FOR RELEASE AT 8 P.M.

REMARKS OF THE HONORABLE
G. WILLIAM MILLER
SECRETARY OF THE TREASURY
AT DINNER HONORING
C. C. HOPE, JR., PRESIDENT ELECT OF THE
AMERICAN BANKERS ASSOCIATION
AND
CLAUDE E. POPE
OUTGOING PRESIDENT, MORTGAGE BANKERS ASSOCIATION
AT CHARLOTTE, NORTH CAROLINA
OCTOBER 11, 1979

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join Governor Hunt, Jesse Helms, Bob Morgan and your other
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Both of these men signify what is best about business leaders in our country. The energy to devote themselves tirelessly not only to their own business interests, but to improving the common welfare of their communities as well.

**Changes in Our Financial Structure**

Like the economy as a whole, there have been dramatic changes in banking over the last decade. The challenge of meeting these changes seems likely to become even greater in the future.

There has been a gradual breaking down of the walls which once separated the activities of different financial institutions. For example, many more types of institutions now offer transaction accounts. Because of regulatory differences in how these accounts were treated, and the burden of Federal Reserve membership in particular, this development has led to troublesome competitive inequities. I want to take this opportunity to commend C.C. Hope, in particular, for the leading role he played with the ABA in promoting monetary improvement legislation in this session of Congress.

The dual objectives of reducing burdens on member banks and providing greater competitive equality among financial institutions will help strengthen our banking system. The recent action of the ABA in reaffirming endorsement for the concept of reserve requirements on transactions accounts of all financial intermediaries, with a lower reserve ratio below a certain deposit level, should provide momentum for favorable Congressional action.

The banking industry has also been called upon to play an increasingly difficult role in international capital markets. Floating exchange rates have added new complexity to many international transactions. Similarly, many were concerned that the huge surpluses the OPEC countries generated by successive price increases could not be effectively recycled. This fear has been proven unfounded largely as a result of the effective role that has been played by private financial institutions.
American banks are also facing much more intensive competition from overseas institutions than in the past. In the past, the rules of the international banking game have not always been the same for everyone and these inequities have lessened competition and reduced economic efficiency. That is the reason that this Administration so strongly supported the passage of the International Banking Act of 1978, which addressed many of the competitive inequalities between U.S. banks and foreign institutions operating here.

These are just some examples of the challenges banking has had to face both domestically and internationally. We are also seeing the emergence of new credit and financial instruments both within and without the banking system, the availability of advanced technology in communications and data processing, and an overall intensification of competition. Both commercial banking and mortgage banking have demonstrated remarkable resourcefulness, flexibility and vigor in responding to these challenges.

Inflation's Challenge

The greatest challenge confronting all of us now is dealing with inflation. Inflation is the dominant economic problem of our time.

The causes of inflation are many and well known to you. Inflation has built up over the past fifteen years. It is now deeply embedded in our economic structure. It is a clear and present danger to our national well-being.

Inflation reduces real incomes and values; it threatens our ability to provide employment opportunities; it dries up job creating investments; it impedes productivity; it breeds recession; it falls most heavily on those least able to bear the burden.

The war against inflation must be our top priority. There is no quick or simple solution. The war must be waged through a comprehensive strategy on all fronts on a continuous basis.

We do have an integrated strategy. We are marshalling all resources. We are directing all economic policies toward a total war against inflation.

And most of all, we are directing our efforts at the fundamental causes of inflation rather than just the symptoms.

I would like to outline the principal policies which together must form the main forces for our assault.

Fiscal Policy
First, is a disciplined fiscal policy. The cumulative effect of large federal deficits year after year has been to fuel the fires of inflation. We are determined to apply fiscal restraint and move as quickly as possible toward a balanced budget.

Some progress can already be reported. In 1976, the federal deficit was three percent of Gross National Product. This year, it will be down to only one percent. Unless the current recession deepens, we should make further progress next year.

Even more important is to gain better control over federal spending and to reduce the relative role of federal expenditures in our national economy. In 1976, federal spending was 22.6 percent of GNP. This year it will be down to about 21.5 percent. And we intend to reduce it further.

