



FOR RELEASE UPON DELIVERY

EXPECTED AT 1:00 P.M.

TUESDAY, JANUARY 15, 1980

REMARKS OF THE HONORABLE  
G. WILLIAM MILLER  
SECRETARY OF THE TREASURY  
BEFORE THE WHITE HOUSE CONFERENCE  
ON SMALL BUSINESS  
WASHINGTON, D. C.

It is a pleasure to be here with all of you. I accepted this invitation with great enthusiasm because you, as representatives of small business, are what our American enterprise system is all about. There is much that Government can learn from you.

Few can be more aware than those of you here today of the major issues facing business and Government as we enter a new decade. Independent business men and women like you create about half of our nation's gross business product, nearly three-quarters of retail sales, and you account for over half of the nonfarm private workforce. So in the most literal sense, you are the rock upon which our economic system is built.

This system faces a severe test. High and persistent inflation has become deeply embedded in our economic structure over the last 15 years. Its causes are many and are well known to you. Inflation threatens to bring us to our knees as it destroys real incomes and real values. Inflation dries out the job-creating investments that we need to keep our economy going. It impedes productivity, and breeds recession. Its burdens fall most heavily on those who can least afford it. Small and independent business -- indeed firms of any size -- can prosper in the coming decade only by being able to operate in a climate of stable prices and economic growth. Therefore, all of our economic policies are and must be directed first towards total war against inflation.



I would like to talk to you today about some of these policies. In many respects, the future of small business is linked directly to these efforts to wring out inflation and to restore a climate for sound economic growth generally. This Conference is an important opportunity to formulate a framework for greater cooperation between Government and independent enterprise in the 1980's. As representatives of independent business from across the country, your recommendations will be listened to carefully. You can also help to focus Government attention on the problems unique to small and growing firms. There are many additional steps that Government can and should take to provide continued assurance of a healthy independent business sector. This gathering and the recommendations that ensue from it, will be instrumental in helping to focus the attention of Government on the impediments that stand in the way of the continued vitality of the small business sector.

Inflation cannot be eradicated overnight. We are very far from the period of effective price stability of the early 1960's. Treating symptoms will no longer work; we must be courageous enough to attack the root causes. The Administration has already marshalled a broad range of policies to do this. We have put into place a comprehensive anti-inflation program including monetary and fiscal restraint, regulatory reform, voluntary price and pay moderation, greater balance in international payments, greater stability for the dollar, and major redirection of energy policies. Taken together, these policies make up a sound strategy for defeating inflation. If we are willing to accept and to share fairly some austerity now, all of us will be able to reap the greater rewards of our nation's bounty as we return to the period of balanced economic growth, price stability, and full employment that is the goal of our economic policy.

## I. Fiscal Policy

The choices we have now are difficult. We have been living beyond our means far too long, and all of us face tough decisions to return to a period of fiscal discipline and responsibility. Inflation makes these choices even harder. However, we are determined to reverse the trend of expanding Federal deficits and expanding Federal claims on the national economy. Over time, the net result of these efforts will be to reduce the demands of the Federal Government on the economy and to release substantial resources to the private sector where they will do the most good.



This same concern that Government resources are being wasted -- and Federal deficits expanded -- through inefficient spending programs should also extend to the other side of the Federal ledger -- expenditures through the tax system. The tax system is now doing much more than just collecting revenues to pay for spending programs. The Internal Revenue Code is itself becoming an unwieldy network of spending programs, amounting to more than \$150 billion a year in tax expenditures. Such a substantial portion of the budget must be subject to greater accountability. Where these tax programs are inefficient, unduly complicated, or inequitable, they should be modified or repealed. Efforts to eliminate Government waste, reduce budget deficits and rationalize Federal programs must not end with an examination of direct Government spending.

## II. Energy

A lasting reduction in inflation will not be brought about until we have put in place effective programs for diminishing our dependence on imported oil. Energy price increases directly added about 2-1/2 percentage points to the CPI last year. The indirect impact of fuel prices may have accounted for an additional 1 to 2 points.

