed the Gramm-Latta Budget Resolution setting spending targets for fiscal '82 within range of the President's request. Senate passage followed on May 12.

In an unprecedented legislative procedure, Congress undertook to reconcile these overall spending targets with program-by-program spending levels. In order to make it possible to meet the lowered spending targets of the Gramm-Latta Resolution, it was necessary to make a host of changes in law. On June 26, in a historic bipartisan vote, the House of Representatives did so, passing an Omnibus Budget Reconciliation bill -- called Gramm-Latta II -- to cut spending for fiscal '82 by \$35 billion. This accomplished most, though not all, of the reductions the President sought, and was by far the largest cut in history. Over the three years from fiscal '82 to '84, the bill cut \$130 billion measured against previous spending trends, and it effected reform in eligibility criteria for such programs as food stamps, AFDC, Medicaid and other programs, the first time ever such entitlement reforms were achieved. These revisions were designed to tighten up assistance programs, direct assistance to the truly needy and get the non-needy and greedy off the rolls.

On August 13, President Reagan signed the budget reconciliation bill into law and asserted that more cuts would have to follow if spending were to be finally brought under control.

A call for additional cuts came on September 24 when President Reagan gave his fifth televised address on his economic program. The President called for new cuts in both defense and non-defense spending, further entitlements reform, cuts in federal loan activity and limited revenue raising proposals such as users fees and elimination of certain tax preferences. The package would have meant an additional \$16 billion in budget savings -- but with legislative time running short, the President deferred many of the specifics until presentation of the fiscal '83 budget.

Since no appropriations bills for fiscal '82 had yet passed the Congress, funding authority for the new fiscal year was granted by a temporary continuing resolution. With this authority expiring on November 20, Congress approved a new resolution authorizing spending to continue for the remainder of the year that included only \$2.3 billion of the President's request for \$8.2 billion in savings. President Reagan's veto on November 23 -- his first -- temporarily "brought the government to a halt" but also prompted Congress to reconsider. Later the same day, President Reagan signed a compromise continuing resolution Congress sent him, authorizing spending through mid-December.

On December 15, he signed a comprehensive continuing resolution running until March 31, 1982, after agreeing with the Congress on the inclusion of \$4 billion in additional cuts. This resolution contains appropriations for domestic non-entitlement programs \$49 billion below the amount requested by President Carter in January. This will produce savings in fiscal '82 and later years.

As the year ended, spending for fiscal '82 alone had been cut by \$40 billion. In the process, spending growth had been cut in half -- from over 14 percent in the previous three years to 7-1/2 percent, the first time such a large scale change in direction was ever approved by Congress.

Reducing the Tax Burden

On August 13, President Reagan also signed a second historic piece of legislation into law, the Economic Recovery Tax Act of 1981. His signature brought to an end a long controversy in the Congress which had begun with opponents against tax cuts altogether, and ended in a debate on whether they should be cut three years in a row -- or two.

When President Reagan took office, he was committed to tax reduction as a centerpiece of his plan for economic recovery. It was his belief -- uttered consistently throughout the 1980 campaign and before -- that high taxes were draining Americans of their hard-earned money and sapping incentives to work, save and invest. Cutting tax rates, he believed, would help restore growth to the American economy, increase productivity, stimulate business expansion -- helping to create 13 million jobs by 1986 -- increase personal savings and put a brake on government spending.

The President believed that even apart from these considerations a tax cut would be justified for one simple reason -- that taxes were just too high. As 1981 began, the tax burden on Americans was unacceptably heavy -- and scheduled to get worse:

-- America's middle-income families were being taxed at marginal rates reserved for the affluent only fifteen years before;

-- A family of four, earning the median income in 1981, was in the 28 percent bracket while a similar family in 1965, earning twice the median that year, was in only the 22 percent bracket;

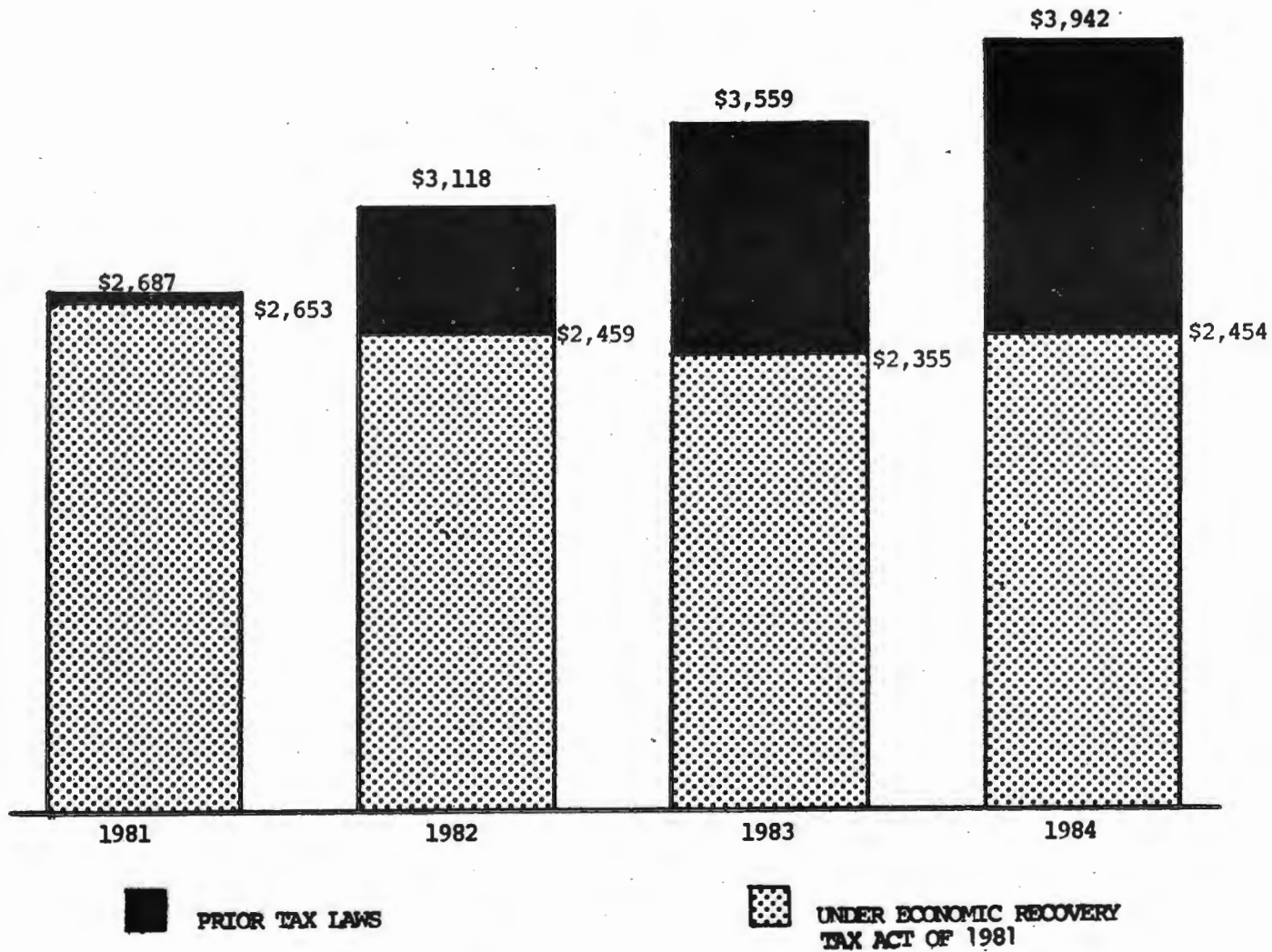
-- By 1984, without the cuts, the median income family's bracket would rise to 32 percent; President Reagan's individual rate cuts will return that median income family to about the 25 percent bracket.

"Reagan revolution" was a term applied to the President's success in achieving his tax victory in the Congress. Like the budget cut victories before it, however, the President got less than he wanted -- 25 percent cuts in across-the-board individual income tax rates over three years instead of 30 percent. And in this case, the President also got some things he hadn't asked for when the Congress added some provisions the President intended for inclusion in a planned second tax bill.

While differences at least over details of a tax bill emerged between even the Republican-controlled Senate and the President, it was in the Democratic-controlled House of Representatives where the major contest occurred. Between late spring and early summer, the majority on the House Ways and Means Committee worked to fashion an alternative tax plan -- paring back the individual rate cuts from three years to two, and targeting them more heavily at lower income levels. They also reshaped the business cuts and added numerous special provisions.

The week of July 27, the Committee was ready to take its bill to the floor. The President spoke on Monday, the 27th, in a fourth televised economic address, to contrast his approach to that of the House majority leadership. Citing estimates that

TAX REDUCTIONS FOR A FOUR-PERSON,
TWO-EARNER FAMILY EARNING THE MEDIAN INCOME*



* Assumes utilization of all applicable provisions in the tax program.

Source: Treasury Department, 1981

taxes would rise 25 percent by 1984 unless cuts were made -- and using charts to illustrate his point -- the President said,

"The majority leadership claims theirs gives a better break to the worker than ours, and it does -- that is, if you're only planning to live two more years. The plain truth is, our choice is not between two plans to reduce taxes; it's between a tax cut or a tax increase."

Moving faster than many expected, the House, by Wednesday of that same week, passed the Conable-Hance bipartisan tax bill which the President had endorsed. After House and Senate conferees ironed out the differences between their two bills, the President received a tax bill containing:

-- Across-the-board cuts in individual income tax rates totaling 25 percent over three years, with indexing to follow;

-- Marriage penalty relief;

-- Various individual savings incentives such as the All-Savers provision and IRA liberalization;

-- Accelerated Cost Recovery provisions for business, allowing for faster write-offs of investment, and other provisions.

Tax rate cuts went into effect on October 1, and some business tax changes took effect retroactively to January 1. These comprised the first installments on a tax reduction estimated to total \$280 billion by the end of 1984 and \$750 billion by the end of 1986 -- a revolution in national tax policy.

Regulatory Reform

One of President Reagan's first official acts in office was the creation of the Task Force on Regulatory Relief. Chaired by Vice President Bush, and established by Executive Order on January 22, the Task Force in its first year took action estimated to yield savings of about \$2 billion a year in operating costs and about \$5 billion in one-time capital investment costs.

The work of the Task Force also meant a significant slowing in the pace of new regulations flowing out of Washington. For example, after the first 10 months of the Reagan Administration, the number of new pages added to the Federal Register was one third less than a comparable period in 1981 -- from 73,061 to 51,412 pages. Similarly, the number of new regulations was down almost fifty percent for the same period.

President Reagan believes continued regulatory review can yield additional savings several times larger than these.

Along with creating the Task Force, President Reagan designated the Office of Management and Budget as the central reviewing agency for all proposed regulations. Under this procedure, no notice of a proposed or final rule can be published in the Federal Register until an OMB review is completed.

President Reagan's idea of White House regulatory oversight and coordination was not new; indeed, the need for it had long been acknowledged. But effective implementation of the idea had eluded the Executive Branch because the triangle of influence formed by the regulated, the regulators and their Congressional committee overseers operated individual bureaucracies as independent governments. By moving rapidly and simultaneously with deregulatory appointments and an Executive Order requiring central OMB review under the supervision of the Task Force, the President was able to implement an oversight mechanism before the traditional triangles were able to emerge at the start of the Administration.

The Task Force undertook an initial review of one hundred regulations. These regulations were contained in three separate lists released during March, April and August. Sixty percent of the regulations specified for review on the first two lists resulted in definite agency action and about \$1.5 billion in first-year operating cost savings.

At year's end much more was in the pipeline as the agencies went through the time consuming public comment process mandated by administrative law. In addition, OMB has achieved significant reductions in paperwork -- and blocked new unnecessary paperwork burdens -- under the Paperwork Reduction Act of 1980.

By December 2, 1981, 2655 new regulations had been received for review by OMB. Of 2561 completed reviews, 2274 of these proposed regulations were found consistent with the President's regulatory principles; 129 were returned or withdrawn.

Over the course of the year, agencies also proposed 43 "major" new regulations -- those estimated to have an economic impact of \$100 million or more -- requiring a new "Regulatory Impact Analysis" under the President's new provision. Thirty-two of the major regulations were found consistent as submitted with President Reagan's regulatory policies while another eight were made consistent after suggested revisions.

Monetary Policy

The fourth component of the President's economic program is a stable, consistent, and non-inflationary monetary policy. President Reagan recognizes that monetary policy is the responsibility of the Federal Reserve Board and he respects its independence. At the same time, the success of the economic program depends on the effective interaction of the Fed's monetary policy with other aspects of the program.

Early on, President Reagan succeeded in establishing a close working and consulting relationship with the Federal Reserve -- and its Chairman, Paul Volcker -- to ensure that its monetary policy and the Administration's fiscal policies were not working at cross purposes.

Working within the Treasury Department, the Administration established an office to deal exclusively with monetary policy. While members of the Administration -- especially during late summer and early fall -- suggested the Board's actions had been tighter even than its own money growth targets had predicted, the President believes that, overall, the relationship has been successful -- and growth of the money supply has been maintained at non-inflationary levels consistent with the President's program. The President continues to support efforts to increase the stability of moderate money growth.

THE SOCIAL SAFETY-NET

The concept of the "social safety-net" is first and foremost a commitment to people. It comprises America's promise -- and President Reagan's -- that benefits will be available to people who have earned them and to the needy who cannot support themselves.

The President's commitment to the safety-net never precluded reform of programs. In fact, it required it as the means of trying to ensure that every dollar spent for social programs will go to those -- and only those -- for whom they are intended. Every dollar that goes elsewhere -- to the non-needy, the greedy, or those eligible only because the formulas are too loosely drawn -- is a dollar unavailable for the truly needy in benefits, or for the taxpayer in lower taxes.

In the last decade, spending for just one safety-net program -- Medicaid -- rose 450 percent to an average of \$1300 per year per eligible beneficiary. Spending for entitlement programs of all kinds -- safety-net programs make up most of these -- comprised about about 48 percent, nearly half, of all federal spending in fiscal '81.

While seeking to restrain the growth of federal spending, President Reagan remains committed to keeping the safety-net in place. While the rate of growth in federal spending was cut to below eight percent overall for fiscal '82, spending for safety-net programs will grow about 10 percent -- \$24 billion -- over fiscal '82 levels. And estimates are that it will continue to grow more than \$20 billion per year at least through 1986.

It is President Reagan's belief that government can remain compassionate as it also becomes more efficient. Thus, in 1982, under the Reagan program:

-- Nearly 4 million more people will receive food stamps in 1982 than in 1975, a recession year;

-- The federal government will subsidize about 100 million meals a day;

-- About 40 million people will receive about \$50 billion dollars in cash and in-kind benefits from eight major federal assistance programs.

MAKING GOVERNMENT WORK

"It's not my intention to do away with government. It is rather to make it work -- work with us, not over us; to stand by our side, not ride our back."

President Reagan
Inaugural Address
January 20, 1981

It was no secret, as President Reagan took office, that many Americans had lost faith in their government and its ability to effect change or respond to popular needs and desires.

In 1980, a senior advisor to President Carter had suggested that sweeping constitutional revision may be necessary "to find a way of coming closer to the parliamentary concept...to enable the elected President to carry out the program he ran on."

And early in 1981, pollster Lou Harris found that 78 percent of Americans felt that elected officials had lost control over the bureaucracy (up 13 percent since 1974). Harris found overwhelming sentiment (82 percent) that local government was more responsive and a large, growing majority, 59 percent -- up from 32 percent eight years before -- who agreed that the least government is the best government.

Ronald Reagan assumed office committed to revitalizing federalism, enhancing cooperation between Congress and the President and effectively managing the central government's bureaucracy, against a backdrop of widespread skepticism that he, or any President, could carry it off.

Effective Management of the Executive Branch

Reducing the Federal Work Force

If the challenges to making government work were large, the first obstacle was the fact that government itself was too big. The President's first official action, after being sworn in on January 20, was directed at making it smaller. He issued an Executive Order freezing all federal civilian hiring.

Later, on March 10, as part of his formal submission of fiscal '82 budget revisions to the Congress, the President called for permanent reductions in the federal civilian work force -- cuts of 33,000 in that fiscal year. And in his September 24 address outlining further plans for budget savings from 1982-84, President Reagan proposed reductions of an additional 6-1/2 percent, equaling 75,000 federal civilian non-defense positions.

These actions, which represent one phase of the President's plan for reducing the size and cost of the federal workforce, resulted in the following reductions in fiscal '81:

Executive Branch
Federal Non-Defense Civilian Permanent Employment *
(excluding the Postal Service)

Carter Administration Budget September '81 Estimate	September '81 Actual	Difference
Full-time Permanent	Full-time Permanent	Full-time Permanent
1,008,600	966,256	-42,344

* despite increases in some other employment categories, total federal employment was down 18,530.

Cabinet Government

President Reagan was committed to the use of the Cabinet not just as agency managers, but as a consultative body which, together with him, could shape the direction of government and the policies of the Administration. To that end, on February 26, President Reagan formally constituted five Cabinet Councils. These would meet some 129 times by December 15, 12 times with the President attending, to discuss and debate complex policies and make recommendations to the President. The five Cabinet Councils are:

-- The Cabinet Council on Economic Affairs, chaired by the Secretary of the Treasury;

-- The Cabinet Council on Commerce and Trade, chaired by the Secretary of Commerce;

-- The Cabinet Council on Human Resources, chaired by the Secretary of Health and Human Services;

-- The Cabinet Council on Food and Agriculture, chaired by the Secretary of Agriculture; and

-- The Cabinet Council on Natural Resources and the Environment, chaired by the Secretary of the Interior.

Serving as Executive Secretary of each Council is a member of the White House Office of Policy Development.

In addition, there were two preexisting Cabinet-level groups, the National Security Council, and the Trade Policy Committee.

During 1981, the President met 29 times with his full Cabinet, most often on budget review matters but also to discuss such issues as tax policy and the U.S. posture toward the Third World.

Relations With The Congress

"Although the enactment of legislation takes only a simple majority of both Houses, that majority is very difficult to achieve..." that same senior advisor to President Carter had written. "The separation of powers between the legislative and executive branches, whatever its merits in 1793, has become a structure that almost guarantees stalemate."

While getting less than all he wanted in 1981, President Reagan succeeded in building a strong and effective relationship with the Congress. Only once, on November 23, in the closing days of the session, did the President have to employ his prerogative of the veto -- on the first Continuing Resolution for fiscal '82. Far from leading to stalemate, that action produced compromise with Congress on the same day the veto was cast.

President Reagan set out early in his first year to build a working relationship with the Congress. He met with the leaders of both the Republican-controlled Senate and the Democratic-controlled House of Representatives just two weeks after taking office. They met not in the White House but in the Capitol, home of the Congress.

Because the President continued this process of frequent bipartisan consultation with Congress, when cooperation was possible, he got it; when opposition came, at least it was friendly. The President and House Speaker O'Neill agreed in June, "We may disagree during the day, but come 6:00 pm, we become friends."