The net result, over time, of reduced deficits and reduced expenditures as a percent of GNP will be to release substantial resources for the private sector. The spending and investing decisions of individuals and businesses with respect to these resources will be far more beneficial to your economy than channeling the same amounts through government.

Monetary Policy

A second weapon in the war against inflation is a disciplined monetary policy. The Federal Reserve has been pursuing a course to keep firm control over the growth of the money supply. The object has been to reduce progressively the rate of growth of money and credit in order to starve out inflation.

Again, there has been some progress, and growth rates have slowed. For instance, the increase in M-1 over the past twelve months has been held to 4.9 percent -- less than half the increase in consumer prices. But in recent months, following the large increase in oil prices in the second quarter, the growth has been much more rapid.

The Federal Reserve has responded promptly to counter the trend and to deal with recent evidence of renewed inflationary pressures. On Saturday evening, the Federal Reserve announced unanimous approval for a series of complementary actions. The discount rate was increased a full percent, from 11 to 12 percent; a marginal reserve requirement of 8 percent was established for "managed liabilities"; and the method of conducting monetary policy was revised to support the objective of containing growth in the monetary aggregates over the remainder of this year within the previously adopted ranges. In addition, the Federal Reserve Board called upon banks to avoid making loans that support specu-
lative activity in gold, commodities and foreign exchange markets.

These actions should serve to dampen inflationary forces and contribute to greater stability in foreign exchange markets.

Pay-Price Policy

Fiscal and monetary restraint represent powerful weapons to attack the fundamental causes of inflation. But they take effect with some lag. Therefore, another important policy is the voluntary program to moderate pay and price increases and thus provide time for the other basic policies to take hold.

Because of widespread cooperation, most major corporations and most labor contracts have been in compliance with the voluntary standards during the first year. As a result, overall price and pay increases have been smaller than otherwise would have been experienced.

For the second year of the program, it was felt desirable to provide for greater participation by management and labor in the process of establishing and applying pay standards. This should help avoid inequities which otherwise may develop over time. A tripartite Pay Committee, to be chaired by John Dunlop, is therefore being established, with a first task of recommending pay standards for the period ahead.

In this connection, the Administration worked out a National Accord with American labor leadership in support of the war against inflation and providing for labor involvement in the pay-price program.

Government Regulations

In battling inflation, we must not overlook the cost-raising actions of government. Among these are the costs of unnecessary regulation. We must intensify efforts to reduce the burden of government, and in particular the burden on the banking system.

But let me not raise false hopes. When I was at the Federal Reserve we launched Project Augeus -- to undertake the Herculean task of cleaning out regulatory stables that seemed somewhat like the stables of Augeus that had gone uncleaned for thirty years. The effort continues; and I hope to launch a similar attack at Treasury.

But it is not easy. Much regulation is founded in statute, and while we can improve and shorten and clarify, we often need legislation to make real reductions in burden.
So it will take time, and will need your help and support. I would particularly welcome your suggestions and recommendations in this area.

**Energy Policy**

There can be no doubt that reducing our reliance on imported oil is essential for both controlling inflation and strengthening the dollar. The ten-fold increase in world oil prices has been a principal contributor to the acceleration of inflation during this decade. Oil price increases have come in two major waves: the first in 1974 following the oil embargo and the second earlier this year following the upheaval in Iran.

It is imperative that we establish our energy independence. It is essential to our nation's security that we gain control over our own destiny. It is urgent that we move with all possible speed. It is vital that we pursue multiple options so as to assure total success.

For two and one-half years President Carter has sought support for a broad and comprehensive energy program to achieve those objectives. But because we are a heterogeneous country, because some regions are producers and others are consumers, because some areas have one or another form of local energy supply and others are totally dependent on outside sources, it has been excruciatingly difficult to hammer out a national energy program.

Some important parts of the program have fallen into place earlier, such as the natural gas bill enacted a year ago. Now, remaining critical elements are under active review by the Congress.