Like inflation, our energy problems did not begin yesterday. Our bill for imported oil has increased from less than \$3 billion in 1970 to about \$60 billion last year. Not all of this is accounted for by the huge price increases of OPEC oil. U.S. oil imports have also risen dramatically since 1970 -- from 3.4 million barrels per day to about 8 million barrels per day. During that same time, domestic oil production has fallen by about 1 million barrels per day. In addition, domestic production of natural gas declined by the equivalent of 1-1/2 million barrels per day -- a trend which only recently has been reversed. Even though conservation and other measures to reduce the use of oil have substantially cut the amount of energy used to produce a dollar's worth of output, because of the decline in U.S. oil and gas production and the needs of our growing economy, the U.S. now imports more than 40 percent of its oil -- almost twice as much as in 1970.

Actions by OPEC and other producers, on a day to day basis, demonstrate the peril we face if we do not reduce our foreign oil imports. Pricing domestically produced fuels at their true replacement cost is an essential step, and one that we are already taking. However, decontrol of domestic oil prices without other action would result in enormous profits to producers. Much of this would be pure windfall and not the result of any new economic activity on the part of oil companies. The proposed windfall profits tax would take an equitable portion of the increase in oil company earnings resulting from decontrol,



and use it to finance a number of energy programs essential to our nation's future. The tax is also essential to help pay for financial assistance to those least able to bear the burden of higher energy costs. The tax is carefully designed so that oil companies will be left with ample funds and ample incentive for the exploration and development of new energy. Favorable action on the proposal by both Houses of Congress, and the progress already made by the House and Senate conferees on the size of the windfall profits tax is encouraging. However, it is important for the conferees to act promptly to resolve outstanding differences in a way that assures strong production incentives.

It is of the utmost importance to move ahead rapidly with the other elements of the Administration's program to reduce dependence on foreign oil. This strategy is a double edged one. Demand for oil can be reduced through conservation and fuel switching. At the same time, we are taking a series of specific steps to encourage domestic energy production from both new and conventional energy sources. This is an ambitious undertaking that will require an extraordinary degree of cooperation between Government and industry. Since the success of most of these initiatives depends primarily on private -- not Government -- development, the leadership of independent business will be tested more strenuously than at any time since World War II.

Without all of these steps -- both those already underway and those only now being planned -- by 1990 the United States could be importing 13 to 15 million barrels of oil per day. Such a possibility presents staggering economic costs and great risk to our 200-year old experiment with democracy. This is why the steps we are taking are of the utmost importance -- to you and to all Americans. Taken together, the President's initiatives will reduce future oil imports by close to 9 million barrels per day by 1990, cutting imports roughly in half from their present level.

### III. Regulation

It is also necessary to continue the progress already made to root out unnecessary cost-raising Government regulation. When this Administration came into office in 1977, the regulatory situation reminded me quite a bit of the rider who had jumped on his horse and galloped off in all directions. Between the late 60's and mid 70's, Congress created 26 new rulemaking agencies. The proliferation of Government requirements and the fragmentation of Government-wide rulemaking showed few signs of abatement.



Since then, however, much has been done Government-wide to reduce regulatory barriers to efficiency and competition, and to reduce the administrative burdens on business in complying with regulation. In the first two years of this Administration, Government-created paperwork was cut by about 15 percent overall. Reporting requirements just under ERISA -- the Employee Retirement Income Security Act of 1974 -- have been more than cut in half, at a savings of about 5 million hours of the public's time. The major benefit of this reduction accrues to small business. Significant progress has also been made in eliminating many of the frustrations and the inordinate delay that resulted from previously overlapping rulemaking authority between the Treasury and Labor Departments. Retirement savings arrangements have been simplified, and a new type of plan introduced, involving substantially reduced compliance burdens.

But much more can be accomplished by way of reducing regulatory burdens. With respect to my own Department, we have proposed changes that will reduce substantially the frequency with which small firms must make deposits of withheld income and employment taxes. We are actively studying the tax return forms presently in use by small corporations and partnerships to see how they can be simplified. In addition, we are looking seriously at measures that could greatly cut the complexity of the LIFO method of inventory accounting for small business, thus opening the door to smaller firms to the advantages of this method.