During 1981, a philosophical coalition began to emerge in the House and Senate that was in agreement with the fundamental thrust of President Reagan's efforts to cut taxes and federal spending growth. As a result, the President enjoyed victories in the Congress on seven straight major votes:

- The Gramm-Latta budget resolution, setting spending targets for fiscal '82;
- Gramm-Latta II, the Omnibus Budget Reconciliation Act;
- The tax legislation cutting individual rates by 25 percent and providing other incentives for savings and investment;
- The AWACS sale to Saudi Arabia;
- The Defense Appropriations bill;
- Foreign Assistance Appropriations, the first such bill to be passed in three years;
- The Continuing Resolution, setting spending levels for fiscal '82.

Relations With The Non-Government Sector

To ensure that he is kept abreast of citizen concerns, President Reagan has made the Open Door a hallmark of his Administration. President Reagan insisted that the policies and initiatives of his Administration reflect more than just the interests of government policymakers. On numerous occasions in his first year, the President has embraced policies whose ultimate shape reflect much of the early input provided from consultations with organizations of private citizens.

He and his key advisors listened to and considered the views and concerns of the leaders and members of non-governmental organizations from virtually every sector of the economy and from every walk of life. An illustrative listing would include groups representing the aging, agriculture, arts, Blacks, business and industry, Catholics, conservatives, consumers, disabled, education, ethnics, fraternal organizations, Hispanics, Jews, labor, native Americans, professionals, Protestants, veterans, volunteers, women and youth.

The following is a list of first-year meetings held under the auspices of the President's public liaison office:

Meetings with the President	75
Meetings with Cabinet or Senior White House officials (in addition to those above)	187
Meetings, briefings	1,048

A Shift Back To State and Local Government

"It is my intention to curb the size and influence of the Federal establishment and to demand recognition of the distinction between the powers granted to the Federal Government and those reserved to the states or to the people. All of us need to be reminded that the Federal Government did not create the states; the states created the Federal Government."

President Reagan
January 20, 1981

Shortly after assuming office, the President took steps to further his commitment to federalism with its primary objective of clearing the way for state and local governments to regain greater flexibility and independence from Washington. The Reagan federalism program includes the following elements:

- Policy, regulatory budget, and tax changes;
- Use of block grants to return power to states and localities;
- Creation of a structure to advance these efforts, principally the Presidential Advisory Committee on Federalism, chaired by U.S. Senator Paul Laxalt. In addition, the President has consulted extensively with state and local officials during his first year in office.

Policy, Regulatory, Budget, and Tax Changes

It has often gone unnoticed during the first twelve months of the Reagan Presidency that three of the four key components of the President's Economic Recovery Package -- budget cuts, regulatory relief, and tax cuts -- reflect the President's federalism perspective.

-- The budget cuts reflect a reordering of budgetary priorities so that the national budget is addressed at truly national needs.

-- The regulatory relief effort, which is discussed in detail in another section, has made great strides in reducing the regulatory manacles which bind the hands of state and local officials.

-- Tax cuts, while designed to stimulate savings and investment, also provide a greater tax base for state and local governments by reducing oppressive levels of federal taxation.

In addition, each of the federal departments and agencies has taken major steps to return authority and responsibility to state and local governments.

Block Grants

President Reagan took command of a national government which he believed had usurped power over the years from the states and localities. Federal aid policies during the past two decades had spawned hundreds of specific categorical grants, resulting in a confusing tangle of large and small programs which overlap, conflict and overregulate:

-- The past two decades saw a 1462 percent increase in such grants, costing \$6.5 billion in 1959 and increasing to \$95 billion by 1981 -- 3.3 percent of the GNP;

-- With these grants came unnecessary burdens for state and local government -- time-consuming and inefficient paperwork needed to comply with complicated federal regulations and a loss of authority to target funds to specific local and state needs.

Shortly after his inauguration, the President proposed a far-reaching effort in the consolidation of these federal grant-in-aid programs. Congress concurred with some, but by no means all of his proposals and, as a result, 57 categorical grants were consolidated into nine new or modified block grants:

- Maternal and child health care
- Preventive health and health services
- Alcohol, drug abuse and mental health services
- Primary care
- Social services
- Low-income home energy assistance
- Community services
- Education
- State community development program for small cities

The reduction in regulatory burden is already apparent:

-- OMB estimates that the new block grants will result in a reduction in the paperwork burden on state and local officials from 6.5 million man-hours in fiscal '81 to 1.1 million man-hours in fiscal '82 -- an 83 percent reduction.

-- In an October news conference, the President himself demonstrated the reduced scope of federal regulation. In one hand he held the 318 pages of old federal regulations needed to comply with HHS categorical grants. In his other were just six pages of federal regulations required under the new HHS block grant programs.

Aside from regulatory relief, block grants also:

-- Permit government decisions again to be made by state and local officials who can be more responsive and held more directly accountable;

-- Save in administrative overhead and allow more innovation;

-- Reduce the impact of federal budget cuts by allowing state and local officials to better target money to areas and individuals whose needs are the greatest.

A Structure and a Process for Advancing Federalism

In addition to the current policies oriented toward federalism, the Administration has established a structure to further advance policies that promote federalism:

-- The Presidential Advisory Committee on Federalism was established in April, under the Chairmanship of Senator Paul Laxalt. It consists of Cabinet members, federal, state and local officials, as well as private citizens. The Committee advises the President on objectives and conduct of the overall federalism approach.

-- For the first time in many years, the Executive Branch participated actively in the Advisory Commission on Intergovernmental Relations (ACIR). For only the second time in its history, ACIR was chaired by an Executive Branch member, Interior Secretary James Watt.

-- Each Cabinet member and agency head designated a senior departmental official to handle intergovernmental affairs in each department or agency. These individuals consult with state and local officials and monitor programs to assure their positive effect on the state and local sector.

-- The President personally met with over 1500 state and local officials to discuss the problem of, and opportunities for, state and local governments. He also addressed the National Conference of State Legislatures and the National League of Cities.

THE CAMPAIGN AGAINST FRAUD AND WASTE

"I promised that we would follow every lead, root out every incompetent and prosecute every crook that we found cheating the people of this Nation."

President Reagan
December 7, 1981

President Reagan's promise to wage a hard hitting campaign against fraud and waste was one of his major commitments to the American people. While there are various aspects of the campaign, including debt collections and reduction of unnecessary publications, the heart of the campaign lies in the activities of the sixteen Inspectors General and the President's Council on Integrity and Efficiency.

On December 7, the President received a six-month action report from his Council on Integrity and Efficiency. It reported to him that from April 1 to September 30 the Inspectors General in the departments and major agencies had saved the taxpayers over \$2 billion through:

- Recovery of over \$405 million;
- Avoidance of over \$1.7 billion in expenditures;
- Obtaining 1179 indictments and 656 convictions;
- Firing 145 federal employees.

President Reagan established the Council in March 1981 to strengthen the Inspector General program and provide effective leadership for the Administration's campaign against fraud and waste. The Council is pursuing 16 separate interagency projects aimed at improving government operations and achieving savings, including:

- Collecting delinquent debts owed to the government;
- Using computers to find error and fraud in Social Security and welfare programs;
- Reviewing major construction contracts to provide safeguards against waste and fraud;
- Reviewing government-wide payroll systems.

In addition, the Assistant Secretaries for Management in the various departments are playing a key role in the campaign.

-- Their work in audit resolution has reduced the amount of unresolved audits from \$1.5 billion a year ago to less than \$250 million now.

-- They are developing internal control systems in areas such as training and consultant services which cost the government almost half a billion dollars a year.

Debt Collection

When the Administration began to assess its economic reform agenda, one of its first discoveries was the enormity of the amount of overdue debts owed the government. Approximately \$232 billion is owed and \$34 billion of this amount was in either a delinquent or default status. Interest alone on the delinquent debt has been costing taxpayers about \$14 million a day.

The President decided that an aggressive debt collection program must be pursued and he committed the Administration to collect \$1.5 billion a year in delinquent debts owed the government. This program is a two-pronged effort, consisting of administrative and legislative initiatives:

-- Twenty-four agencies, accounting for over 95 percent of the debts, have initiated comprehensive programs to improve their credit management and debt collection practices. These programs are designed to reduce the current backlog of delinquent debts quickly, to prevent unnecessary new delinquencies, and to recover new delinquencies as they occur.

-- The Administration has proposed 13 legislative changes to the Congress needed to make available to the government essential tools and techniques used effectively in the private sector to grant credit and to service and collect debt.

-- As one evidence of accomplishment in the new program, the Farmers Home Administration has already reduced its backlog of uncollected debts by \$1 billion.

-- For the first time, in 1981, an accurate assessment of total debt was made.

Reductions in Overhead

Publications: Wasteful expenditures on government publications and audiovisual materials were obvious targets for early elimination. In April the President ordered agencies to impose a moratorium on spending for new periodicals, pamphlets, and audiovisual products.

-- A total of \$104 million has been saved in budgeted projects for fiscal years '81 and '82;

-- Expenditures in audiovisual and publications programs will be reduced from \$309 million in fiscal '80 to \$302 million in fiscal '82, a real decline of 20 percent when inflation is taken into account.

Travel and Procurement: The President ordered each department to look into its own operations to determine ways to increase efficiency and reduce costs. On February 5, he told the American people, "As our Cabinet Secretaries take charge of their departments, they will search out areas of waste, and extravagance, and costly administrative overhead which could yield additional and substantial reductions."

In the same address, the President went on to outline other measures he had ordered taken to reduce waste of federal resources. These included cuts in government travel, cuts in the number of outside consultants to the government, and reductions in purchasing of such items as office equipment. Once in place, the President's efforts began to yield tangible results. For example, the effort for improving travel management within the departments is expected to result in an annual savings of \$200 million.

-- Overall travel savings in 1981 alone were estimated at \$144 million as a result of program reductions, tighter agency controls, and greater use of discount offerings for air fare and other travel costs.

Encouraging Private Sector Initiatives

"I believe the spirit of voluntarism still lives in America.... The truth is we've let government take away many things we once considered were really ours to do voluntarily, out of the goodness of our hearts and a sense of community pride and neighborliness. I believe many of you want to do those things again, want to be involved if only someone will ask you or offer the opportunity. Well, we intend to make that offer."

Ronald Reagan
Speech to Nation
September 24, 1981

During his campaign, "family, neighborhood, workplace" emerged as key words in Ronald Reagan's political vocabulary and in his plans for reorienting domestic policy.

During 1981, the private sector initiatives project was developed to create a structure for implementing those plans and putting those words into action. On September 24, the President announced a nationwide effort to encourage citizen participation in solving social problems, and on October 14, he signed an Executive Order creating the President's Task Force on Private Sector Initiatives as a focal point:

-- For the development, support and promotion of private sector involvement in meeting public needs;

-- For recommending action by the President to foster public and private partnerships and reduce dependence on government;

-- For the identification and removal of obstacles created by public laws to private sector social services activity and self-help.

The President's Task Force is chaired by C. William Verity, Jr., Chairman of Armco, Inc.

Addressing the National Alliance of Business on October 5, President Reagan spoke of his budget cuts: "Now, some of these cuts will pinch, which upsets those who believe the less fortunate deserve more than the basic subsistence which the governmental safety-net programs provide. Well the fact is, I agree. More can be done; more should be done. But doing more doesn't mean to simply spend more."

Doing more, the President added, means: "With the same energy that Franklin Roosevelt sought government solutions to problems, we will seek private solutions."

To further the effort, the President directed all Cabinet members to review their department's procedures and regulations to identify barriers to private sector involvement -- and to develop seed money programs to offer incentives for private volunteer activity.

The response to the President's call for more individual initiative has been promising. In fact, specific commitments have been made by businesses, foundations, voluntary organizations and religious organizations.

-- Collaborative efforts in communities such as Seattle, New York, Chicago, Indianapolis and Middletown, Ohio are determining new ways that community resources can be developed and recognized;

-- Several large corporations have substantially increased -- in some cases, doubled -- their corporate contribution programs;

-- A number of smaller firms have hired CETA eligible employees and are committed to manpower training efforts;

-- The U.S. Chamber of Commerce is assisting 2300 communities around the country with a community planning model.

Many voluntary organizations have accepted the Private Sector Initiatives theme as their own. One national school volunteer network has committed to try to double the 100,000 volunteers now associated with it.

The President kicked off the annual United Way fundraising campaign and results already show increases in giving ranging from 10-25 percent in over two dozen major metropolitan areas.

OTHER DOMESTIC CONCERNS

While economic recovery and making government work were the President's top priorities in 1981, the year was one of significant activity -- and progress -- on a wide range of other domestic policy fronts. There follows a specific treatment of major domestic issue developments of the year.

ECONOMIC AFFAIRS

Domestic Finance -- The Thrift Industry

By 1981, the thrift industry's problems -- compounded by high interest rates -- had been building for years. Savings and Loans found themselves caught in a squeeze between low returns on loans they had made at moderate rates and the high cost of money they had to borrow at much greater rates. This was exacerbated by decreasing levels of deposits as traditional thrift institution customers sought higher yielding investments in the open marketplace. President Reagan's overall Program for Economic Recovery, while designed to boost savings broadly through tax reductions, also contained special incentives which would provide new funds to thrift institutions, such as the raising of the maximum contributions to Individual Retirement Accounts (IRA's) and Keogh plans and the expansion of the eligibility for IRA's.

In addition, the Depository Institutions Deregulation Committee (DIDC) uncapped the ceiling rates on 2-1/2 year to 4 year Small Savers Certificates, allowing interest on these accounts to match 2-1/2 year Treasury security yields. These types of deposits in thrift institutions increased by \$55 billion after the August ceiling removal.

With interest rates and inflation subsiding in response to the President's program, thrift institutions began to regain their health and will continue to occupy a central role in the financing of the housing sector.

Financial Deregulation

The Administration worked closely with Congress in the development of far-reaching legislation to deregulate and reform the financial institution system. In 1982, Congress is expected to consider legislation to permit all financial institutions to offer a broader range of services to the consumer.

Chrysler Loan Guarantees

On February 27, President Reagan affirmed the decision of the previous Administration to grant \$400 million in loan guarantees to the Chrysler Corporation. The Administration, through the Chrysler Loan Guarantee Board, chaired by the Secretary of the Treasury, closely monitored these loans and the performance of the Chrysler Corporation.

Gold Commission

The President closely followed the work of the Gold Commission, created at the request of Congress, in its study of the role of gold in the domestic and international economy. The Commission report will be presented to Congress in March, 1982.

Federal Credit Policies

Federal borrowing activities have been a major cause of "crowding out" in the financial markets. In the last decade federal presence in the marketplace -- either through direct federal borrowing or through loan guarantees -- had grown to unprecedented proportions. This exerted a disruptive influence on the nation's financial markets, placing upward pressure on interest rates and inflation. Direct federal borrowing of approximately \$140 billion was equal to almost 35 percent of all dollars raised in U.S. credit markets in 1981.

Given its adverse effect on the economy, President Reagan sought to control the rampant growth in federal borrowing activity.

-- Direct federal borrowing to cover operating costs of government was addressed through the President's continued effort to cut the rate of federal spending. Reduction in federal spending achieved by the President will represent that much less the government will have to borrow and pay interest on in fiscal '82.

-- In March the President proposed credit budget reductions of \$21 billion. This was followed in September by a further \$20 billion credit reduction proposal. Where feasible, changes in loan programs will be achieved through administrative action.

Tax Policy Details

The centerpiece of the President's economic program is the Economic Recovery Tax Act of 1981 (ERTA). Combined with the changes in regulatory and monetary policy and the effort to lower

the rate of increase in federal spending, ERTA represents the most far-reaching, comprehensive economic policy this nation has seen in thirty years.

For individuals, ERTA provides a comprehensive set of tax reductions, the most basic being a 25 percent across-the-board cut in marginal tax rates. For business, ERTA's provisions -- including a new accelerated cost recovery system -- are just as comprehensive. Other ERTA provisions of more general applicability to individuals and businesses are listed below:

Individual Income Tax Relief

-- Across-the-board marginal tax rate reductions of 5 percent on October 1, 1981, with additional reductions of 10 percent on July 1, 1982, and 10 percent on July 1, 1983;

-- Indexing of individual rate brackets beginning in 1985 to eliminate "bracket-creep" caused by inflation;

-- The top marginal rate on investment income lowered from 70 percent to 50 percent, effective January 1, 1982;

-- Marriage tax penalty relief;

-- Child care tax credits for taxpayers with incomes below \$10,000;

-- A deduction from gross income of up to \$1500 for adoption expenses of a qualified child;

-- Charitable contributions deduction permitted whether or not a taxpayer itemizes deductions;

-- Individuals permitted to defer gain on sale of a principal residence if a new one is purchased within two years; and the one-time exclusion of gain for those 55 years of age or older increased from \$100,000 to \$125,000;

-- For Americans working abroad an exclusion of the first \$75,000 in income, and a housing allowance.

Business Incentive Provisions

-- Effective January 1, 1981, faster write-offs for capital investments in structures, equipment and vehicles;

-- Replacing the 10 percent investment tax credit for rehabilitation expenditures with a graduated rate credit -- 15, 20, or 25 percent -- dependent on the age of the structure;

-- A research and development tax credit up to 25 percent of the incremental wages associated with project expenses, including costs associated with university contract research;

-- Corporate rate reductions for small businesses;

-- Increased investment credit limitations on used equipment.

Savings Provisions

-- A lifetime exclusion of \$1000 (\$2000 on joint returns) of interest paid on tax-exempt savings certificates issued after September 30, 1981 and before January 1, 1983; institutions to target 75 percent of proceeds raised to housing or to agricultural loans;

-- Beginning in 1985, a limited exclusion of 15 percent of the difference between interest income and interest deductions;

-- Increases in maximum allowable contributions to Individual Retirement Accounts (IRA) and Keogh plans, plus provision for IRA accounts for spouses and for those with already existing pension plans.

Estate and Gift Tax Relief

-- An increase in the credit against the unified estate and gift tax exempting 99.7 percent of all estates from the estate tax;

-- Reduction of the maximum estate tax rate from 70 to 50 percent over four years;

-- Unlimited marital deduction, effective January 1, 1982;

-- Increasing the annual gift tax exclusion from \$3000 to \$10,000 per donee, effective January 1, 1982. Certain gifts for medical care and tuition will receive an unlimited exclusion.

Energy

-- Raising the windfall profits tax credit for royalty owners to \$2,500 for 1981. From 1982-84, royalty owners will be exempt from the windfall profits tax on up to two barrels per day, increasing to three barrels in 1985 and thereafter;

-- The windfall profits tax on newly discovered oil will be reduced from 30 to 15 percent, beginning January 1, 1982. Stripper oil of independent producers will be exempt from the windfall profits tax beginning in 1983.

COMMERCE AND TRADE

Antitrust Enforcement

President Reagan believes proper enforcement of antitrust laws is an important factor in keeping the nation's economy competitive and healthy -- provided enforcement is focused on activities that are truly anti-competitive.