The President has recently taken two major steps under his own powers and on his own initiative. He has decontrolled domestic crude oil prices over the next two years, with immediate decontrol of heavy oil. And he has limited imports to no more than 8.5 million barrels per day, the level that prevailed in 1977. The President has established an even lower import limit of 8.2 million barrels of oil per day for this year.

The priorities for our national energy program are clear.

First, conservation. This is the surest, cheapest, cleanest way to reduce our dependence on oil.

Second, increasing the development and use of conventional domestic sources of energy, such as oil, gas, and coal.
Third, increasing the use of renewable energy sources, such as solar, alcohol, biomass, wind and wood.

Fourth, to assure longer term supplies, the rigorous development of unconventional domestic energy sources, such as synthetic fuels from coal and shale and unconventional natural gas.

To provide capital resources for the overall program, a special excise tax—the Windfall Profits Tax—has been proposed and has already passed the House. The purpose of the tax is to allocate the increased revenues generated by decontrol of domestic oil prices. A good part of the increased revenues will remain with the oil producers to provide the means for them to continue and expand production of conventional energy. Some of the increased revenues will also be allocated to the Energy Security Corporation to finance projects wholly in the private sector for the development of unconventional energy. These projects will be large scale ventures, with unusual risks, and would not likely be undertaken by private companies on the scale needed without government financial assistance. As an alternative, rather than seeking financing from the Energy Security Corporation, private companies will be able to take advantage of special tax credits for unconventional fuel production.

To round out the program, an Energy Mobilization Board has been proposed in order to shorten the time for obtaining permits for energy projects. We cannot afford unnecessary delays.

When fully in place, the energy program is expected to cut oil imports by more than 50 percent so that in 1990 we are importing 4-5 million barrels per day rather than our current level of more than 8 million barrels per day. This will put us well on the way to energy independence.

Investment Policy

Finally, a few words about capital investments. For some time, our nation has given too much emphasis to consumption and too little emphasis to investment in productive facilities that make consumption possible.

We have fallen behind other leading industrial nations. Japan spends over 20 percent of GNP on capital investments; Germany over 15 percent. In the United States, we have been running at 10 to 11 percent. Our savings rate, at about 4.5%, is the lowest in the developed world. As a result, our productivity has lagged.

This must not continue, or else our competitiveness in world markets will be seriously impaired.
In coming months, therefore, we expect to be working to create conditions and incentives that will encourage the savings, investments and productivity that are so essential to economic progress with price stability.

**The Dollar**

I have not spoken specifically about the dollar tonight, but let me point out that controlling inflation and reducing our dependence on imported oil are essential to strengthening its international value. We have taken strong steps recently to strengthen the dollar. Let me emphasize again that this Administration is fully committed to that course. I am fully confident these steps will be successful and we are prepared to take successive actions should that become necessary.

**Conclusion**

Inflation will not disappear overnight, but I am confident it can be defeated if we have the courage and the willpower necessary to devote ourselves to the fight. This will require that all of us be willing to accept a period of austerity in America and focus on the long term public good rather than just our own short term self interest. In that regard let me return to why we are here. C.C. Hope and Claude Pope symbolize the kind of American business leader who works long and hard in their own business as well as in their outside activities to make things a little better for everyone. If all of us take that approach more often, we will be able to successfully address the difficult economic challenges of our time.

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The causes of inflation are many and well known to you. Inflation has built up over the past fifteen years. It is now deeply embedded in our economic structure. It is a clear and present danger to our national well-being.

Inflation reduces real incomes and values; it threatens our ability to provide employment opportunities; it dries up job creating investments; it impedes productivity; it breeds recession; it falls most heavily on those least able to bear the burden.

The war against inflation must be our top priority. There is no quick or simple solution. The war must be waged through a comprehensive strategy on all fronts on a continuous basis.

We do have an integrated strategy. We are marshalling all resources. We are directing all economic policies toward a total war against inflation.

And most of all, we are directing our efforts at the fundamental causes of inflation rather than just the symptoms.