But much regulation is founded in statute -- this is particularly true under the revenue laws. Administratively, we can clarify and simplify, but frequently, we will need legislation to achieve real reductions in burden.

#### IV. Tax Policy

Economic progress with price stability is also critically dependent upon improvement in the rate of private savings and investment. Sluggish savings and investment performance over the past several years has contributed to a marked slowing of productivity growth -- a trend that has, in turn, contributed to spiraling wage and price adjustments. Tax policy cannot ignore these developments; it must be shaped to promote job-creating investment and to restrain business costs.



Specific illustrations may be helpful. Among the items listed on this Conference's agenda is a proposal to greatly accelerate recovery of capital costs. The so-called "10-5-3" proposal is one of several measures advanced as a potential response to the nation's economic needs. 10-5-3 has some serious shortcomings. There is, however, widespread agreement with the desirability of restructuring depreciation allowances at an appropriate time. The present depreciation system should be simplified so that all businesses, large and small, are accorded the same tax advantages, and so they can readily comply with tax rules. Inflation has had the effect of reducing the value of depreciation allowances, thereby reducing the incentive for capital investment.

Analysis of capital recovery proposals should also involve consideration of expenditures mandated by Government, such as those for pollution control equipment. Recent data indicate that about 5 percent of all capital expenditures are devoted to pollution abatement. Expenditures such as these are sometimes subsidized by the Government through special tax provisions. Others are borne by the consumers of the product, through higher product costs, and not by taxpayers generally. This allocation issue involves fundamental questions of economic and social policy -- questions that the Treasury is currently addressing in a study, requested by Congress, on the appropriate tax treatment of Government mandated expenditures.

I have mentioned briefly some of the policies we need to pursue to put us back on the road toward balanced economic growth and price stability, along with some steps that can help small business specifically. Beyond this, there is another fundamental policy that is essential to our strength and our well-being. It is critical that America be returned to a sense of innovation and creativity -- to achieving the rate of productivity growth that has been at the foundation of our industrial superiority. Small business possesses the superior skills that are so necessary in melding human and capital resources into the enterprises that represent the basic vitality of our nation. We must do all we can to ensure that these skills are put to their best use.

Our private enterprise system is deeply entwined with our highest ideals. It is unique in America and we cherish it. Our economic system offers freedom of opportunity and freedom of choice. It is a system made up of individuals -- of all business men and women -- and its success depends on the character, motivation, and achievement of people like you. Being among you today strengthens my sense of confidence in the vitality of small business. You hold the keys to our future -- I have no doubt you will make good use of them.





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409  
GWR

Date: January 14, 1980

MEMORANDUM FOR: The Secretary

From: Marsha Johnson-Evans *mje*

Subject: Preliminary Draft of Remarks Before The  
White House Conference on Small Business,  
January 15, 1980

Your general reaction to the attached preliminary draft (Tab A) would be helpful to us. Since we are still collecting comments, and confirming figures, I suggest that, if possible, you hold back for the moment on any detailed editing. It will be sufficient, for our purposes if you merely note the points that you feel should be added, deleted, or more fully developed.

The draft does not touch upon concessionary interest rates and related issues because we have relatively little to say at the present time.

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	SE:RSmith					
Initials / Date	/	/	/	/	/	/



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[You will be introduced to the delegates by Arthur Levitt.]