While the Administration sought to restore a balanced perspective on antitrust enforcement, there was no retreat from strict prosecution of the kind of cartel-type behavior at which the laws are centrally aimed:

-- Sixty cases were begun by the Justice Department between January 20 and December 1 -- including 49 criminal cases.

-- Fines totalling more than \$14 million were imposed, and 39 businessmen sentenced to prison for antitrust violations.

The Reagan Administration does not view the law as a weapon to be used against companies merely because they are large and successful. Antitrust laws will not be used to interfere with sensible joint ventures, with efficient methods of distribution, or with mergers that pose no credible risk of cartel-type behavior. Accordingly a number of unsound cases brought by the previous Administration were dismissed.

Consumers

President Reagan believes the major problem concerning the consumer today is too much government. While regulation is necessary to protect such vital areas as food, health and safety, too much unnecessary regulation actually has an adverse effect on the consumer by causing higher prices. Even worse, along with more regulations has come more government spending -- spending which has caused the largest consumer problem of all -- inflation.

The President's main approach to finding relief for consumers is his Program for Economic Recovery which will ease the burden of inflation and regulation. In addition, President Reagan has consumer offices in place throughout all major Executive branch offices. These offices are working closely with the White House through the White House Liaison on Consumer Affairs. President Reagan, through his consumer representatives, dealt with consumer problems by direct federal coordination between industry and the consumer -- using the government as a third party arbiter to help work out consumer-related problems.

The President's consumer liaison worked with private and public organizations to develop a national coalition for consumer education, to integrate consumer and economic education and to prepare for National Consumers Week, April 25 to May 1;

In addition, a Constituent Resources Exhibition was held in the fall to show Congressional staffers where and how to handle complaints from their districts. Another conference in May used the resources of the Federal Trade Commission and the Post Office to focus on problems involving the elderly and mail order fraud.

To further economic opportunities for the disabled and mentally restored, for minorities and for the aged, the Office of Consumer Affairs with 10 other organizations sponsored a "New Independence for Elderly and Disabled Consumers" Conference in September. That was preceded by a Health Care Conference in the same month sponsored by five public and private organizations.

During the past year, the U.S. Office of Consumer Affairs worked closely with both the funeral and airline industries to establish third party mechanisms so individuals with legitimate problems and complaints can obtain fair and quick redress and adjustments.

Small Business

American small business -- producing over 45 percent of the nation's GNP and over 80 percent of all new jobs created -- is one of the most vital segments of the nation's economy. It is not an exaggeration to say that small business must prosper if the rest of the nation is to succeed economically. Thus, President Reagan has taken a number of steps to aid the small business community. Primarily, small business will be a major beneficiary of the President's economic program -- sharing in the benefits provided by the combination of federal tax and spending reductions and relief from unnecessary regulation. Many specific changes in the tax laws will aid small business.

-- Since most small business is unincorporated, the 25 percent across-the-board reductions in individual income taxes will be especially beneficial.

-- Accelerated Cost Recovery System will permit faster write-off of selected capital investments and encourage modernization and competition; this will aid small businesses directly, especially since 40 percent of all depreciation filed with IRS is from small business.

-- Since most small businesses, including farms, are family owned, changes in the estate tax excluding 99.7 percent of those presently subject to it, will go a long way towards keeping small family-owned businesses in the family.

-- Other benefits from the tax act include the 25 percent tax credit for salaries involved in research and development; and a rehabilitation tax credit that will foster redevelopment of urban area businesses.

On deregulation, the President's Task Force on Regulatory Reform identified the twenty regulations most burdensome to small business. It began a review of the impact of Equal Employment Opportunity Commission (EEOC) regulations on smaller concerns with few employees.

President Reagan is also working closely with the small business community through the Small Business Administration. During the past year the SBA has intensified its efforts to promote the welfare of the small business sector through:

-- Actively pursuing private sector involvement through investment or management assistance to small businesses, having doubled the number of banks participating in the certified bank lending program;

-- Revitalizing the functions of Small Business Investment Companies licensed by SBA to ensure the injection of more private funds;

-- Expanding a program creating numerous new small business development companies at the community level, ensuring local control by officials and business operators familiar with local business needs;

-- Revising SBA's network of state and local advisory councils to ensure better communication between local businesses and the agency;

-- Providing management assistance and consultation to combat small business failures;

-- Making administrative changes within the SBA loan program to better target loan money and collect on delinquent accounts.

The Administration also continued its commitment to aid minorities in small business by continuing its support for SBA's 8(a) Minority Business Procurement Program, and the Commerce Department's Minority Business Development Agency. Through both programs, minorities receive specialized assistance to aid them in management and marketing.

Transportation

The Administration's transportation policy is consistent with the President's overall philosophy -- reduced federal regulations, reduced dependence on federal subsidies, renewed emphasis on the private sector and state and local government, and user charges to support federal activities where practicable. These policies help maintain and revitalize a strong national transportation system, while restraining federal spending.

Air Transportation

The nation's air traffic system continued to operate at the safest levels in history in 1981 -- despite an illegal strike by more than 10,000 air traffic controllers in August.

During the early months of the year, the Department of Transportation bargained with the controllers' union in good faith, and had reached a tentative settlement with the Union President, Robert Poli, who said it was "fair." However, the Union's executive board rejected the pact and Poli returned with demands that were 43 times as large as the original settlement. In the resulting illegal strike, which began August 3, the President stood firm in enforcing the law that forbids strikes by federal employees. Striking controllers were given 48 hours to return to work, then dismissal proceedings were begun against those who did not return. The FAA also instituted decertification proceedings before the Federal Labor Relations Authority, which ruled on October 22 that the Professional Air Traffic Controllers Organization (PATCO) could no longer represent controllers in bargaining with the federal government.

The Federal Aviation Administration developed and quickly put into place new procedures to reduce and stabilize air traffic at levels consistent with a reduced work force.

The system continued to handle 75 to 83 percent of normal scheduled aircraft movement; and operational errors and reported near-collisions were significantly lower than pre-strike levels.

According to findings by the independent National Transportation Safety Board, the air traffic control system was safer after the strike, with fewer near-misses and fewer computer problems from August through October, than in the same period a year earlier. The FAA accelerated the training of new controllers to return the system to normal capacity by the end of 1983. In November, the Administration proposed legislation to provide pay raises and other benefits for controllers who stayed on the job and other air traffic personnel.

On December 9th, the President announced that he was lifting ban on federal employment for the fired controllers. His action permitted them to apply for federal jobs in any agency but the Federal Aviation Administration.

Other significant air transportation developments in 1981 included:

-- Continued support for airline deregulation and for legislation to speed up the sunset of the Civil Aeronautics Board;

-- A multi-billion dollar Administration commitment to modernize air traffic control equipment over the next 10 years;

-- An Administration proposal to defederalize the nation's largest airports, and to charge equitable user fees to recover most of the costs of the air traffic system;

-- A review of aviation regulations, to avoid imposing unnecessary costs on the industry and flying public;

-- Resolution by a Presidential task force of a longstanding dispute concerning crew complement on new aircraft. The Task Force on Crew Complement, appointed February 11, issued its report July 2;

-- Development and implementation of a new policy finally to balance the usage of National and Dulles airports serving Washington, D.C.

Auto Industry and Safety

A Cabinet-level task force on the auto industry, chaired by Transportation Secretary Drew Lewis, announced on April 6 a program to reduce the burden of excessive federal regulation on the industry.

Efforts began early in the year to review, then revise or rescind where appropriate, a variety of regulations posing an unnecessary burden on the auto industry and consumers.

-- On April 6, the Reagan Administration proposed 34 changes to environmental and auto safety regulations and legislative revision of the Clean Air Act, that could save the industry an estimated \$1.4 billion in capital costs and save consumers \$9.3 billion over the next five years.

-- On October 23, the Administration rescinded the costly and controversial "passive restraint" rule, which would have required airbags or automatic seatbelts in new cars beginning in 1982.

The President remains committed to auto safety, and the Administration is continuing research on safety systems. An intensive public information and education campaign to encourage the voluntary use of seat belts will be instituted in early 1982.

Highways

In March, the Administration submitted legislation, the proposed Federal Aid-Highway Act of 1981, to complete the interstate highway system, while cutting out "frills" to hold down costs, and to continue federal support for primary highways and bridge repair. The Administration also proposed adding a fourth "R" - reconstruction - to the current 3R program of rehabilitation, restoration and resurfacing of national systems. The Federal Highway Administration also instituted procedures to reduce highway construction costs and federal paperwork. Consistent with overall Administration policy, total federal highway spending was reduced to \$8 billion per year from the \$10 billion planned by the previous Administration.

On December 16, Congress completed highway legislation to redefine interstate competition and create the expanded 4R program. The bill includes an approved interstate cost estimate totalling \$38.9 billion and authorizes a 4R program for fiscal '82 and '83 at \$800 million per year.

Maritime Transportation

At the President's request, Congress transferred the Maritime Administration from the Department of Commerce to the Department of Transportation, thus placing responsibility for all modes of transportation within a single department. Limits were placed on new federal shipbuilding loan guarantees and subsidies, and the Administration undertook regulatory reform to help U.S. flag vessels compete in the world market.

Mass Transit

To restrain overall federal expenditures, President Reagan ordered DOT to defer the start of expensive new rail transit systems and to concentrate federal resources on bus purchases and upgrading of existing rail systems.

The President also proposed that federal operating subsidies be phased out to encourage increased efficiency and productivity at the local level. To assist the states and communities, DOT began relaxing or eliminating federal transit regulations -- such as mandated bus specifications, and the

"Section 504" handicapped accessibility rules -- to provide local transit agencies with increased flexibility to meet local needs. The President's proposals were submitted in the Transit Assistance Act of 1981. Congress had not completed action on that act when it adjourned in December.

Railroads

During the late 1970s, the federal government attempted to meet the rail needs of the Northeast by creating a federally-owned freight railroad, Conrail, spending billions to cover operating deficits and provide capital assistance. In March, the Reagan Administration proposed a permanent solution to the problem: transfer of Conrail's freight operations to the private sector, and of its commuter rail systems to local transit agencies or to an Amtrak subsidiary. Working with Congress, the Administration secured enactment of the Northeast Rail Service Act of 1981 to reverse a decade of increased federal involvement in rail freight transportation.

The federally-owned passenger railroad, Amtrak, had also consumed ever-increasing amounts of federal aid in the 1970s. Amtrak had covered only 40 percent of its operating costs and subsidies were averaging about \$37 per passenger trip.

-- For the Washington to Cincinnati run, the subsidy is \$137 per passenger; it would be cheaper to buy airline tickets.

The prior Administration had proposed nearly \$1 billion in Amtrak aid for fiscal '82. Again, the Reagan Administration reversed the trend by proposing legislation, the Amtrak Improvement Act of 1981, to reduce Amtrak subsidies and require the railroad to cover at least half of its costs. Congress enacted part of the Administration's Amtrak reform plan and the railroad began to cut costs and restructure routes to conform to the new fiscal discipline.

On December 17, Congress approved legislation to rehabilitate Washington's Union Station, restoring it as a transportation facility and encouraging private sector participation in developing as a commercial center. Responsibility for the station was transferred from the Department of Interior to the Department of Transportation.

Science and Technology

Through coordination with his Office of Science and Technology, President Reagan has ensured that the nation maintains a broad view of the impact that changes in science and technology have on a wide variety of federal policies. Among the achievements of the Office of Science and Technology over the past year.

-- The first major review of American space policy in the last twelve years. The review focused on the long range outlook for American prospects in space including plans for the highly successful Space Shuttle Project.

-- An intensive look at federal efforts on the development of energy resources. A major restructuring of federal policy was achieved with the recommendation that federal efforts should concentrate solely on the long-term, with short-term developments left to the private sector.

-- Establishment of the Regulatory Work Group on Science and Technology to work with the President's Task Force on Regulatory Relief. The aim: to strengthen the role of scientific data in the analysis of the regulatory process.

-- Start of a review of possible tax incentives for research and development aimed at industry as well as universities and colleges.

-- Start of a review of all government operated and owned laboratories and research facilities, as well as of government owned but contractor operated facilities. These facilities have not had a review of their operations in almost two decades.

International Trade

Trade Policy

The Reagan Administration formulated a forward-looking trade policy that addresses U.S. needs in an increasingly complex and interdependent world. This policy takes into account the immediate goals of a liberalized world trading system and an American economy that can flourish within it. It also sets the conditions for a healthier American trading posture in the eighties and nineties. The increase in the number of Cabinet level Trade Policy Committee meetings -- a total of 12 in 1981 -- and greater participation by Cabinet principals provide evidence of the heightened priority on international trade within the Administration.

During the past year, President Reagan and his Administration took tangible steps toward more open world markets:

- Terminating shoe import quotas;
- Avoiding tightened restraints on steel, textiles and apparel, and other imports;
- Pressing the European Community, Japan, and Canada to reduce their barriers against U.S. goods and services;
- Mobilizing broad opposition to the continuation and expansion of European agricultural subsidies;
- Challenging the European community, Japan and the newly industrializing nations to adopt a bold agenda for the GATT Ministerial Meeting in 1982, pointing toward the gradual, reciprocal dismantling of quotas and other restrictions on free trade during the 1980s.

In 1981, President Reagan laid the groundwork for a comprehensive policy covering trade, aid, and investment for the Caribbean Basin.

Even where domestic protectionist pressures were strong, the Administration took positions more supportive of freer international competition than did America's major trading partners.

- Timely action by the government of Japan to limit auto exports to the United States helped to dampen pressures in Congress for passage of protectionist measures.

-- Significant progress was also made in improving America's relationship with Mexico through the newly created U.S.-Mexico Joint Commission on Commerce and Trade. In addition, a strategy for dealing with Canadian Investment policies which adversely affect U.S. interests was achieved.

-- The Reagan Administration also successfully negotiated a one-year extension of the US-USSR Long Term Agreement on Trade in Grains.

Removing Disincentives to Trade

The Reagan Administration made progress in eliminating trade barriers created by our own laws. On November 23, 1981, the Senate passed Administration-supported legislation amending the Foreign Corrupt Practice Act (FCPA). The current law, labeled "ambiguous" by the President's Trade Policy Committee, resulted in loss of legitimate export sales of U.S. businesses.

Also, the Administration placed priority on the passage of legislation to encourage the establishment of export trading companies. A bill passed the Senate on April 8, and was sent to the House for consideration.

Congress also reformed tax treatment for American business personnel living abroad, as provided in the Economic Recovery Tax Act of 1981.

Technology Transfer

The Administration took a set of actions to reduce markedly the unauthorized loss to Communist Bloc countries of militarily useful know-how. These measures are being pursued multilaterally through COCOM (a non-treaty organization composed of NATO countries, except Iceland and including Japan) and also bilaterally. The Reagan Administration has also sponsored a study by NATO of the loss of technology, and this work will complement that being undertaken by COCOM.

There is now clear understanding among the Allies of the serious consequences of the loss of sensitive technological know-how. The President successfully put this issue before these countries and fully expects good results in reducing the dangers of further technology loss.

International Financial Institutions

In 1981, the Administration completed a major review of the international financial institutions and the role of the United States in them. It supported their constructive activities at major conferences in Ottawa, Paris, Washington, and Cancun.

In addition, the Administration sought from Congress and successfully secured funding for the international financial institutions.

Also, 1981 was the first year in three that Congress passed a foreign aid appropriations bill.

HUMAN CONCERNS

Education

Soon after President Reagan came to office, he ordered the Department of Education to move toward reducing the federal role in education and restoring its control to state and local authorities. In doing so he began efforts to fulfill his campaign promise to abolish the Department, to reduce the federal bureaucracy's intrusive reach into the nation's classrooms, and to restore authority over education to the states and localities -- and to parents.

To accomplish this goal the Administration took steps both to deregulate American education and restore federalism to education policy:

-- Converting major spending programs from categorical to block grants;

-- Abolishing over 30 sets of rules and regulations, saving approximately \$1.5 million annually;

-- Reducing expenditures and increasing efficiency of departmental programs;

-- Pinpointing federal assistance only to areas of true need, particularly in certain types of student financial aid programs.

Tuition tax credits remain a vital leg of the President's plan for improving the quality and degree of parental control in education. On October 16, in a letter to Chief Administrators of Catholic Education, President Reagan repeated his strong commitment to passage of tuition tax credits legislation based on his belief that "formal education becomes an extension of the family, and ... it is the responsibility of government to assist parents, to make their burden easier, not to interfere with them."

Dismantling the Department

President Reagan's commitment to abolish the Department of Education remains fixed, and he reiterated it in a September 24 televised address to the nation. At year's end, the President was considering various options for carrying it out. Meanwhile, progress was made in complying with the President's order to reduce the size of federal government, cut spending, streamline operations and reduce internal waste and inefficiencies:

-- Four of 13 Assistant Secretary positions and 35 of 47 Deputy Assistant Secretary positions were eliminated;

-- The number of Education Department employees was reduced by 16 percent, or 1200 positions;

-- The Department reduced its administrative costs by improving management and making more efficient use of space, vehicles, equipment and materials, furniture and telephone services;

-- The continued review and deregulation of federal education programs reduced the paperwork burden on the public by 18 percent.

Assistance Through Block Grants

Elementary and secondary education programs long dominated federal aid to education policy. President Reagan proposed to return power to the states and localities by consolidation of programs into a block grant. Passage of the Education Consolidation and Improvement Act of 1981, which will become effective on October 1, 1982, goes a long way toward achieving the President's goal. Under the Act, 31 elementary and secondary education programs will be consolidated and some \$521 million in federal aid will be transferred to state and local agencies:

-- Reducing the number of federal reports and paperwork requirements associated with categorical grants;

-- Transferring to state and local control the responsibility for audits to maintain accountability of federal funds.

The Office of Elementary and Secondary Education is also reviewing 34 school regulations to identify those which can be either dropped or changed from regulations to guidelines.

Providing Assistance To Encourage Voluntary Desegregation

The Administration, through the Emergency School Aid Act, assisted 482 school districts and 800 projects in the elimination of segregation. One priority area under ESAA was the encouragement of voluntary desegregation through such approaches as magnet schools as alternatives to forced busing. This program was among those being folded into a block grant to allow more local flexibility.

Student Financial Assistance

In the last few years these programs grew substantially. In fiscal '81, 3.5 million students borrowed \$7.73 billion through the Guaranteed Student Loan Program. While most of the principal was supplied by private lenders, the cost to government of subsidizing loans -- and absorbing defaults -- skyrocketed.

President Reagan sought to restore the focus of federal student loans on the truly needy and to emphasize the traditional role of family and student in meeting the costs of higher education. To improve the program, new procedures were established:

-- To determine that loan applicants with family incomes above \$30,000 can substantiate true need;

-- To allow lenders additional leeway to make student loans more attractive in the credit market, minimizing costs to the government.