I would like to outline the principal policies which together must form the main forces for our assault.

Fiscal Policy
First, is a disciplined fiscal policy. The cumulative effect of large federal deficits year after year has been to fuel the fires of inflation. We are determined to apply fiscal restraint and move as quickly as possible toward a balanced budget.

Some progress can already be reported. In 1976, the federal deficit was three percent of Gross National Product. This year, it will be down to only one percent. Unless the current recession deepens, we should make further progress next year.

Even more important is to gain better control over federal spending and to reduce the relative role of federal expenditures in our national economy. In 1976, federal spending was 22.6 percent of GNP. This year it will be down to about 21.5 percent. And we intend to reduce it further.

The net result, over time, of reduced deficits and reduced expenditures as a percent of GNP will be to release substantial resources for the private sector. The spending and investing decisions of individuals and businesses with respect to these resources will be far more beneficial to your economy than channeling the same amounts through government.

Monetary Policy

A second weapon in the war against inflation is a disciplined monetary policy. The Federal Reserve has been pursuing a course to keep firm control over the growth of the money supply. The object has been to reduce progressively the rate of growth of money and credit in order to starve out inflation.

Again, there has been some progress, and growth rates have slowed. For instance, the increase in M-1 over the past twelve months has been held to 4.9 percent -- less than half the increase in consumer prices. But in recent months, following the large increase in oil prices in the second quarter, the growth has been much more rapid.

The Federal Reserve has responded promptly to counter the trend and to deal with recent evidence of renewed inflationary pressures. On Saturday evening, the Federal Reserve announced unanimous approval for a series of complementary actions. The discount rate was increased a full percent, from 11 to 12 percent; a marginal reserve requirement of 8 percent was established for "managed liabilities"; and the method of conducting monetary policy was revised to support the objective of containing growth in the monetary aggregates over the remainder of this year within the previously adopted ranges. In addition, the Federal Reserve Board called upon banks to avoid making loans that support specu-
lative activity in gold, commodities and foreign exchange markets.

These actions should serve to dampen inflationary forces and contribute to greater stability in foreign exchange markets.

Pay-Price Policy

Fiscal and monetary restraint represent powerful weapons to attack the fundamental causes of inflation. But they take effect with some lag. Therefore, another important policy is the voluntary program to moderate pay and price increases and thus provide time for the other basic policies to take hold.

Because of widespread cooperation, most major corporations and most labor contracts have been in compliance with the voluntary standards during the first year. As a result, overall price and pay increases have been smaller than otherwise would have been experienced.

For the second year of the program, it was felt desirable to provide for greater participation by management and labor in the process of establishing and applying pay standards. This should help avoid inequities which otherwise may develop over time. A tripartite Pay Committee, to be chaired by John Dunlop, is therefore being established, with a first task of recommending pay standards for the period ahead.

In this connection, the Administration worked out a National Accord with American labor leadership in support of the war against inflation and providing for labor involvement in the pay-price program.

Government Regulations

In battling inflation, we must not overlook the cost-raising actions of government. Among these are the costs of unnecessary regulation. We must intensify efforts to reduce the burden of government, and in particular the burden on the banking system.

But let me not raise false hopes. When I was at the Federal Reserve we launched Project Augeus -- to undertake the herculean task of cleaning out regulatory stables that seemed somewhat like the stables of Augeus that had gone uncleaned for thirty years. The effort continues; and I hope to launch a similar attack at Treasury.

But it is not easy. Much regulation is founded in statute, and while we can improve and shorten and clarify, we often need legislation to make real reductions in burden.
So it will take time, and will need your help and support. I would particularly welcome your suggestions and recommendations in this area.

Energy Policy

There can be no doubt that reducing our reliance on imported oil is essential for both controlling inflation and strengthening the dollar. The ten-fold increase in world oil prices has been a principal contributor to the acceleration of inflation during this decade. Oil price increases have come in two major waves: the first in 1974 following the oil embargo and the second earlier this year following the upheaval in Iran.