To improve its debt collection mechanisms, the Department centralized its 10 regional collection offices into three and signed contracts with two private collection firms. Increased policing of institutions administering student loans was also initiated, and has begun to yield results -- including a fine of \$3 million levied against the owners of two proprietary schools.

Vocational Education

The Office of Vocational and Adult Education (OVAE) reduced federal regulations to provide greater latitude for states and localities in administering their programs. Although federal appropriations for vocational education were reduced from \$784 million in fiscal '81 to \$685.6 million in fiscal '82, programs will continue to contribute to productivity and to revitalize the nation's economy by training America's youth for work, and by retraining and upgrading adult workers to keep them abreast of changing technology.

The Reagan Administration's proposals for revising the Vocational Education Reauthorization Act will go further: (1) returning decision making authority to the states and localities while redefining the federal role as one of support and facilitation; and (2) refocusing federal vocational education programs on economic revitalization and preparation of a skilled work force that can work cooperatively with the private sector to accomplish this goal. These will be sent to Congress by early 1982.

National Commission on Excellence In Education

The National Commission on Excellence in Education, chaired by David Gardner, President of the University of Utah, was established on August 26. The Commission was charged with undertaking to enhance the quality of teaching and learning at all levels. Special emphasis will be placed on finding ways to develop clear and thoughtful writing skills, master math, spelling and the basic sciences, as well as cultivate basic understandings in economics, government and the principles of democracy. The Commission will issue its report in early 1983.

Older Americans

A Better Economy

Inflation hits the elderly hard, especially those with limited and fixed incomes. The President knows that each one percent drop in inflation puts an estimated additional \$1 billion of purchasing power in the hands of the poorest 20 percent of our population -- including our older poor. The Program for Economic Recovery will help improve the financial security of older Americans by reversing the economic trends that have seriously threatened their life savings and the standard of living they have worked to attain.

Changes in the tax laws will also benefit the elderly, as well as help younger Americans plan for a more secure retirement. Like everyone else they will benefit from the three year-cut in individual income tax rates:

-- Provisions for the indexing of income taxes after 1984 will protect older Americans from the penalties of bracket creep.

-- Reform of the estate tax, the capital gains tax, the marital deduction, residence sales and gift tax exclusions, will benefit many older Americans.

-- Increases in the allowable contributions to Individual Retirement Accounts and KEOGH plans will be particularly beneficial to younger Americans planning their retirement.

Social Security

In his first year in office, President Reagan frequently called attention to the perilous conditions of the Social Security system.

-- The aging of America and a decade of relatively slow economic growth have taken their toll on the system. Without basic reform -- according to the Social Security Trustees in both the Reagan and Carter Administration -- the OASI trust fund could be bankrupt by the middle of 1983. By some estimates, government-maintained trust funds of the Social Security system are being depleted at the rate of \$18,800 a minute.

On May 5, President Reagan proposed a comprehensive set of reforms that would have protected the elderly already receiving benefits while also lowering the long-term costs of the system. Unfortunately, the proposals became more of a political football than a beginning of serious discussion.

On September 24, President Reagan withdrew his proposals. In their place, and in an effort to remove the issue from partisan politics, the President made three basic proposals -- all of which were favored by the Congress:

-- Temporary interfund borrowing to keep the system solvent in the short run until a long term solution is agreed to;

-- Restoration of the minimum benefit for low income beneficiaries who depend on it;

-- Formation of the bipartisan National Commission on Social Security Reform with fifteen members appointed by the President, Senate Majority Leader Baker, and Speaker of the House O'Neill. On December 16, the membership of the Commission was announced. President Reagan named economist Alan Greenspan to be Commission Chairman.

President Reagan intends the Commission to be an action group, not a study group. The problems of the system are well known. The purpose of the Commission is to propose realistic, long-term reforms to put Social Security back on a sound financial footing and to build the political consensus necessary to obtain passage of solutions. Its report is expected by the end of 1982.

Older Americans Act

With leadership from the Administration, Congress voted this year to reauthorize the Older Americans Act. The Act helps older Americans keep their independence by supporting a wide variety of locally based services such as support for homemakers, meals - including Meals on Wheels -- and counseling. The Reagan budget for elderly services for fiscal '82 contained a 13 percent increase over fiscal '81, and a 36 percent increase over fiscal '80. In fiscal '82, 28 percent of the federal budget funds programs for America's elderly -- 11 percent of the population.

Health Care

Changes in the Medicare law proposed by the Administration and passed by Congress this past August will help bring about more cost effective health care to the elderly. The Administration also began seeking changes to permit home-based health care wherever feasible as an alternative to institutional care -- permitting individuals to be cared for close to family and friends. Recent changes in the Medicaid law permitted home-based care for those elderly who qualify for its coverage. President Reagan believes that, in the long run, encouraging home-based care is in the best interest of both the individual and the government.

Conference on Aging

In November, the White House hosted the third White House Conference on Aging. For the better part of a week, delegates representing all segments of American life gathered from all sections of the country to meet and discuss the problems confronting America's elderly. Addressing the Conference, President Reagan reaffirmed his commitment to better the lives of Older Americans through a program of economic recovery and told the Conference delegates, "The state of the aging is bound together with the state of the nation. We cannot have a healthy society without a healthy economy."

Handicapped

In October, President Reagan proclaimed National Employ the Handicapped Week, stating: "We need to make the 1980s years in which disabled individuals achieve the greatest possible access to our society, maximum independence and full opportunity to develop and use their capabilities."

The Reagan Administration directed programs for the handicapped in several federal agencies with the President's goals in mind.

-- To assist disabled veterans, the Veterans Administration authorized small business loans and instituted an average 11.2 percent increase in VA compensation rates. In addition, specially adapted housing assistance grants for "wheelchair" homes were increased from \$30,000 to \$32,500, and automobile assistance allowances for the severely disabled were increased from \$3,800 to \$4,400. President Reagan designated August 13 as "National Blinded Veterans Recognition Day" to honor the sacrifices and service by blinded veterans.

-- To aid the developmentally-disabled, the Department of Health and Human Services awarded grants totalling \$1.5 million to improve services and assist efforts toward de-institutionalization. In addition, contracts were let for seven pilot projects worth \$375,000 to provide outreach services for racial minorities with developmental disabilities who had not been reached in the past.

-- To encourage and facilitate the adoption of children with special needs, HHS drew up the Model State Adoption Act which states may enact into law to provide financial assistance to adopting families. The Act also expands the grounds for legally freeing such children for adoption and clarifies the roles of adoption agencies in arranging and providing support services for these adoptions.

-- To help resolve complex issues regarding the education of handicapped children, the Department of Education conducted a thorough review of existing regulations under the Education for All Handicapped Children Act. As a result, a briefing paper was prepared which discusses potential areas for deregulation and provides alternative approaches. To ensure that all concerns are taken into account, the briefing paper was distributed for comment to 13,000 agencies and individuals in the education and handicapped communities.

-- To make public buildings accessible to handicapped persons, the Architectural and Transportation Barriers Compliance Board under the Department of Education reached an agreement on acceptable minimum standards yet reduced the costs and technical requirements.

-- Project Partnership was also established -- a White House demonstration program which will provide jobs for the disabled through voluntary efforts of 40 major corporations and 30 disabled constituency groups in San Francisco, Los Angeles and New York.

Health Care

President Reagan's goal in health care policy is to enhance the availability of care at reasonable costs for all Americans. As costs have skyrocketed, past Administrations have tried without success to contain them through increased federal involvement. President Reagan's approach is to stimulate private innovation at the local level, promote health care competition, encourage innovative alternatives to institutional care, and reduce unnecessary regulatory burdens, waste and fraud.

Progress Toward State and Local Control

The President's block grant initiatives played a major role in shifting certain health care responsibilities to state and local government. Under President Reagan's direction, the Department of Health and Human Services moved rapidly and effectively to turn responsibility for health care programs over to the states through four health-related block grants in Maternal and Child Health; Preventive Health; Alcohol, Drug Abuse and Mental Health; and Primary Care.

More Cost-Effective Care

The Reagan Administration made several changes in Medicaid and Medicare to enable more cost-effective delivery of health services to the poor and the elderly. Medicaid changes emphasized increased state flexibility and more effective reimbursement methods to reward efficient hospitals and health providers. In addition, Medicaid payments are now allowed for non-medical expenses when they help avoid institutionalization. Medicare changes will deliver services more cost-effectively and will save approximately \$1 billion in the first year alone.

To help keep people healthy in the first place, the Reagan Administration gave special support to health promotion and disease prevention. HHS exceeded its goals in school immunizations and is on target in wiping out indigenous measles in the U.S. HHS also launched a "Healthy Mothers, Healthy Babies" public awareness effort, with cooperation of the private sector, to inform the public of the importance of prenatal care.

Innovations In Health Care Research

Under President Reagan, the Department of Health and Human Services continued uninterrupted support for excellence in research. Budget support for the National Institutes of Health was increased by \$200 million, in the belief that the research it supports proves many times worth its cost.

In addition, HHS began revising regulations to remove the existing ban on awarding research grants to profit-making organizations. This step will help to bring the broadest spectrum of research talent to bear on health and social problems.

Drug Regulation

In the area of drug regulation, the Reagan Administration launched a special review of regulations to speed the approval of new drugs without compromising safety. Requirements for as many as 3000 reports each year from drug manufacturers were eliminated. Potentially cost-saving generic drugs now can be approved for sale without undergoing duplicative testing if there is adequate evidence of safety and effectiveness. The Food and Drug Administration came close to setting a record in the number of new chemicals approved for drug use -- it already approved 21 compared to 12 in 1980.

Welfare Reform

On May 4, the Reagan Administration presented to Congress the broadest changes ever proposed for the country's largest cash assistance program, Aid to Families with Dependent Children. Signed into law with the Omnibus Budget Reconciliation Act on August 13, these changes will save taxpayers \$11 billion over the next five years and are intended to assure that assistance goes only to those who need it. The reforms reward self-reliance and encourage work instead of welfare; they eliminate provisions that prolong the dependency of AFDC families. Some major changes:

-- Providing for Community Work Experience programs to create new avenues for welfare recipients to enter the work force, and let states require community service work by able-bodied recipients;

-- Setting a ceiling, for the first time, on the amount of total income that a family may have and still receive AFDC assistance, to prevent families with incomes as high as \$20,000 from qualifying for welfare as they could in the past;

-- Counting the value of other public assistance programs such as food stamps or housing subsidies in computing a family's resources when determining whether assistance is needed.

HOUSING

The housing industry has been chronically depressed by high interest rates and high costs that price millions of home buyers out of the market. President Reagan believes that general economic recovery is essential to solving current housing problems by bringing down both inflation and interest rates.

Interest rates began to decline in September with the prime rate falling from a high of 21-1/2 percent in January to a year-end level around 15-1/2 percent.

Mortgage rates also dropped to the 15 percent range in some areas. As the new year approached, prospects for a further drop in interest rates were good, promising to remove a major barrier to the onset of recovery and the restoration of growth.

Housing Commission

On June 16, President Reagan announced the creation of the National Commission on Housing, chaired by William F. McKenna, to develop recommendations for housing policy in the '80s. The Commission submitted an Interim Report to the President on October 30, which contained recommendations for the reform of subsidized housing programs.

An additional Special Report was submitted on December 30, which calls for institutional reform of the housing finance system.

A Final Report on land and timber policies, finance, regulatory and homeownership options will be delivered to the President on April 30, 1982.

On December 3, the President met with housing and union officials, as well as members of the Commission to inform them he was acting on recommendations in the Interim Report.

The President directed the Department of Labor to change certain provisions of the Employee Retirement Income Security Act (ERISA) to permit construction-oriented pension funds to invest in mortgage markets. Additional deregulatory action will apply to all pension funds and will open up a major source of investment capital for mortgage investment. The construction-oriented funds alone have assets of \$20 billion and all funds together have assets estimated to total one-half trillion dollars now, growing to \$3 trillion by 1995.

Program Reform

The Administration also reviewed government housing assistance programs especially the mixture of Section 8 and Public Housing Authority programs. These programs, costly and often abused, serve only a small fraction of those in need, and place the government in the position of either holding the mortgage on a housing project or paying rent subsidies to a private landlord. President Reagan restrained the growth of both these programs -- substantial cuts were made -- and the Reagan Administration will continue to explore more direct methods of helping the poor.

The HUD Appropriations Bill for 1982 contains \$1.973 billion for the purchase of multifamily housing mortgages, expected to yield construction of another 40,000 apartments. To target funds toward those with the most legitimate need, the Administration first supported legislation to lower the income eligibility requirements for housing assistance. With this in place, a housing voucher program was suggested by HUD Secretary and by the President's Commission on Housing.

The Administration also requested redirection of federal subsidy dollars for the rehabilitation of existing housing and the modernization of the current public housing stock. These methods working together will prove to be much more cost efficient and will expand the availability of housing for the poor with the expenditure of fewer tax dollars.

The Reagan Administration is demanding strict cost containment in federally supported construction and rehabilitation of housing, in addition to setting new guidelines for better management practices to preserve and maintain existing units.

Civil Rights

President Reagan is committed to enforcing all civil rights laws and his Administration has been active on a variety of enforcement fronts.

In 1981, the Justice Department initiated or intervened in the following civil rights cases:

- Violation of the Voting Rights Act in Sumter County, Alabama;
- Discrimination by a public club and restaurant in Chicago;
- Discrimination in Mobile, Alabama;
- Discriminatory promotion practices of New York City police;
- Discriminatory hiring and promotion practices of teachers and principals in two county school systems.

In addition, the Justice Department entered as friend of the court in several important Supreme Court and Court of Appeals cases involving fair housing, employment discrimination and voting rights.

Under Section 5 of the Voting Rights Act, the Justice Department entered objections to a number of redistricting and other election changes which would have hampered minority voting rights:

- Objections to Virginia and New York City Council redistricting changes;
- Objections to various changes in voting procedures (i.e., registration requirements, assistance to illiterates, ballot casting, vote recording).

A number of indictments were obtained for those charged with violations of federal criminal civil rights laws involving alleged incidents of police brutality:

- Prosecutions were initiated in Alabama, Connecticut, Florida, Georgia, New Jersey, North Carolina, Ohio, Rhode Island, Texas and Wisconsin.

- A conviction was obtained in Salt Lake City for a racially motivated killing.

School Desegregation

In the past decade, there was a preoccupation with court-ordered busing in school cases. This not only aggravated racial imbalance but diverted attention from the objective of quality education for students.

The Reagan Administration is working to eliminate state imposed racial barriers on student enrollment and to ensure that states do not discriminate in the provision of educational opportunities. In working to achieve those priority goals, the President will seek a variety of remedial techniques to accomplish desegregation -- including voluntary student transfer programs, magnet schools, and modest zone line adjustments.

Equal Employment Opportunities

In the employment area, the Reagan Administration firmly supports the view that all persons, regardless of race or sex, have a right to pursue employment goals in an environment which is free of discrimination based upon race, sex or national origin.

Voting Rights

Dedication to evenhanded and consistent enforcement of civil rights guarantees has also led to the President's endorsement of extension of the Voting Rights Act to ensure protection of this valued Constitutional right. The President has endorsed the longest extension in the history of the Voting Rights Act -- 10 years.

Alternatively, he made it known on November 6, that he would be willing to accept a version of the Voting Rights Act passed by the House if it contained more reasonable provisions on the so-called bail-out provision and retained an "intent" standard rather than an "effects" test to determine the existence of discriminatory practices. In a statement announcing his position, President Reagan insisted "the right to vote is the crown jewel of American liberties, and we will not see its luster diminished."

LAW ENFORCEMENT

On September 28, in New Orleans, President Reagan told the Chiefs of Police Association, "It's time for honest talk, for plain talk. There has been a breakdown in the criminal justice system in America. It just plain isn't working.... The people are sickened and outraged. They demand that we put a stop to it."

The Reagan Administration developed a comprehensive program to do just that. It was designed to develop more effective enforcement against a variety of federal offenses and to assist state and local law enforcement agencies in the fight against violent crime.

Task Force

Early in 1981, the Attorney General's Task Force on Violent Crime was established to suggest ways the federal government could have a greater impact on what is generally acknowledged to be the nation's worst single crime problem.

After receiving a comprehensive report in August, the President directed the Attorney General to begin implementation of key recommendations:

-- Since shortages of prison space are a major problem, the Administration created a clearinghouse to help states and localities obtain surplus federal property for use as corrections facilities. In 1981, two states received former Air Force properties to use as prisons. Some 500 facilities were identified as surplus and efforts began to assist 14 states to acquire properties.

-- To correct a long-standing imbalance in the criminal justice process -- where proceedings often are heavily weighted in favor of the defendant to the detriment of society's rights -- the Administration proposed changes in the exclusionary rule.

-- Changes in bail procedures were sought -- such as denying bail for defendants, repeat offenders and others, who present a danger to the community.

-- As a key step against violent crime, mandatory prison terms were recommended for those carrying a firearm in commission of a felony.

The President also directed the Justice Department to begin planning an effort to find suitable ways to assist victims of crime.

Coordinating Committees

At the President's request, the Attorney General directed each U.S. Attorney to create a law enforcement coordinating committee in each of the 94 federal judicial districts that covering the entire country.

The committees will draft detailed plans for a coordinated attack by federal, state and local law enforcement agencies on the most urgent crime problems that exist in cities, counties, regions or states.

Code Reform

The Administration worked closely with the Congress toward reform of the Federal Criminal Code; encouraging progress was made.

Narcotics Control

The President made narcotics control one of his major law enforcement priorities and directed the Justice Department to create a new enforcement strategy to sharply diminish the flow of drugs into the country.

Operations of the Drug Enforcement Administration were streamlined and improved, and President Reagan directed the Federal Bureau of Investigation to coordinate more closely with the Drug Enforcement Administration. As a result, cooperative investigations between DEA and the FBI grew significantly during the year -- to 118 investigations from 15 the previous year leading to discovery of \$160 million worth of illegal drugs and related materials.

President Reagan also signed into law a bill allowing civilian law enforcement agencies to use military radar sightings and intelligence information to interdict suspected narcotics traffickers en route to the United States. The Task Force recommended this indirect use of military resources to assist in law enforcement.

Aid for Atlanta

The City of Atlanta experienced a law enforcement crisis in 1981 with a series of murders that eventually claimed 28 lives. President Reagan said the tragedy was so serious that federal assistance was required.

In all, more than \$1 million was made available to the city and adjacent counties -- much of it for a special police task force and for crime prevention programs.

The Federal Bureau of Investigation assigned a large number of agents to the case and played an important role in the investigation that eventually led to the arrest of a suspect later indicted by local authorities on two counts of murder.

Reducing Judicial Activism

The Reagan Administration started an effort to encourage federal courts to exercise self-restraint in their decisions. Policymaking is committed by the Constitution to the elected representatives of the people, not to the courts. When courts exceed their proper bounds and engage in policymaking, they undermine the basis for their independence and invite politicization and popular attack.

Encouraging courts to stay within their proper bounds will promote the constitutional values of separation of powers and federalism, and fortify the independence of the judiciary. This can be furthered in many ways:

-- The President will nominate to federal judgeships people who understand the constitutional limits of the judiciary:

- the new Associate Justice of the Supreme Court, Sandra Day O'Connor, has such a judicial outlook;
- President Reagan made 42 other such nominations, 33 to the federal district courts and nine to the Circuit Courts. Forty of these were confirmed by the Senate by year's end.

-- The Justice Department will select cases and appeals with an eye to promoting judicial self-restraint and will urge courts to accept only those cases brought by litigants with a specific injury rather than generalized grievances;

-- Justice will also urge courts to show appropriate deference in reviewing the constitutionality of state and federal laws, avoiding the tendency to substitute their policy choices for those of the elected representatives of the people;

-- Finally, the Department will urge courts to avoid intruding into state functions, such as running prisons and schools. Courts have no expertise in these areas and, when shaping remedial orders, should scrupulously avoid intruding upon the responsibilities of state officials.

IMMIGRATION AND REFUGEES

President Reagan acted promptly to overcome the serious long-term neglect of the nation's immigration policy. The Census Bureau has estimated that 3.5 million to 6 million people are in the U.S. illegally. In 1980 alone, an estimated 500,000 to one million illegal aliens entered the country. In March, the President asked the Attorney General to chair an interagency task force to review these matters. In July, following study of the task force recommendations -- and after consulting with Mexican President Lopez Portillo -- the President announced a comprehensive program of immigration reforms:

-- To increase the law enforcement resources of the Immigration and Naturalization Service to reduce the flow of illegal aliens into the country;

-- To reform and expedite procedures to return persons who came here illegally;

-- To penalize those who knowingly hire illegal aliens;

-- To deal realistically and humanely with illegal aliens who are now here, by granting many of them legal status.

President Reagan is determined to see that these measures permit the nation to reassert control over its borders, while continuing the tradition of openness to those seeking a new life in this country.

By early December, the Senate and House had moved swiftly and nearly completed hearings on the immigration reform legislation.

One of the most pressing immigration problems to face the new Administration was the large and growing number of illegal aliens traveling by sea from Haiti. Following agreement with the Haitian government, President Reagan directed the U.S. Coast Guard to patrol the seas off Haiti in an effort to reduce the flow of boats, especially those operated by smugglers, bringing aliens to Florida.

The patrols began in October and they worked -- both to limit the illegal flow to our shores and to reduce the danger to the refugees themselves.

-- In October and November, some 453 Haitians arrived in Florida -- most probably having left Haiti before interdiction began. The total for those two months in 1980 was more than 3300 arrivals.

-- During that same period, 57 Haitian lives were saved when the Coast Guard intercepted a refugee boat about to capsize in rough seas.

MINORITIES

"We cannot be tied to the old ways of solving our economic and racial problems...it is time we looked into new answers and new ways of thinking that will accomplish the very ends the New Deal and the Great Society anticipated."

President Reagan
Before Annual Convention
of the NAACP
June 29, 1981

President Reagan believes the only way to achieve full equal opportunity is through a strong, stable economy, coupled with vigorous enforcement of anti-discrimination laws.

More Government Hasn't Worked

When Governor Reagan accepted the Republican nomination for President, he stated: "Our message will be: we have to move ahead, but we're not going to leave anyone behind." He knew that under past federal policies, too many people had been left behind -- too many of them members of minority groups. During the 1960s, an era of fewer and smaller federal programs -- but larger economic growth -- the number of families in poverty was reduced by nearly 50 percent. During the 1970s, when social welfare programs grew ten-fold -- and economic growth slowed -- only about five percent escaped poverty. With more government came higher inflation and lower productivity -- higher prices and not enough jobs.

In addition, much of the federal money intended for the minority poor never reached them -- diverted away through bureaucratic overhead or misdirected to those who were better off.

President Reagan has taken a different approach to assure improved opportunities for all Americans. He believes that tightly administered federal programs, coupled with direct block grants to state and local governments, can better target federal funds to those who must depend on government assistance. However, for those who can make it on their own, the President's goals of a strong economy, coupled with active federal enforcement of civil rights laws, will accomplish what federal programs alone had never achieved -- full equal opportunity.

Economic Recovery

As a result of passage of President Reagan's economic proposals, policies in place to provide for real and sustained economic growth beginning in 1982 -- more take home pay, more buying power and more jobs -- 13 million more jobs by 1986. This is particularly important to the working poor, since an estimated 85 percent of their spendable income does not come from a federal program, but from a paycheck. The impact of inflation falls heavily on them since every added one percent of inflation costs the poorest 20 percent of Americans an estimated \$1 billion in purchasing power.

While the President took steps to restrain federal spending growth, he maintained his commitment to basic social needs. For example, overall spending for health and human services continued to grow -- over 15 percent in 1981 and an estimated 10 percent in 1982.

Civil Rights Enforcement

At the NAACP convention in June, President Reagan repeated a pledge he made as a candidate: "My Administration will root out any case of government discrimination against minorities and uphold and enforce the laws that protect them." During his first year in office, he upheld that commitment.

Under the President's direction, the Justice Department initiated or intervened in civil rights cases in at least four states. The cases covered a wide spectrum -- from voting rights violations to discriminatory employment practices. In addition, a number of indictments were obtained by the Justice Department in violations of federal criminal civil rights laws in at least 12 states.

President Reagan fully supports and has publicly endorsed a 10-year extension of the present Voting Rights Act, key provisions of which will expire in August 1982. This would be its longest extension since the Act's enactment in 1965. Under the President's direction, the Justice Department also vigorously prosecuted violations of the Act, entering objections to a number of redistricting and other elections law changes which would have hampered minority voting rights. (For more detail, see section on Civil Rights.)

Blacks

In his NAACP speech, President Reagan told Black America: "We want your input.....I ask you to join me to build a coalition for change."

In his first year in office, President Reagan sought and received input from the Black community by maintaining a line of communication with most national Black organizations -- business, civic, social, civil rights, professional and educational -- and with people throughout the Black community.

To assure a continued open line of communication, President Reagan personally held 11 meetings with representatives from the Black community. In addition, the President designated a member of his staff to serve as a liaison with the Black community, and a member of his policy development staff has focused direct attention to policies and programs of particular concern to Black Americans. President Reagan also appointed HUD Secretary Samuel Pierce to serve on his Cabinet and at least 80 other Blacks in senior-level positions in the Administration.

This direct communication was of particular assistance in addressing two issues of specific concern to the Black community: higher education and minority business.

-- During his first year in office, President Reagan moved to strengthen Black colleges and universities by providing a \$9.6 million increase in federal Title III funds -- a jump of almost eight percent. Then, on September 15, the President signed an Executive Order which strengthened the federal commitment to historically Black colleges, while seeking new ways for the private sector also to increase its support.

Minority Business

With regard to minority business, the Small Business Administration's 8(a) program was also revised to better target funds available for minority small business ventures. In addition, the Department of Commerce Minority Business Development Agency (MBDA) implemented programs to establish a higher rate of minority joint ventures with majority firms and provide assistance to these firms in the area of international trade. The Office of Minority Business Advocacy was also established under MBDA to assure better cooperation between minority business, the federal government and the private sector.

Hispanics

The President considers direct input from Hispanics a number one priority in addressing the special concerns of the Hispanic community. During his first year in office, he took three important steps in opening direct lines of communication with Hispanics:

-- Early in his Administration, President Reagan designated key members of his staff to serve as liaison with the Hispanic community. The President's representatives worked closely with such groups as the Hispanic Coalition for Economic Recovery, comprised of representatives from all major Hispanic organizations, to establish open exchanges with regard to Administration policies.

-- During his first year in office, the President selected 18 Hispanics to serve in top management positions within the federal sector -- almost twice as many as under the previous Administration. In total, he has appointed more than 80 Hispanics to senior-level positions in departments and agencies.

-- In addition, President Reagan met on four occasions with leaders in the Hispanic community.

President Reagan also dealt with several issues of special interest to Hispanics including:

-- The initiation of radio broadcasts to Cuba designed to ensure the Cuban people an accurate source of world news.

-- The formation of a special task force to solve the economic problems of Puerto Rico;

-- The development of an immigration policy;

-- The support of a 10-year extension of the bilingual election provisions of the Voting Rights Act;

-- The improvement of relations with Mexico.

Labor

President Reagan is dedicated to maintaining and promoting the welfare of the American worker and continuing the nation's protection of equal opportunity in the workplace.

The President's first commitment to American labor is the creation of jobs through sustained economic growth from the President's economic program. Instrumental in helping create a climate for job growth will be efforts to lessen the burden on employers of governmental regulations, particularly in the labor field. When combined with reduced taxes and a lower governmental share of gross national product, the President's economic program should produce some three million additional new jobs by 1986, over and above the 10 million preexisting policies would have produced.

President Reagan is also sensitive to the need to complement job creation with job training for the disadvantaged or unskilled. However, the previous governmental approach of creating make-work jobs in the public sector is an approach doomed to failure by wasting public funds without teaching usable job skills to participants. Consequently, President Reagan ordered major changes in the CETA program during the past year by eliminating all public sector subsidized employment. This move saved over \$4.5 billion, while through the efforts of the Department of Labor and others, over 150,000 of the former participants in these subsidized public service jobs were placed in jobs in the private sector. The Administration is completing internal review and discussion of a program to completely replace the present CETA system. This new program will emphasize skills required to obtain unsubsidized jobs in the private sector. Specific legislation to create this new job training system will be presented to the Congress early in its new session.

Worker Safety

By selectively decreasing the regulatory burdens of firms with outstanding safety records and concentrating on those with frequent and flagrant violations, the Reagan Administration added to the productivity of the industries involved while ensuring better protection for workers who were at risk.

In mining, regulation and procedures are being revised to give new emphasis to education and training and to further improve the efficiency of mine safety inspections. In 1981, both the rate of fatalities and the number of days-lost-to-injury in non-coal mining declined on a yearly basis for the first time.

Equal Employment Opportunities

Equal rights in the workplace received priority attention during the past year through efforts to strengthen the effectiveness and efficiency of the Federal contractor compliance program.

program. The OFCCP, which is charged with enforcing the non-discrimination requirements for Federal contractors, proposed revisions to its regulations which permit continued pursuit of the goal of equal employment opportunity while at the same time substantially reducing paperwork and unnecessary expense in the administration of this program. OFCCP successfully resolved a significantly larger number of discrimination complaints during 1981 compared with the preceding year.

The Women's Bureau also was active in reviewing government regulations and practices in the area of affirmative action and employment opportunity. The Bureau will release a major study on economic opportunity early in 1982.

Deregulation

Consistent with his promises during the campaign, President Reagan refused to support efforts to repeal the Davis-Bacon Act. However, in 1981, the Department of Labor proposed administrative revisions for Davis-Bacon estimated to mean a total savings of over \$670 million per year when the new rules are finally implemented.

In the fall, efforts were made in the Senate to exempt some \$4.1 billion of military construction from Davis-Bacon, in effect selectively repealing the Act as it applies to defense contracting. Consistent with the President's pledges, the Administration did not favor this proposed Senate amendment and, in the first week of November, it was defeated in Committee.

Open Door

On December 1 and 2, President Reagan met in the White House with officers of the Executive Committee of the AFL-CIO and the Teamsters union. They met to exchange views on policy matters of mutual concern. The President invited the union officials in his effort to maintain an open door with a group which had grown somewhat estranged from the White House during 1981.

Two weeks before, the President reiterated to members of his Cabinet his desire that the doors throughout his Administration should remain open to organized labor's advice and counsel. In a memo to the Cabinet, President Reagan said, "Unions are among our most valued institutions and serve as some of our best examples of participatory democracy. I want to ensure that their views are fully heard and considered by my Administration."

Secretary Donovan began to meet on a regular basis with a special committee, composed of Assistant Secretaries or higher officials from each federal department, to discuss issues of concern to organized labor and ways to improve communications between the Administration and organized labor.

WOMEN

As a candidate, Ronald Reagan pledged to advance, promote and guarantee equal rights and equal opportunity for women. As President, he is honoring this commitment.

In addition, the President's Program for Economic Recovery addresses several past inequities which will directly benefit women -- the marriage penalty, IRA limitations and inheritance taxes.

Federal Appointments

President Reagan is committed to ensuring that women are well-represented at all levels in his Administration. His appointments include Associate Justice Sandra Day O'Connor, the first woman to serve on the Supreme Court and Ambassador Jeane Kirkpatrick, the first woman to represent the U.S. in the United Nations. In the Reagan Administration, women also serve as directors of three major federal agencies: the Environmental Protection Agency, the Peace Corps and the Consumer Product Safety Commission.

In his first year in office, the President selected more women to serve as policy makers in sub-cabinet and independent Regulatory agency positions than any other President in history -- 47 as of mid-December. In total, the Reagan Administration appointed more than 70 women to GS-15 level positions or above in departments and agencies.

On the White House staff, 10 women serve in top level, Presidentially-commissioned positions and 67 women serve in high level positions comparable in salary to GS-15 levels or above.

Equal Rights

The President strongly supports equal rights for women and believes they can be ensured under existing provisions of the Constitution. To better accomplish the goal of full equality for women, the President launched two initiatives to begin the attack on discriminatory laws and regulations.

At the federal level as the year ended, the President was ready to sign an Executive Order creating the Task Force on Legal Equity for Women. This Task Force will fulfill his commitment to correct federal regulations which unfairly discriminate against women.

To address this problem at the state level, the President appointed a special assistant to work with all 50 governors to identify and correct state laws which adversely affect women. The President communicated directly with the governors on the importance he attaches to this 50 States Project and personally met with their representatives at a working session in the White House in October. Approximately one-third of the states contacted the White House with progress reports on their programs.

Under President Reagan's direction, the Department of Agriculture has developed a comprehensive plan for export expansion -- expansion which is essential to the farming sector. The availability of credit was increased to facilitate the export of U.S. agricultural commodities during the period of large supplies. Other initiatives include the development and implementation of a strategy to deal with the European Community's aggressive subsidies and restrictive import policies.

Food and Nutrition

President Reagan has retargeted and refocused food assistance benefits to those most in need:

-- Last year, subsidized school lunches were served to about half the total student population in 90 percent of the nation's schools. The President initiated program changes which will continue to help needy students, yet reduce subsidies to more affluent children so that they will be required to pay a greater portion of their school lunch costs;

-- To better target food stamp funds to the truly needy, the Administration has established a gross income eligibility cutoff at 130 percent of the official poverty line. In addition, students and strikers have been removed from the food stamp rolls. The total effect of these changes has been to remove from the rolls about five percent of those receiving assistance;

-- Even after the Administration's eligibility revisions and budget cuts are in effect, some 21 million people will receive food stamps this year -- almost 4 million more than during the recession of 1975.

The federal government in recent years has provided massive amounts of food assistance to Americans. This will not change in 1982, when government will subsidize meals at the rate of over 100 million per day -- one-in-four to school children.

Fraud

During the first seven months of the Reagan Administration, over \$2 million was recovered in food-stamp fraud investigations, including seizures, court-mandated returns and voluntary returns of illegally-held food stamps.

-- Beginning in September, the Administration required the use of photo ID's in the food stamp program in large metropolitan areas of the country.

Nutrition Initiatives

In June, the Reagan Administration established the Human Nutrition Information Service, thereby elevating human nutrition information and education to agency status, a first in the federal government. Through this action, the Administration hopes to provide professionals and the public with sound research-based information on human nutrition and food.

Implementation plans have also been completed for the National Nutrition Monitoring System, and the Administration submitted a report to Congress in October. The plan will better integrate food and nutrition surveys and provide periodic reports on the nutritional status of the American population.

ENERGY

President Reagan transmitted his National Energy Policy Plan to Congress on July 17. The basis of the President's approach to energy issues is trusting the free market -- with only minimum necessary government involvement -- to produce the best balance of energy supply and demand. The Reagan Administration will not dictate rigid production and conservation goals. It will maintain stewardship of resource rich lands and continue to play a role in certain long-term research and development. The President believes that government's most important role in energy use and production policy is to provide a sound and stable economic environment.

Decontrol and Deregulation

President Reagan began immediately to decontrol and deregulate the energy industry in order to ease the nation's dependence on imported oil.

-- After the President ordered decontrol of domestic crude oil and petroleum products on January 28, the average price of leaded regular gasoline fell from a high of \$1.35.2 last spring to a low of \$1.29.9 in October;

-- Net imports of oil in the U.S. dropped to 5.4 million barrels a day, down 14.6 percent below a year ago and 3.2 million barrels a day less than the 1977 high water mark of 8.6 million barrels a day;

-- Energy conservation improved in 1981 with consumption down about 100,000 barrels per day;

-- The number of new exploratory wells increased in the U.S. from 3386 in January to 4352 in October.

Strategic Petroleum Reserve

The Reagan Administration has dramatically increased the fill rate for the Strategic Petroleum Reserve (SPR), and plans to complete Phase I of SPR early next year, with placement of the 250 millionth barrel in storage.

-- Chevron USA is supplying 33 million barrels toward the SPR to resolve overcharge allegations;

-- A long-term supply contract has been negotiated with Mexico's PEMEX supplying 108 million barrels of oil for SPR through August 1986.

Dismantling The Department of Energy

On September 24, President Reagan reiterated his pledge to dismantle the Department of Energy to help reduce the unnecessary influence of government in energy development, production and use. development.

On December 7, the President confirmed that commitment and announced his intention to assign:

-- Resource Management and Funding to the Department of Interior;

-- Energy policy, R & D (including the Defense Weapon program), and Energy Information to the Commerce Department.

At year's end, an inter-departmental task force was to be formed to draft implementing legislation.

Energy Needs For Defense

The President added \$296 million in additional funds to the fiscal '82 Defense budget for defense related energy programs which fall into three categories:

-- Upgrading of nuclear weapons facilities;

-- Enhanced nuclear weapons production capability;

-- Improving disposal management and safety for nuclear waste associated with weapons production.

Nuclear Power

In October, the President issued a nuclear policy statement which proposed to:

-- Accelerate deployment of methods for storing and disposing of high-level radioactive waste;

-- Lift the ban on commercial reprocessing and seek to eliminate regulatory impediments to private sector development of this service.

-- Develop a report, with input from industry, utility and academic representatives, that identifies obstacles to increased use of nuclear energy and the steps needed to overcome them.

During 1981, the Administration took major steps to assure the continued safety of commercial nuclear power plants by expanding the existing research program concerned with the circumstances and underlying causes of the 1979 accident at Three Mile Island. In addition to providing valuable information for other nuclear reactors throughout the world, the DOE is also making available its extensive atomic energy experience to enable the Three Mile Island owners to choose more efficient and safe processes for conducting the cleanup operation.

ENVIRONMENT

At a Cabinet meeting on August 4, President Reagan decided to seek an extension of the Clean Air Act and approved a set of "general principles which the Administration commended to the Congress as a basis for amending this basic environmental law. The principles were the following:

-- The nation should continue its steady progress toward cleaner air.