It is imperative that we establish our energy independence. It is essential to our nation's security that we gain control over our own destiny. It is urgent that we move with all possible speed. It is vital that we pursue multiple options so as to assure total success.

For two and one-half years President Carter has sought support for a broad and comprehensive energy program to achieve those objectives. But because we are a heterogeneous country, because some regions are producers and others are consumers, because some areas have one or another form of local energy supply and others are totally dependent on outside sources, it has been excruciatingly difficult to hammer out a national energy program.

Some important parts of the program have fallen into place earlier, such as the natural gas bill enacted a year ago. Now, remaining critical elements are under active review by the Congress.

The President has recently taken two major steps under his own powers and on his own initiative. He has decontrolled domestic crude oil prices over the next two years, with immediate decontrol of heavy oil. And he has limited imports to no more than 8.5 million barrels per day, the level that prevailed in 1977. The President has established an even lower import limit of 8.2 million barrels of oil per day for this year.

The priorities for our national energy program are clear.

First, conservation. This is the surest, cheapest, cleanest way to reduce our dependence on oil.

Second, increasing the development and use of conventional domestic sources of energy, such as oil, gas, and coal.
Third, increasing the use of renewable energy sources, such as solar, alcohol, biomass, wind and wood.

Fourth, to assure longer term supplies, the rigorous development of unconventional domestic energy sources, such as synthetic fuels from coal and shale and unconventional natural gas.

To provide capital resources for the overall program, a special excise tax—the Windfall Profits Tax—has been proposed and has already passed the House. The purpose of the tax is to allocate the increased revenues generated by decontrol of domestic oil prices. A good part of the increased revenues will remain with the oil producers to provide the means for them to continue and expand production of conventional energy. Some of the increased revenues will also be allocated to the Energy Security Corporation to finance projects wholly in the private sector for the development of unconventional energy. These projects will be large scale ventures, with unusual risks, and would not likely be undertaken by private companies on the scale needed without government financial assistance. As an alternative, rather than seeking financing from the Energy Security Corporation, private companies will be able to take advantage of special tax credits for unconventional fuel production.

To round out the program, an Energy Mobilization Board has been proposed in order to shorten the time for obtaining permits for energy projects. We cannot afford unnecessary delays.

When fully in place, the energy program is expected to cut oil imports by more than 50 percent so that in 1990 we are importing 4-5 million barrels per day rather than our current level of more than 8 million barrels per day. This will put us well on the way to energy independence.

Investment Policy

Finally, a few words about capital investments. For some time, our nation has given too much emphasis to consumption and too little emphasis to investment in productive facilities that make consumption possible.

We have fallen behind other leading industrial nations. Japan spends over 20 percent of GNP on capital investments; Germany over 15 percent. In the United States, we have been running at 10 to 11 percent. Our savings rate, at about 4.5%, is the lowest in the developed world. As a result, our productivity has lagged.

This must not continue, or else our competitiveness in world markets will be seriously impaired.
In coming months, therefore, we expect to be working to create conditions and incentives that will encourage the savings, investments and productivity that are so essential to economic progress with price stability.

The Dollar

I have not spoken specifically about the dollar tonight, but let me point out that controlling inflation and reducing our dependence on imported oil are essential to strengthening its international value. We have taken strong steps recently to strengthen the dollar. Let me emphasize again that this Administration is fully committed to that course. I am fully confident these steps will be successful and we are prepared to take successive actions should that become necessary.

Conclusion

Inflation will not disappear overnight, but I am confident it can be defeated if we have the courage and the willpower necessary to devote ourselves to the fight. This will require that all of us be willing to accept a period of austerity in America and focus on the long term public good rather than just our own short term self interest. In that regard let me return to why we are here. C.C. Hope and Claude Pope symbolize the kind of American business leader who works long and hard in their own business as well as in their outside activities to make things a little better for everyone. If all of us take that approach more often, we will be able to successfully address the difficult economic challenges of our time.

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FOR RELEASE AT 3 P.M.