-- Statutes and regulations should be reasonable and should be related to the economic and physical realities.

-- The basic concept of the health-based primary standards in the Clean Air Act should be maintained. Cost-benefit analysis should not be included as statutory criteria in setting these standards, but standards should be based on sound scientific data demonstrating where air quality represents real health risks.

-- Secondary standards should also continue to be set at the federal level.

-- The current program for the prevention of significant air quality deterioration should be maintained for the protection of park and wilderness areas. In other areas protection should be based on uniform technology requirements for pollution control.

-- States should be accorded a full partnership in implementing the nation's standards. The federal government will monitor state achievement of National Health and Welfare Standards.

-- A more effective hazardous pollutant program should be established to allow, for the first time, efficient control of the serious health hazards posed by airborne toxic pollutants.

-- Research on acid rain should be accelerated.

-- Deadlines for achieving primary air quality standards should be adjusted to reflect realities in particular areas.

-- As suggested by the National Commission on Air Quality, automobile standards should be adjusted to more reasonable levels. The limit for nitrogen oxide could be raised to a level slightly higher than that suggested by the Commission without affecting air quality goals.

-- Pollution control standards for new coal fired plants should be based on uniform emissions standards. Environmental protection should be the criterion.

In 1981, the Administration worked with key Congressional leaders to seek passage of legislation based on these principles to ensure the most effective means to maintain continued improvement in air quality.

The amendments had not been passed when Congress adjourned in December but they were expected to be given early consideration in the second session.

Federal Lands and Mineral Resources

Under President Reagan, the Department of Interior has reordered its priorities and moved swiftly on several fronts to restore commonsense management to America's federally owned natural resources. The President believes access to energy sources and strategic minerals can be encouraged without diminishing the quality of environmental protection. Bureaucratic overlapping of functions has been sharply reduced through consolidation of bureaus and increased reliance on states' authority and capability. A good neighbor policy with Western states has removed many complaints about remote and uncaring bureaucrats.

Land Management and State Authority

The Administration has asked Governors of Western states to identify public lands needed for community expansion or other state or local activities. Nearly 400 requests for 700,000 acres were received. In 1981, 5330 acres were leased by or sold to the states.

In addition, have a total of about 540,000 acres that being turned over to eight states by the federal government. In 1981, 60,000 acres were transferred.

Regulation

Consistent with the Administration's commitment to reducing the amount of federal regulation, the Department of Interior, in consultation with the states, has eliminated or changed a number of its regulations. Nine rules were abolished and sixty more were targeted for review in 1981. A goal has been set to eliminate 125 Bureau of Reclamation rules in 1981.

Wilderness Areas

The Reagan Administration has made a major effort to preserve and protect our environment by announcing a decision to accelerate wilderness studies on 24 million acres of public lands. Wilderness studies now will be presented to the Secretary of Interior by 1987 rather than by the 1991 deadline required by law.

The National Park System

Heavily visited but under-maintained national parks are being upgraded for visitors.

The Administration has issued a temporary ban on new land acquisition for park land to allow available funds to be used for safety and maintenance. The National Park Service has been directed to refocus its management activities to bring existing parks up to acceptable standards, in response to a General Accounting Office report citing \$1.6 billion in safety and health standards for park visitors.

A COMPREHENSIVE PROGRAM FOR NATIONAL DEFENSE

When President Reagan took office in January of 1981, prior years of neglect had left the strength and credibility of U.S. deterrent forces in serious doubt. There was a growing perception that the Soviets were forging ahead of the U.S. in many areas of military capability. Even a balance between U.S. and Soviet forces was in jeopardy.

The Need For Action

The reason: two simultaneous trends. For years, the Congress and preceding Administrations had deferred badly needed modernization of U.S. forces. Meanwhile, the Soviets continued to modernize and to increase their output of military hardware on a massive scale. President Reagan believed that, as a result, a "window of vulnerability" had been created -- a point in the near future when the Soviets would have unquestioned military superiority over the U.S.

For more than ten years, the Soviet Union had been devoting much more of its resources to military buildup than the United States. Over the last five years, the overall Soviet program was fifty percent larger than ours despite the fact that the Soviet economy is only half the size of America's.

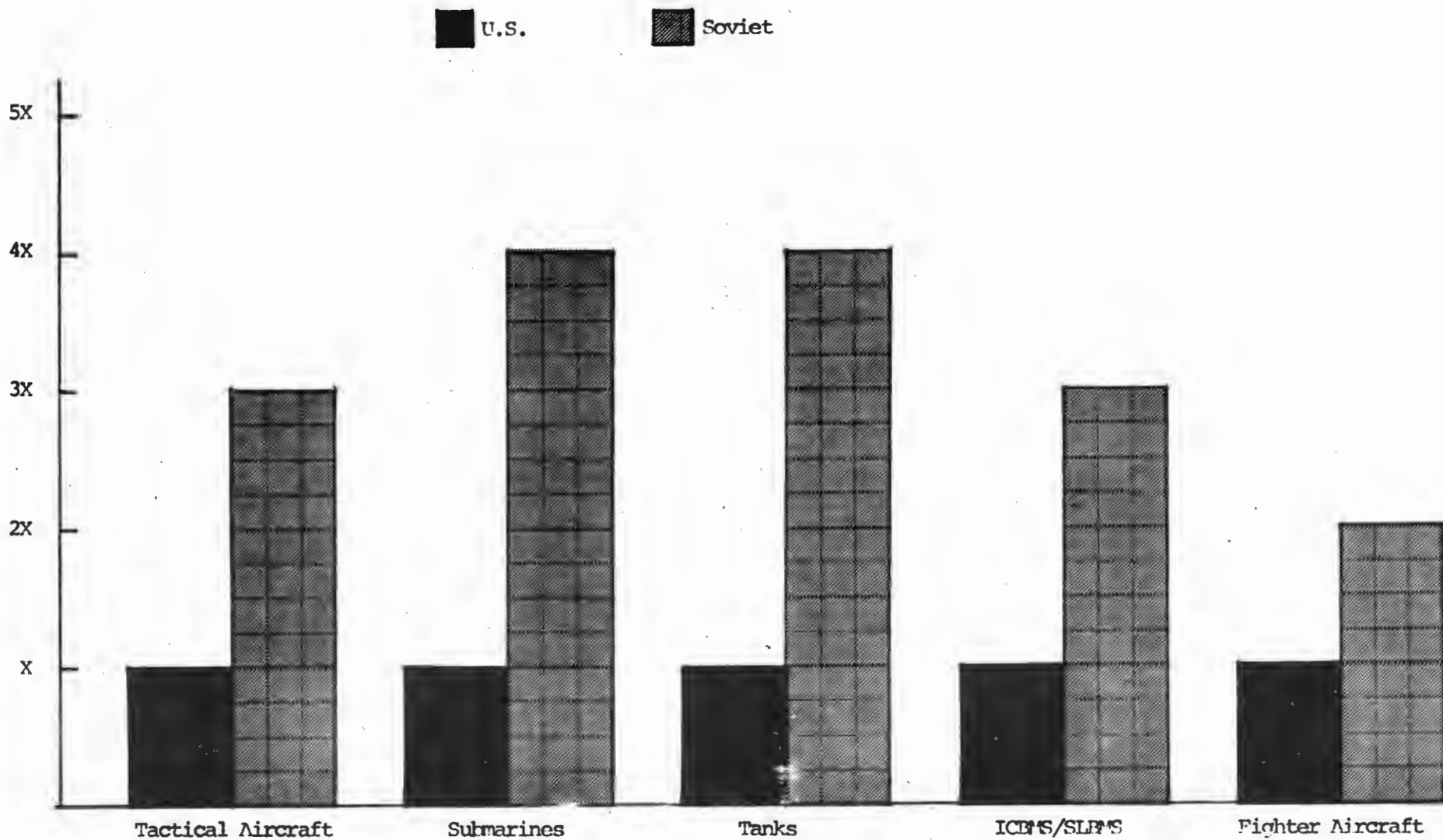
The Soviet's unflagging determination to gain military superiority was evident in quantitative terms. Their arms plants were turning out over 150 types of weapons systems, conventional and nuclear. They were out-producing the U.S. in many crucial military items:

-- About three-to-one in tactical aircraft, ICBMs and Sea-Launched Ballistic Missiles;

-- Nearly four-to-one in tanks and submarines;

-- Two-to-one in fighter aircraft (in the last eight years, the Soviets built 1,000 a year, compared to 500 for the U.S.).

RATIO OF SOVIET PRODUCTION LEVELS TO U.S. LEVELS



Source: Department of Defense, 1981

In the past five years the Soviets spent roughly 50 percent more on the military overall, but 80-90 percent more than the U.S. on weapons procurement, military construction and R&D. Their shipbuilding activity is on the rise; they are building 30 Backfire bombers a year (the U.S. is building no strategic bombers at present); and they are adding one SS-20 IRBM a week to their 260 already facing Western Europe. The NATO alliance has no comparable systems.

By contrast, American conventional forces had not been rebuilt after the Vietnam War and strategic forces, intended to deter a Soviet nuclear attack, consisted primarily of weapons developed in the 1950s:

-- The last B-52 was built in 1962, the same year the Minuteman and Titan II ICBMs were deployed. All are based on technologies from the 50s with only patchwork improvements since.

-- When it is deployed next year, the Trident submarine will be the first completely new strategic system in twenty years.

In the U.S., the relationship between defense spending and other federal spending shrank steadily over the past two decades.

-- As a share of overall spending, defense fell from almost 50 percent of the federal budget in fiscal '60 to 39.2 percent in fiscal '70 and fell further, to 23.8 percent, in fiscal '81;

-- As a share of the GNP, defense spending dropped from eight percent in fiscal '70 to 5.5 percent in fiscal '81.

Peace Through Strength

To halt the decline in U.S. military strength, President Reagan established policies designed to meet four overriding objectives:

-- First, to make significant improvements in the levels of compensation and living standards of military personnel who, of course, constitute the true core of our military capability across all missions and regions;

-- Second, to remedy the many deficiencies in our existing forces -- undermanning, lack of spare parts, insufficient training, obsolescent equipage, and the like -- before going ahead with force expansion, which also is needed;

-- Third, as a top priority, to do whatever is necessary to restore the nuclear margin of safety with the Soviet Union;

-- And fourth, to expand the capabilities of U.S. general purpose forces for deterring a global war with the Soviet Union, a war that could be lengthy or be preceded by a prolonged mobilization buildup.

Strategic Forces

On October 2, President Reagan announced a comprehensive program for modernizing America's strategic triad of land, sea and air-based strategic forces, and supporting elements.

It consisted of five mutually reinforcing parts: improvements in communications and control systems; modernization of the strategic bomber force; deployment of new submarine-launched missiles; a phased introduction of new land-based MX missiles; and improvements to strategic defenses. Between 1981 and 1990, the number of U.S. strategic weapons able to survive a Soviet attack will double.

President Reagan's 5-point plan included the following:

1. B-1 and Stealth: A variant of the B-1 bomber will be developed and 100 operational aircraft will be deployed, beginning in 1986. Meanwhile, R&D will continue on an advanced technology bomber -- ATB or "stealth" aircraft -- with deployment projected in the early 1990s. The newest of our B-52 bombers will be modified to carry cruise missiles, and older B-52s will be retired.

2. MX: The President decided to continue development of the MX missile and to deploy at least 100 of them. However, he decided not to pursue Multiple Protective Shelter (MPS) or so-called "racetrack" basing modes, believing these did nothing to solve the basic vulnerability problems of today's land-based missiles. A limited number of the MX missiles (up to 40) will be deployed in hard Minuteman or Titan silos, while R&D continues on three long-term options for MX survivability: launch from continuously-patrolling long-endurance aircraft; active land-based defense of the missiles; and deep underground basing. A final decision on MX basing will be made in 1984, after R&D is complete.

3. Trident II: A larger and more accurate sea-launched ballistic missile -- known as the Trident II or D-5 -- will be developed for deployment on Trident submarines beginning in 1989. Construction of Trident submarines will continue at the rate of one a year and several hundred sea-launched cruise missiles will be deployed on general purpose submarines beginning in 1984.

4. Communications and Control: Improved radar and satellite systems will be developed to provide warning in the event of Soviet missile attack and to assess its size and scope. A new satellite Communications system will be developed employing extremely-high-frequency channels so the President's orders can be passed from command centers to our commanders in the field. E-4B and EC-135 airborne command posts will be upgraded for the National Command Authorities (NCA) and key military commanders. Survivable communications will link command centers with all three legs of the strategic Triad.

5. Strategic Defense: Credibility will be restored to U.S. strategic defense forces, which have been virtually ignored for a decade. The North American surveillance network will be upgraded; F-15s will replace aging F-106 interceptors; E-3A AWACS surveillance aircraft will be added for air defense along with an operational anti-satellite system; ballistic missile defense R&D and an expanded civil defense program will be funded.

In 1981, Congress approved funding for many of these initiatives, including the MX and B-1 programs. In December just before adjournment, the Congress passed a record defense appropriations bill for fiscal '82 that totalled \$199.9 billion, providing the nation with a major step forward in President Reagan's rearmament program.

Rebuilding Existing Forces

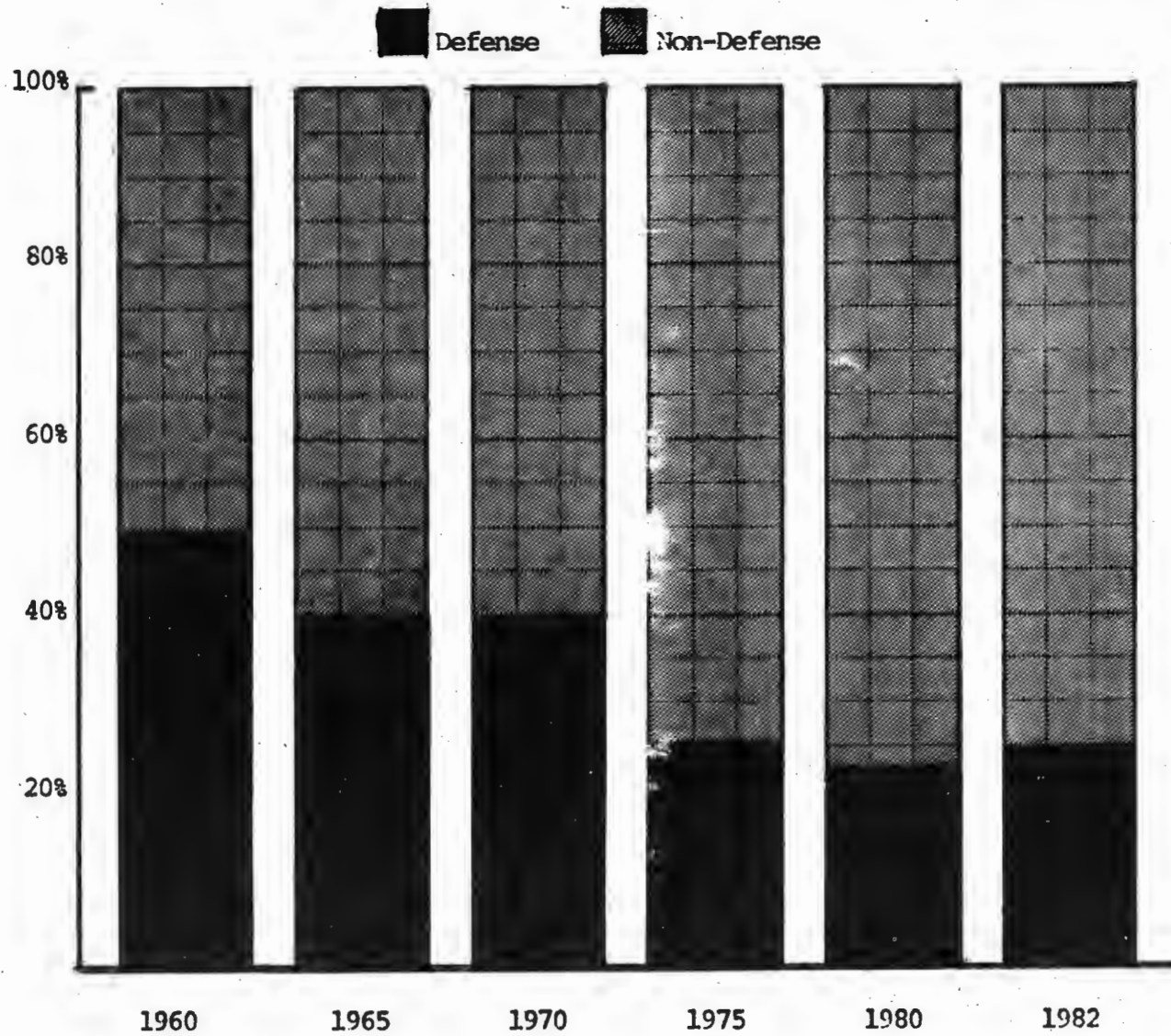
The President also took steps to counter the massive Soviet build-up of conventional weapons. To counter overwhelming Soviet tank superiority in Europe (50,000 to NATO 11,000), he approved an order to assemble Enhanced Radiation munitions -- the so-called "Neutron Weapon" -- for stockpiling in the U.S.

In addition, the Administration has begun the first strategic stockpiling acquisition program in over 20 years and has devised a comprehensive strategic materials policy.

While President Reagan recognizes that numbers alone do not measure military effectiveness, there is no longer any doubt that the Soviets are substantially more capable now than in 1970, both in absolute and relative terms, to utilize their strategic nuclear, theater nuclear and conventional armed forces to achieve their objectives of regional and global dominance.

Defense Spending: In 1980, candidate Reagan had campaigned on the need to rebuild and modernize U.S. forces. In his first year in office, despite great skepticism that he could achieve majority support, he persuaded both houses of Congress that the task was urgent, the time short. In 1981, President Reagan succeeded in obtaining measures from Congress -- the military pay raise, strategic modernization and the like -- that will boost overall

DEFENSE versus NON-DEFENSE SPENDING



Source: Office of Management and Budget, 1981

defense appropriations in fiscal '82 to \$213 billion, up from \$174 billion in fiscal '81 -- starting the nation on a new course to increase defense spending an average seven percent a year.

-- The President's program for strategic modernization will cost less than 15 percent of the entire Defense budget compared to 20 percent spent for strategic weapons in the early 60s.

-- The Reagan defense program raises spending to 5.6 percent of the GNP and 24.3 percent of the overall budget in fiscal '82 -- reversing an almost uninterrupted decline over more than a decade. By 1986, however, less than eight percent of GNP will be spent on defense, a lower percentage than was spent during the 50s and early 60s.

In his first year in office, President Reagan has halted the decline of U.S. forces and set a new course aimed at restoring confidence in our ability to defend against aggression in whatever form it appears, conventional or nuclear. In the President's view, this commitment means that for the first time in many years, our negotiators in arms reduction talks with the Soviets will be able to go to the bargaining table in a position of strength.

Efficiency and Savings

While spending more money for national defense, the Reagan Administration also established safeguards and new management practices to assure that every tax dollar for defense is well spent.

Altogether, the Reagan Administration has identified more than \$31 billion in distinct defense savings that can be achieved over the next six years:

-- Efficiencies in procurement practices will save an estimated \$4.4 billion;

-- Reduction in programs requested by the previous Administration, will save \$9.7 billion;

-- The Administration's policy of restraint on civil service and retirement pay will save the Pentagon \$17.1 billion.

President Reagan is determined to demonstrate to the American taxpayer that our large, complex, and critically needed defense establishment can and will be managed in a prudent and business-like manner. The Administration will explore new areas of management improvement, promulgate results of audits, inspections, investigations, and publicize information on better ways of doing business.

Military Manpower and Recruitment

When Presidential candidate Ronald Reagan accepted the Republican nomination, he announced his concern over the plight of America's military personnel. Military pay and benefits had slipped so low that many were actually eligible for food stamps. As a result, enlistment rates had dropped dramatically, endangering the all-volunteer military.

The morale of U.S. Armed Forces was falling. Many highly trained technicians, pilots and other experienced service personnel were dropping out in mid-career to take better paying and less demanding jobs in the private sector. This posed a danger to national security.

In previous years, Congressional cuts in the military budget seriously undermined the reenlistment bonus system which was vital to keeping experienced service personnel in the military.

-- In 1972 Congress authorized a combined-services manpower level of 2,553,000 and a budget of over \$400 million for reenlistment bonuses;

-- By 1978, the authorized manpower level was 2,085,000, a drop of nearly 20 percent, and the amount budgeted for bonuses dropped to about \$100 million, a drop of 75 percent since 1972.

As President, Mr. Reagan moved quickly to revitalize U.S. military personnel policy. He worked with Congress to obtain an overall 14.3 percent increase in basic pay and other allowances, and an increase in reenlistment bonuses and other incentives to retain highly skilled personnel.

The President also publicly recognized the important role of the military in national security in his new program for rebuilding and modernizing U.S. forces.

By September 30, recruiting and reenlistments had reached their most successful levels since the start of the All-Volunteer Force in 1973:

-- Each Service achieved 100 percent or better of its recruiting goals;

-- The percentage of recruits with high school diplomas increased, as did scores on enlistments tests;

-- Both first term and career reenlistment rates for all Services were higher than in the previous year.

Arms Control Considerations

Upon taking office, the President faced pressures from both home and abroad to begin new arms limitation talks with the Soviets. Voices in Congress were demanding talks in lieu of increasing the Defense budget.

The President responded by contrasting the steady decline in U.S. defense spending over the past fifteen years with the continuing, massive Soviet arms build-up. National security continued to be an overriding concern of the President, and he rejected possible unilateral limitations that, conceivably, might freeze U.S. forces into a position of inferiority.

The Reagan Administration undertook a comprehensive review of arms control issues -- compliance, verification and impact on U.S. national security. The President insisted that any negotiations undertaken be based on early and full verification and move toward militarily significant force reduction.

For President Reagan the ultimate goal is real arms reduction, not just limitation, but negotiations could go forward only after our willingness and determination to rearm was made clear. He has proposed abandoning the acronym SALT and renaming the talks START, for Strategic Arms Reduction Talks.

Getting the Job Done

Although much attention was focused on the need to modernize forces, the military also was busy elsewhere doing its job, protecting national security and U.S. interests abroad. Part of that job involved training to ensure the readiness of our forces in time of crisis. Major exercises initiated by the previous Administration were undertaken in 1981.

-- The "Team Spirit" exercise illustrated the U.S. readiness and continued commitment to assist in the defense of South Korea.

-- The "Bright Star" exercise demonstrated the feasibility of a highly mobile force that can be deployed anywhere in the world on short notice. The President is committed to future expansion of the RDF and making more modern equipment available to it.

-- The "Reforger" exercise in Western Europe helped to re-assure our Allies that NATO forces are up to the task of protecting Europe. Confidence improved when the exercise demonstrated that the various NATO forces are capable of coordinated operations in the field and would be effective against an attack by conventional forces.

When President Reagan came to office, our NATO allies had been urged to assume more of the burden of defending their countries. The President continued that policy while also strengthening U.S. capabilities in the NATO region. A strengthened NATO would yield the additional benefit of allowing the U.S. to concentrate more defense resources in Southwest Asia and in the Middle East where most of the free world's oil sources are located.

The President has made terrorism a key target of his foreign policy. New efforts were begun to assist other countries in meeting their terrorist threats:

-- In the Middle East region, the Reagan Administration directed the establishment of a new unified command to improve significantly America's capabilities to protect vital interests there. The President ordered major programs of cooperation with Egypt, Sudan, Oman, and Jordan, as well as a continued and enhanced strategic relationship with Israel.

-- On November 30, Defense Secretary Weinberger and Israeli Defense Minister Sharon signed a Memorandum of Understanding on Strategic Cooperation designed to assure U.S.-Israeli military cooperation and assistance to cope with threats to the security of the entire region caused by the USSR or Soviet-controlled forces.

-- In order to ensure that the terms of the peace treaty between Israel and Egypt are fully met, the President moved to establish a multinational force to police the Sinai after the final Israeli withdrawal. An American force of some 1000 soldiers will participate.

-- In Latin America, the Reagan Administration has moved with vigor to counter Soviet and Cuban-backed insurgencies.

In Pakistan, the President has embarked on a major program to meet its security requirements in the face of continued Soviet aggression in Afghanistan.

Finally, President Reagan inherited a number of troublesome situations around the world: the Soviet-backed insurgency in El Salvador, the threat to free-world oil sources in Saudi Arabia and other Middle Eastern countries, and the avowed terrorist activities of Libya. The Administration sought to deal with each situation through diplomatic means, keeping U.S. military

involvement to a minimum. Nonetheless, in rare instances, the non-combat involvement of some U.S. military personnel and material was deemed appropriate:

-- In El Salvador, the President authorized 56 military training advisors to assist the legal government in its struggle with communist-supplied insurgents.

-- In Saudi Arabia, until the new AWACS planes can be delivered in 1985, the President has ordered U.S. Air Force AWACS to provide coverage.

The only instance of U.S. involvement in armed conflict during 1981 occurred when two Libyan fighters attacked U.S. planes involved in a training exercise over the Mediterranean. The Libyan aircraft were shot down.

REASSERTING U.S. LEADERSHIP

"To those neighbors and allies who share our freedom, we will strengthen our historic ties and assure them of our support and firm commitment....As for the enemies of freedom...they will be reminded that peace is the highest aspiration of the American people. We will negotiate for it, sacrifice for it; we will not surrender for it now or ever."

President Reagan
Inaugural Address
January 20, 1981

As the first year of the Reagan Presidency drew to a close, the Administration had succeeded in moving America beyond the post-Vietnam malaise and in setting a new direction in U.S. foreign policy. In 1981, the President established a foreign policy characterized by four principal objectives which would guide his Administration's efforts over the long-term; and when more immediate threats to peace arose, he put the resources of his Administration to work in initiatives to counter those threats. During 1981, the U.S. played a major role in maintaining world peace -- in Lebanon, in the Middle East generally, in Africa, and in Europe:

Initiatives for Peace and Freedom

In Lebanon and the Middle East: President Reagan acted to avert imminent threats to peace and demonstrated the United States' credibility as an arbiter of local disputes by sending Ambassador Philip Habib to Lebanon. On this mission, which began May 5, Habib worked out a successful and lasting cessation of hostilities. It was still in effect as the year ended.

-- President Reagan moved quickly to demonstrate U.S. support for the Egyptian government of Hosni Mubarak, among other things dispatching two AWACS reconnaissance planes to enhance air defense during the immediate period of heightened tensions after the assassination of President Sadat.

-- The President also sought, successfully, to improve U.S. relations with Saudi Arabia, an essential participant in any permanent MidEast peace settlement. This effort was, of course, greatly enhanced by the Senate approval, on October 28, of President Reagan's proposal to sell five AWACS reconnaissance planes to Saudi Arabia.

The President's policy in the Middle East is based on a balanced strategy which recognizes that the peace process and security cooperation reinforce one another. If Middle East friends are more secure, they will be more willing to take risks for peace. In addition to the cessation of hostilities in Lebanon:

-- The President moved forward to increase strategic cooperation with both friendly Arab regimes and Israel.

-- The U.S. underscored its determination to support and reassure those who have made peace in the Camp David framework by committing our forces to the MultiNational Force and Observers (MFO) in the Sinai.

-- In addition, the President took steps to bolster the security of critically important states like Egypt and the Sudan that are threatened by the Soviets or their radical clients; in the case of Pakistan he opened up a completely new relationship with a beleaguered and strategically vital country.

In Africa: the Reagan Administration helped bring new life to the talks on Namibian independence, which had all but collapsed. In order to resolve an ominous threat to world peace, the U.S. undertook the task of convening the Contact Group, composed of the U.S., U.K., West Germany, France and Canada to work out an internationally acceptable settlement to the Namibian problem. These countries made considerable progress and during 1981 consulted with other interested parties on concrete measures to help secure true independence for Namibia.

In Europe: President Reagan plowed wholly new ground in the quest for nuclear arms control with his November 18 challenge to the Soviet Union to negotiate elimination of intermediate range nuclear missiles in the Intermediate Nuclear Force talks that began in Geneva on November 30.

Foreign Policy Objectives

President Reagan's foreign policy seeks to establish a world environment hospitable to fundamental American values -- peace and the right of self-determination for nations, freedom and dignity for individuals.

To work toward these goals, President Reagan based his foreign policy on four objectives, and an overall assessment shows that the Reagan Administration made progress in pursuing each:

- 1) Restoration of American economic health and military strength;
- 2) The achievement of a relationship with the Soviet Union based on restraint and reciprocity;

- 3) The promotion of peaceful progress in developing nations;
- 4) Renewal of traditional alliances and development of new friendships.

Restoring Military Strength and Economic Health

President Reagan believes that without a strong domestic economy and a viable and credible defense, the nation cannot strengthen and preserve its leadership role abroad.

-- The President's policies showed our determination to restore U.S. strength and our willingness to use that strength to defend U.S. interests and ideals -- an act of self-discipline and resolve that has not gone unnoticed by either our friends or our adversaries.

-- The President began strengthening our alliances and working to develop a common view of how we and our Allies must deal with the political, economic and military challenges that face us.

-- President Reagan's five part comprehensive defense plan coupled with his moves to upgrade the quality of military life is a major effort to make up for years of neglect of our military and defense posture. This is especially important in light of massive Soviet build-ups and increasing military and terrorist threats to the U.S. and its allies throughout the world. The President sent the signal to the world that America has the capacity to act whenever, wherever, and however it must.

-- The President's program for economic recovery will provide America with the prosperity, industrial capacity, productivity, and technology needed both to compete in world markets and aid our allies in need. Economic growth is essential. Our country is only as strong as its economy and the economic well-being of its people.

Relations with the The Soviet Union

In the face of President Reagan's determined U.S. rearmament program, the Soviet leadership and much of the rest of the world see the United States no longer as a country in constant retreat under Soviet pressure, but as one willing to assert itself, to defend itself, and to protect its interests abroad. This change in atmosphere provided a good setting for serious and equitable negotiations with the USSR and the Eastern bloc on outstanding disagreements.

The President made it clear to the Soviet Union that America seeks a more stable and constructive relationship -- a relationship based on restraint and reciprocity. Over the past year, this commitment has been reflected in:

-- The President's exchange of letters with President Leonid Brezhnev;

-- Secretary of State Alexander Haig's meeting with Foreign Minister Gromyko at the United Nations, to be continued in Geneva in January of 1982;

-- The President's arms control proposals based on the principles of substantial, militarily-significant reductions in force; equal ceilings for similar types of forces; and adequate provisions for verification.

The President also showed a restrained but firm response to the relentless build-up of Soviet military power. Upon accepting the Republican nomination, Ronald Reagan stated: "We know only too well that war comes not when the forces of freedom are strong; it is when they are weak that tyrants are tempted." As President, Mr. Reagan put into motion plans to strengthen sea, land and air-based elements of the strategic triad and a proposed defense program designed to remedy the neglect of the past decade and restore the eroding balance on which U.S. security depends.

President Reagan believes that the prospects for cooperation with the Soviets depend not only on clear communication but also on the credibility that comes from the successful conduct of our policies elsewhere.

U.S.-Soviet relations have always been shaped as much by the success of our actions at home and in other parts of the world as by our bilateral contacts with the USSR. The renewal of our economic and military strength, the reinvigoration of our traditional alliances, and the promotion of peaceful progress and new friendships will help make restraint and reciprocity the most realistic options for Moscow.

Arms Control

To reduce the threat of a limited war in Europe, President Reagan made a serious, far-reaching proposal to the Soviet Union on eliminating intermediate range nuclear missiles there. Negotiations with the Soviet Union on Intermediate Range Forces (INF) began on November 30, and the Administration is reviewing the status of existing proposals on conventional force reductions in Europe -- consulting with allies on a common negotiating approach.

Extensive analysis of strategic arms reductions (START) issues is underway in preparation for negotiations which are likely to begin in the Spring of next year. These analyses include a review of:

- The record of Soviet compliance with existing SALT agreements;

- U.S. and Soviet strategic programs;

- Verification problems and prospects.

- Preliminary U.S.-Soviet talks focused on verification issues were initiated in August.

The Reagan Administration undertook new analyses of Soviet use of chemical and biological agents and reviewed verification procedures required for effective Chemical and Biological Warfare (CBW) arms control.

Promoting Peaceful Progress

President Reagan clearly and forcefully expressed our belief that individual initiative in a free market remains the best route to economic growth in developing nations. At the Ottawa Economic Summit, the Cancun Summit Conference, and elsewhere, we gained growing international appreciation for this concept.

At the Cancun Summit: In October, at Cancun, President Reagan made clear our commitment to play a constructive role in the historic drama of development. The President clearly and forcefully articulated his belief -- and America's experience -- that individual initiative in a free market has been and remains the surest route to economic growth. And he showed that the variety of nations called "north" and "south" can exchange views without rancor. Cancun was marked by a spirit of mutual respect and pragmatic cooperation. The participants at Cancun noticed not only that the United States took a constructive attitude but that the Soviets stayed home.

President Reagan outlined a positive and specific U.S. position on Third World development issues at Cancun. He proposed:

- Opening up markets to stimulate trade;

- Tailoring development strategies to meet specific needs;

- Targeting assistance to self-sustaining, productive activities especially in agriculture and energy;

-- Improving the climate for private investment;

-- Building a cooperative political atmosphere in which to carry out further discussions and implement practical policies.

The President's views about market forces, private initiative and the need for developing countries to make use of both was expected by many observers to provoke hostility. It provoked dialogue instead.

The President also established the U.S. willingness to be a full and constructive partner in the international economic dialogue and to participate in future global negotiations. He outlined the understandings on which our participation will rest:

-- Talks should seek practical means for furthering Third World development with emphasis on trade liberalization, food and energy resource development and investment climates;

-- Existing international institutions should be utilized, rather than seeking to establish new ones;

-- Talks should be aimed at achieving mutually beneficial international growth and development and should take place in a cooperative spirit like that achieved at Cancun.

Like the earlier Ottawa Summit of industrialized nations where President Reagan reasserted U.S. leadership in the international economic system, Cancun was a success for American diplomacy.

Renewed Alliances and New Friendships

Upon assuming office, the President began to reestablish the confidence of U.S. allies that had been missing in recent years. In 1981, President Reagan held more than 70 private meetings with leaders of foreign nations and participated in two summit meetings. The U.S. emerged from both summits with greater prestige and influence among the participants, and President Reagan established warm personal relations with many of the leaders there, from both developed and Third World countries. The meetings also reinforced the improved relationship with our neighbors Canada and Mexico, as well as other traditional friends and allies.

In Europe: Through these and other foreign policy initiatives, United States leadership of the Western Alliance is being reasserted:

-- U.S. support was affirmed for the European initiative calling for U.S. coordination of negotiations leading to Soviet withdrawal from Afghanistan.

-- The President made decisions to modernize our strategic nuclear arsenal in a way that was widely supported by our European allies, despite earlier fears that the U.S. decisions would split the alliance.

-- As evidenced by the May NATO Foreign Ministers communique, the Reagan Administration made progress in focusing Western attention on the threat from the Soviet Union and the necessity for countering the Soviet military buildup.

-- President Reagan addressed directly the widespread European concern for peace and showed that he has a practical program to make peace a reality.

The Reagan Administration actively improved the consultative process with our Allies as reflected in:

-- The far-reaching proposal to limit intermediate range nuclear missiles;

-- Our support for the EC-10 initiative on Afghanistan;

-- Concerted western unity in support of Polish freedom;

-- Our united determination to seek an improvement in Soviet and East European human rights behavior;

-- Our successful efforts to ensure European involvement and assistance in the Middle East process, by bringing the Europeans into the Camp David framework through their involvement in the Multinational Force and Observers (MFO) in the Sinai;

-- Our commitment to consult the Allies closely as the INF negotiations in Geneva and eventual START talks evolve.

In Latin America: President Reagan established a strong personal relationship with President Lopez Portillo, and high-level consultations were held with Mexico which have, among other things, produced an oil import agreement. Friendly relations with major non-Communist nations have been restored and strengthened, and the determination to resist Soviet and Cuban-supported interventions in less developed countries were demonstrated. Also:

-- Reaction of Key Latin American countries to our support for democratic evolution in El Salvador strengthened the U.S. position in this hemisphere.

-- Illustrating the integration of trade, aid and private investment, in 1981 the Reagan Administration laid the groundwork for the imaginative Caribbean Basin Plan. In cooperation with Mexico, Canada and Venezuela, U.S. planning has been aimed at promoting economic and social development for the poorest, most vulnerable of America's neighbors.

-- The Reagan Administration also advanced plans for initiating radio broadcasts aimed at Cuba which will broadcast the truth to the Cuban people.

In East Asia: Relations with allies were also renewed, as evidenced by:

-- The extensive, successful consultations with Japan on trade, defense and other issues of mutual interest; Japan remains among the most supportive of America's friends and allies;

-- The reaffirmation of the U.S. commitment to troop strength in South Korea; relations with this country were better than at any time in the past 10 years;

-- Furthering of progress in relations with the People's Republic of China, while maintaining a continued interest in the prosperity and security of Taiwan;

-- Our full support to ASEANs efforts to reverse the Vietnamese occupation of Kampuchea and to maintain military strength in the area to balance the ever-growing Soviet military presence in Northeast Asia and in Vietnam;

-- Our continued commitment to deal effectively with massive refugee problems in Southeast Asia.

In addition, President Reagan held successful bilateral meetings with the President of Korea, and the Prime Ministers of Japan, Australia, New Zealand, Singapore, Thailand and the Premier of China. The U.S. position in Asia was strengthened and Asian allies know that American intends to remain a Pacific power.