REMARKS OF THE HONORABLE
G. WILLIAM MILLER
SECRETARY OF THE TREASURY
AT DINNER HONORING
C. C. HOPE, JR., PRESIDENT ELECT OF THE
AMERICAN BANKERS ASSOCIATION
AND
CLAUSE E. POPE
OUTGOING PRESIDENT, MORTGAGE BANKERS ASSOCIATION
AT CHARLOTTE, NORTH CAROLINA
OCTOBER 11, 1979

It is a great pleasure to be in Charlotte tonight to join Governor Hunt, Jesse Helms, Bob Morgan and your other distinguished guests in honoring two North Carolinians that have given so much service to their country and the banking industry.

The decade of the 1970's has been marred by continuous and sometimes dramatic changes in our political and economic environment. In these troublesome times, we are very fortunate to have leaders like C.C. Hope and Claude Pope to work with. C.C. and Claude have two outstanding characteristics that make their leadership especially valuable to us now: First, a natural love for working with people in all walks of life to resolve our common problems; second, an ability to understand change and what we all must do to meet its challenges.

C.C. Hope's career has changed in many ways since 1947 when he first started in banking as a teller. However, C.C.'s approach to life hasn't changed. I understand he will still take the Greyhound bus to see banks out in the countryside rather than keep a driver waiting to bring him back in. Also, despite the enormous amount of time he has dedicated to just about every ABA task force and committee in recent years, he has managed to remain heavily involved with Wake Forest University and with his church. The ABA is fortunate to have C.C. as the third North Carolinian to be its president.

Claude Pope is the second from your state to serve as President of the Mortgage Bankers Association. Claude has been involved with the M.B.A. for at least the last fifteen
years. He has worked with the M.B.A. on a wide range of issues including education, ethics in Mortgage Banking, and the M.B.A.'s political action committee. Despite these professional involvements, like C.C. Hope, he still manages to save some time for a wide range of church and community involvements. I don't see how all of this leaves Claude much time for anything else, but I do know he likes to travel around your state in his camper. I guess he thought that if C.C. could use a Greyhound bus, he could at least use a van.

Both of these men signify what is best about business leaders in our country. The energy to devote themselves tirelessly not only to their own business interests, but to improving the common welfare of their communities as well.

Changes in Our Financial Structure

Like the economy as a whole, there have been dramatic changes in banking over the last decade. The challenge of meeting these changes seems likely to become even greater in the future.

There has been a gradual breaking down of the walls which once separated the activities that different financial institutions performed. For example, many more types of institutions now offer transaction accounts. Because of regulatory differences in how these accounts were treated, and the burden of Federal Reserve membership in particular, this development has led to troublesome competitive inequities. I want to take this opportunity to commend C.C. Hope, in particular, for the leading role he played with the ABA in promoting monetary improvement legislation in this session of Congress.

The dual objectives of reducing burdens on member banks and providing greater competitive equality among financial institutions will help strengthen our banking system. The recent action of the ABA in reaffirming endorsement for the concept of reserve requirements on transactions accounts of all financial intermediaries, with a lower reserve ratio below a certain deposit level, should provide momentum for favorable Congressional action.

The banking industry has also been called upon to play an increasingly difficult role in international capital markets. Floating exchange rates have added new complexity to many international transactions. Similarly, many were concerned that the huge surpluses the OPEC countries generated by successive price increases could not be effectively recycled. This fear has been proven unfounded largely as a result of the effective role that has been played by private financial institutions.
American banks are also facing much more intensive competition from overseas institutions than in the past. In the past, the rules of the international banking game have not always been the same for everyone and these inequities have lessened competition and reduced economic efficiency. That is the reason that this Administration so strongly supported the passage of the International Banking Act of 1978, which addressed many of the competitive inequalities between U.S. banks and foreign institutions operating here.

These are just some examples of the challenges banking has had to face both domestically and internationally. We are also seeing the emergence of new credit and financial instruments both within and without the banking system, the availability of advanced technology in communications and data processing, and an overall intensification of competition. Both commercial banking and mortgage banking have demonstrated remarkable resourcefulness, flexibility and vigor in responding to these challenges.

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