In Africa: In addition to restarting the negotiations on Namibian independence, the Reagan Administration has pursued an active diplomatic agenda regarding Africa:

-- Additional consultations were conducted under the Reagan Administration's policy of closely consulting with leaders of key African countries to understand their concerns and respond to them where possible. This not only happened at working levels, but also at the highest levels. The President held personal bilateral talks with Presidents Moi of Kenya, Bongo of Gabon,

Shagari of Nigeria, Nyerere of Tanzania, Prime Minister Ramgoolam of Mauritius, President Nimeiri of the Sudan, President Mobutu of Zaire and Foreign Minister Roelof Botha of South Africa. In addition, the President conducted an active personal correspondence with several African leaders.

-- Under President Reagan, the U.S. has increased aid to Zimbabwe, took the lead in debt rescheduling efforts in Zaire and Uganda, and was the single largest contributor to Africa refugee relief.

The Administration took firm action against Libyan threats both here and abroad. In response to reports of possible Libyan assassination attempts on the lives of U.S. officials, the President restricted American travel to Libya and, on December 10, urged Americans living there to return home voluntarily. Earlier, the President closed the U.S. office of the Libyan Peoples Bureau in the U.S.

-- To quell Libyan aggression and terrorism abroad, President Reagan increased support for Libya's threatened neighbors. The Administration has worked to speed up the delivery of certain military items to the Sudan in response to a request for delivery of these items because of the Libyan threat. In addition, the U.S. helped to support an African peace-keeping force in Chad to replace Libyan occupying forces and restore peace there.

UNITED STATES AT THE UNITED NATIONS

At the time President Reagan took office, the position of the United States at the United Nations had been deteriorating for at least two decades. The U.S. was largely isolated inside the United Nations in spite of the previous Administration's habit of appeasement toward the so-called Third World which dominates that body. On many issues, the U.S. voted alone or with two or three allies. Double standards prevailed:

-- On human rights, U.N. condemnations were aimed exclusively at Israel, South Africa, Chile, Argentina, Guatemala, Uruguay and El Salvador. Repression in Communist nations escaped U.N. attention almost entirely.

-- Politicization of the U.N. was far advanced. South Africa had been expelled from the General Assembly and various specialized agencies, and Israel was threatened with the same.

-- In security matters, the U.S. was under continuous pressure to agree to policies with negative consequences for U.S. national interest -- e.g. the Indian Ocean Zone of Peace, the Law of the Sea Treaty, and various "disarmament" measures.

-- In economic affairs, the so-called Group of 77 (actually 126 nations) pressed for a New International Economic Order with entirely negative potential effects on the U.S.

-- In information policy, the U.N. moved toward a new world information order aimed at erecting and institutionalizing barriers to the free flow of information and obstacles to the operation of a free press.

-- In organizational matters, the U.N. budget continued to rise; the status and rights of the permanent members were under attack from all sides.

Virtually the only positive aspects of the United Nations activity at the time President Reagan was inaugurated were:

-- Passage of mild but widely approved resolutions calling for the withdrawal of "foreign" troops from Afghanistan (the Soviet Union was not mentioned by name) and Kampuchea;

-- Reasonably effective functioning of some of the humanitarian agencies of the U.N. system such as the High Commissioner on Refugees.

In 1981, it was not possible to reverse most of the trends. However, the U.S. has been able to limit damage, articulate the aspirations and values of the American people and the Reagan Administration, and make clear that the U.S. is serious about the defense of our national interest. Some specific areas of success:

-- The expulsion of Israel from any agency of the United Nations was prevented;

-- Discriminatory sanctions against both Israel and South Africa were blocked.

-- A new doctrine of human rights was articulated rejecting double standards and emphasizing the moral hypocrisy of existing standards, the discrimination against Latin American nations and the U.N.'s indifference to human rights violations of the Soviet block.

-- Attention was focused on terrorism as a type of human rights violation;

-- El Salvador's government was defended against human rights charges;

-- Unbalanced negative actions by U.N. bodies against Argentina, Guatemala, Chile, and Uruguay were defeated.

-- A reputation for fairness was enhanced with Arab nations by negotiating consensus resolutions on the Iraqi nuclear reactor bombing and the Golan Heights "annexation."

-- The new information order was opposed and at least temporarily blocked.

-- The growth of the U.N. budget was opposed.

-- Each attack made on the U.S. in all of the Assembly's ten arenas was responded to during the General Assembly sessions from September 15 to December 18. For the first time in years, the Soviet record of conquest, imperialism, human rights violations, escalation of the arms race, and non-support for economic development was kept before all the agencies of the U.N.;

-- Election of a new U.N. Secretary General who would almost surely have been hostile to U.S. and Western interests was blocked and a more acceptable candidate selected.

On a positive note, President Reagan's representatives were able in the past year to take certain affirmative steps. Most notable were:

-- Winning new respect for the U.S. among the non-aligned nations (NAM). Ambassador Kirkpatrick's letter to some 60 non-aligned nations condemning their criticism of the U.S. was reinforced by strong congressional action when the Senate passed a supporting resolution 88-0. Positive results were clear in December when our friends among the non-aligned turned back a Nicaragua-Cuban effort to pass within the NAM a resolution on Central America embarrassing to the U.S.

-- Developing closer regular cooperation with the nations of Latin America and enhancing the U.S. reputation for concern with the hemisphere.

-- Participating actively but quietly in winning support for the repeat resolution calling for withdrawal of "foreign troops" from Afghanistan and Kampuchea. Both passed by larger margins than the previous year.

-- Presenting and defending in all relevant arenas President Reagan's positive, free-market approach to economic development and development assistance. This approach has probably never been seriously advocated in the United Nations fora.

President Reagan's representatives have not been able to reverse the many negative trends at the U.N. Two new negative developments deserve special note:

-- The progressive isolation of the U.S. from her European allies who now reach virtually all decisions as members of the European Community (EC), without consultation with the U.S.

-- The exclusion of the U.S. (and the U.K.) from two important Committees of the United Nations. The right of permanent members to be represented on any committee had never before been successfully challenged.

GLOBAL ISSUES

Human Rights

President Reagan is deeply committed to a human rights policy that reflects this nation's historic attachment to individual rights and political liberty. He believes the important test of U.S. policy is whether it actually improves specific human rights conditions -- in short, whether it brings results. In announcing the appointment of Elliot Abrams to head the Department's Bureau of Human Rights and Humanitarian Affairs, the President underscored his commitment to seek improvement in individual conditions through quiet diplomacy and to speak out publicly where necessary to heighten international consciousness of human rights concerns, as was done in the Madrid Conference on Security and Cooperation in Europe (CSCE) Review Meeting of the Helsinki Accords.

Nuclear Non-Proliferation and Peaceful Cooperation

On July 16, President Reagan issued a public statement on U.S. non-proliferation and peaceful nuclear cooperation policy. This established the Administration's broad policy:

-- By announcing our determination to reduce the motivation for acquiring nuclear explosives through work to improve regional and global stability and through addressing the legitimate security concerns of other states;

-- By reinforcing key non-proliferation elements where there has been continuity in U.S. policy over the years;

-- By highlighting the need to be a more reliable and predictable nuclear trading partner;

-- By indicating where and how the Administration will place more emphasis on international cooperation.

Law of the Sea

On March 3, the Reagan Administration announced United States law of the sea interests and objectives would be reviewed before continuing in negotiations designed to complete a comprehensive treaty. That review is expected to be completed well in advance of the next session of the Law of the Sea Conference in March 1982.

Public Information Programs on Defense and Foreign Policy Issues

In close consultation with U.S. Allies, the Administration is providing extensive public information materials, including formerly classified data where appropriate, on the military threat and balance, Soviet covert actions, and other defense and foreign policy issues. This unparalleled release of credible information should contribute to the education and shaping of more knowledgeable public attitudes throughout the world.

Through the International Communications Agency, the Reagan Administration will conduct a "Project Truth" program to make this information available worldwide.

INTELLIGENCE

Intelligence Agencies

In keeping with his pledge, on October 20, President Reagan reinstated the Foreign Intelligence Advisory Board and appointed a new Intelligence Oversight Board, both of which will assist in revitalizing U.S. intelligence capabilities and restoring public confidence in the intelligence community.

On December 4, President Reagan issued a new Executive Order on the intelligence community which he believes will encourage an imaginative and aggressive approach to intelligence collection while providing clear guidelines and protection for individual liberties. The new order regulates the intelligence activities of the Federal Bureau of Investigation, National Security Agency, Central Intelligence Agency, and Departments of State and Defense. It simplifies and clarifies the authorities and responsibilities relating to the activities of these agencies while scrupulously maintaining the requirement that all intelligence activities be conducted in accordance with the Constitution and U.S. laws. The order also sets specific goals for the intelligence community which emphasize analytic competition, countering of the hostile intelligence threat, and a proper balance between technical and other means of intelligence collection.

The Intelligence Community

The Administration prepared and delivered testimony as well as recommendations in strong support of legislation which would prohibit disclosure of the identities of undercover intelligence personnel.

Guidance was also given to the intelligence community to strengthen the quality of intelligence reaching the policy maker through the use of competitive analysis. By encouraging multi-disciplinary assessment and analysis, the Administration hopes to develop an integrated, national level approach to counter hostile intelligence threats in the U.S.

The intelligence community is currently reviewing U.S. intelligence capability and is projecting requirements for 1985 and beyond for planning and guidance purposes.

RONALD REAGAN THE COMMUNICATOR

In 1981, President Reagan made seven major televised addresses. On each occasion he went before the nation, and in one case the world, to make clear his position on issues of vital concern:

- January 20: Inaugural address
- February 5: Address to the nation on the economy
- February 18: State of the Union address
- April 28: Address to joint session of Congress on the economic package (first appearance since assassination attempt)
- July 27: Address to the nation on tax proposals/budget
- September 24: Address to the nation on the economy
- November 18: National Press Club speech: foreign policy (The speech was beamed to 200 million people worldwide. It reached one of the largest audiences of any President.)

The President conducted six formal press conferences in the White House. He also held one informal press conference while in Santa Barbara.

President Reagan gave 50 interviews to individual members of the press or small groups of press representatives. He also held seven briefings with out-of-town editors and broadcasters. In addition to formal interviews and briefings, President Reagan participated in numerous informal Q and A sessions with the press corps.

PRESIDENTIAL MEETINGS WITH FOREIGN LEADERS-1981

1.	Jan. 28	Prime Minister Seaga	Jamaica
2.	Feb. 2	President Chun	Korea
3.	Feb. 12	Foreign Minister Colombo	Italy
4.	Feb. 12	Minister of State Al-Zawawi	Oman
5.	Feb. 24	Foreign Minister Shamir	Israel
6.	Feb. 25	Foreign Minister Francois-Poncet	France
7.	Feb. 25	Prime Minister Thatcher	United Kingdom
8.	Mar. 9	Foreign Minister Genscher	Federal Republic of Germany (FRG)
9.	Mar.10-11	Trip to Canada Prime Minister Trudeau	Canada
10.	Mar. 17	President-elect Viola	Argentina
11.	Mar. 20	Former Prime Minister Fukuda	Japan
12.	Mar. 24	Foreign Minister Ito	Japan
13.	Apr. 16	Secretary General Luns	NATO
14.	Apr. 30	Secretary General Waldheim	UN
15.	May 1-2	Prince of Wales	United Kingdom
16.	May 7-8	Prime Minister Suzuki	Japan
17.	May 15	Foreign Minister Botha	South Africa
18.	May 15	Foreign Minister Andrei	Romania
19.	May 21-22	Chancellor Helmut Schmidt	FRG
20.	June 5	Foreign Minister Claude Cheysson	France
21.	June 8-9	President Lopez Portillo	Mexico
22.	June 15	President Bongo	Gabon
23.	June 19	Prime Minister Lee Quan Yew	Singapore
24.	June 30	Prime Minister Malcolm Fraser	Australia

PRESIDENTIAL MEETINGS WITH FOREIGN LEADERS-1981 (CON'T)

25.	July 9	Foreign Minister Perez Llorca	Spain
26.	July 10	Prime Minister Trudeau	Canada
27.	July 12	Gaston Thorn, President Commission of European Communities	
28.	July 19-21	Ottawa Economic Summit	
		Bilateral Meetings:	
	July 19	Chancellor Schmidt	FRG
	July 19	President Mitterrand	France
	July 20	Prime Minister Spadolini	Italy
	July 20	Prime Minister Thatcher	United Kingdom
	July 21	Prime Minister Suzuki	Japan
		Plenary Meetings:	
		Attended by above listed, plus	
	July 19-21	Prime Minister Trudeau	Canada
	July 19-21	Gaston Thorn, President Commission of European Communities	
29.	July 24	Prime Minister Muldoon	New Zealand
30.	July 28	Prince Bandar bin Sultan Abd a-Aziz Al Saud	Saudi Arabia
31.	Aug. 5-6	President Anwar Sadat	Egypt
32.	Sept. 9-10	Prime Minister Begin	Israel
33.	Sept. 15	Governing Mayor of Berlin von Weizsaecker	FRG
34.	Sept. 16	Patriarch Khoreiche	Lebanon
35.	Sept. 17-18	Dedication of Ford Museum Grand Rapids, Michigan	
		Prime Minister Trudeau	Canada
		President Portillo	Mexico
		Former President Giscard d'Estaing	France
36.	Sept. 21	President Duarte	El Salvador
37.	Sept. 24	President Daniel T. arap Moi	Kenya
38.	Oct. 2	Vice President Mubarak	Egypt
39.	Oct. 6	Prime Minister Prem	Thailand

PRESIDENTIAL MEETINGS WITH FOREIGN LEADERS-1981 (CON'T)

40.	Oct. 13	King Juan Carlos	Spain
41.	Oct. 16	Helmut Kohl, Leader of Christian Democratic Union	FRG
42.	Oct. 16	Prime Minister Ramgoolam	Mauritius
43.	Oct. 18-19	Yorktown Bicentennial President Mitterrand	France
44.	Oct. 21-24	North-South Summit, Cancun, Mexico	
		Bilateral Meetings	
		President Lopez Portillo	Mexico
		Premier Zhao Ziyang	People's Republic of China
		Prime Minister Gandhi	India
		President Shagari	Nigeria
		President Herrera Campins	Venezuela
		President Kraigher	Yugoslavia
		Preesident Marcos	Philippines
		Prime Minister Rahman	Bangladesh
		President Bendjedid	Algeria
		President Burnham	Guyana
		Crown Prince Fahd	Saudi Arabia
		Secretary Gen. Waldheim	UN
		Vice Chancellor Genscher	FRG
		President Nyerere	Tanzania
		Foreign Minister Pahr	Austria
		Plenary Meetings	
		Attended by above listing, plus	
		Foreign Minister Guerreiro	Brazil
		Prime Minister Trudeau	Canada
		Prime Minister Thatcher	United Kingdom
		President Mitterrand	France
		Prime Minister Falldin	Sweden
		Prime Minister Suzuki	Japan
		Foreign Minister Ake	Ivory Coast
45.	Oct. 29	Vice Premier Huang Hua	People's Republic of China
46.	Nov. 2-3	King Hussein	Jordon
47.	Nov. 12	Foreign Minister Stray	Norway
48.	Nov. 13	High Commissioner for Refugees Poul Hartling	UN

261 242B

PRESIDENTIAL MEETINGS WITH FOREIGN LEADERS-1981 (CON'T)

49.	Nov. 17-18	President Herrera Campins	Venezuela
50.	Nov. 20	President Nimeiri	Sudan
51.	Nov. 22	King Gustaf & Queen Sylvia	Sweden
52.	Dec. 1	President Mobutu	Zaire
53.	Dec. 8	President Kyprianou	Cyprus
54.	Dec. 15	Cardinal Casaroli Vatican Secretary of State	Vatican

VETERANS

President Reagan recognizes the special sacrifices made by America's veterans and is committed to the continuance of those federal programs that have benefited them well. He worked to maintain an open dialogue with veterans and, on four occasions, met with leaders of major veterans groups.

President Reagan is steadfast in his commitment to maintain the integrity of the Veterans Administration and the VA hospital system. Under President Reagan, the VA will continue to deliver a wide range of benefits, particularly health care benefits, to veterans and their dependents. Currently the VA is serving a greater number of veterans and their dependents than at any other time in history and offers the most generous benefits package of any nation in the world:

-- Overall spending by the VA grew 5 percent in fiscal '82 over fiscal '81 -- from \$22.9 billion to \$24.0 billion -- with additional increases planned for later years.

-- Particular attention is being paid to VA health care programs with outlays increasing \$1.1 billion in 1982 over 1980. The VA continued to upgrade its extensive health care network of hospitals, clinics, nursing homes and domiciliaries.

-- The Agency continued its planning for the high influx of aged veterans expected in the years ahead. Eight additional facilities for aged veterans were opened and a special Geriatrics and Gerontology Advisory Committee was formed within the Agency.

In addition, President Reagan intensified efforts to resolve the complex questions surrounding the defoliant Agent Orange. By year's end, 75,000 Vietnam veterans received initial screening tests.

On November 3, the President signed the Veterans Health Care, Training and Small Business Loan Act of 1981. In addition to providing for increased medical care for veterans exposed to dioxins and toxic substances, it extended by two years the eligibility for Vietnam veterans to request readjustment counseling and certain rehabilitation and training services; extended eligibility criteria for certain benefits for former POWs; and initiated a major outreach program to contact 60,000 former POWs not already receiving VA benefits. The bill also authorized special small business loans for Vietnam veterans and disabled veterans.

On November 10, the President launched the Vietnam Veterans' Leadership program. Vets who successfully made the transition from military services to civilian life will provide counselling and assistance to fellow vets who are having difficulty doing so.

FOOD AND AGRICULTURE

President Reagan recognizes the importance of a strong agricultural sector -- not only in America but also in the world as a whole and believes that agriculture will remain strong only if government policies encourage a sound economy and allow the farmer to work in a free-market climate.

Farming Economic Recovery

While President Reagan's program for economic recovery will benefit all Americans, many of its provisions will be of particular assistance to farmers.

-- The Accelerated Cost Recovery System allows faster write-offs for farm machinery, buildings and eligible livestock;

-- The inheritance tax revisions will be especially important to family farmers.

Free-Market Development

President Reagan seeks to create a climate in which farmers will be able to make more of their own marketing decisions and get government off the farm.

The farm bill passed in December is in line with the President's views. While the bill will continue to provide income stability during transition to a free market in agriculture, the Administration worked with Congress both to keep costs to the government down and to further a free market in agriculture.

International Initiatives

On April 24, President Reagan ended the Soviet grain embargo imposed by the previous Administration, because of its narrow focus, the lack of broad international cooperation and in the belief that it had hurt the American farmer more than the USSR. During the course of the embargo, total Soviet imports were largely met by alternate suppliers. In August, the two countries agreed to a one-year extension of the five-year grain agreement, and in October, the President made 15 million more tons of grain available to the USSR.

The Cost of Printing Paid for by the Republican National Committee.