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Actions by OPEC and other producers, on a day to day basis, demonstrate the peril we face if we do not reduce our foreign oil imports. Pricing domestically produced fuels at their true replacement cost is an essential step, and one that we are already taking. However, decontrol of domestic oil prices will result in enormous profits to producers. Much of this is pure windfall and not the result of any new economic activity on the part of oil companies. The windfall profits tax would take an equitable portion of the increase in oil company earnings resulting from decontrol, and use it to finance a number of energy programs essential to our nation's future. The tax is



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It is of the utmost importance to move ahead rapidly with the other elements of the Administration's program to reduce dependence on foreign oil. This strategy is a double edged one. Demand for oil can be reduced through conservation and fuel switching. At the same time, we are taking a series of specific steps to encourage domestic energy production from both new and conventional energy sources. This is an ambitious undertaking that will require an extraordinary degree of cooperation between government and industry. Since the success of most of these initiatives depends primarily on private -- not government -- developments, the leadership of independent business will be tested more strenuously than at any time since World War II.

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in half, at a savings of about 5 million hours of the public's time. The major benefit of this reduction falls on small business. Significant progress has also been made in eliminating many of the frustrations and the inordinate delay that resulted from previously overlapping rulemaking authority between the Treasury and Labor Departments. Several new and simpler forms of retirement savings arrangements have also been introduced, involving substantially reduced compliance burdens.

But much more can be accomplished by way of reducing regulatory burdens. With respect to my own Department, we have proposed changes that will substantially reduce the frequency with which small firms must make deposits of withheld income and employment taxes. We are actively studying the tax return forms presently in use by small corporations and partnerships to see how they can be simplified. In addition, we are looking seriously at measures that could greatly cut the complexity of the LIFO method of inventory accounting for small business, thus opening the door to smaller firms to the advantages of this method.

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Economic progress with price stability is also critically dependent upon improvement in the rate of private savings and investment. Sluggish savings and investment performance over the past several years has contributed to a marked slowing of productivity growth -- a trend that has, in turn, contributed to spiraling wage and price adjustments. Tax policy cannot ignore these developments; it must be shaped to promote job-creating investment and to restrain business costs.

Specific illustrations may be helpful. Among the items listed on this Conference's agenda is a proposal to greatly accelerate recovery of capital costs. The so-called "10-5-3" proposal is one of several measures advanced as a potential response to the nation's economic needs. 10-5-3 has some serious shortcomings. There is, however, widespread agreement with the desirability of restructuring depreciation allowances at an appropriate time. The present depreciation system should be simplified so that all businesses, large and small, are accorded the same tax advantages, and can readily comply with tax rules. Inflation has abolished the effect of reducing the value of depreciation allowances, thereby reducing the incentive for capital investment.

Analysis of capital recovery proposals should also involve consideration of expenditures mandated by Government, such as those for pollution control equipment. Recent data indicate that about 5 percent of all capital expenditures are devoted to



pollution abatement. Expenditures such as these are sometimes subsidized by the Government through special tax provisions. Others are borne by the consumers of the product, through higher product costs, and not by taxpayers generally. This allocation issue involves fundamental questions of economic and social policy -- questions that the Treasury is currently addressing in a study, requested by Congress, on the appropriate tax treatment of government mandated expenditures.

I have mentioned briefly some of the policies we need to pursue to put us back on the road toward balanced economic growth and price stability, along with some specific steps that can help small business specifically. Beyond this, there is another fundamental policy that is essential to our strength and our well-being, and that is to return America to more of that sense of innovation and creativity, to once again achieving the productivity gains that have been the hallmark of our industrial superiority. Traditionally, it has been small business that has possessed the superior skills that are necessary to meld human and capital resources into the enterprises that represent the basic vitality of the nation.

Our private enterprise system is deeply entwined with our highest ideals. It is unique in America and we cherish it. This is only in part, because it has produced a higher standard of living for a greater number of people than has ever been achieved before. More than that, our system represents freedom of



opportunity and freedom of choice. It is a system made of individuals, and it is great or mediocre depending on their character, motivation, and achievement.



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gwm

Date: January 14, 1980

MEMORANDUM FOR: SECRETARY MILLER

From: Randy Smith  
Executive Secretariat

Subject: Remarks before the White House Conference on Small Business,  
1:15 p.m., Tuesday, January 15, 1980 at the Sheraton-  
Washington Hotel (Connecticut Avenue between Calvert &  
Garfield)

Attached is the final text of remarks for your use at the White House Conference tomorrow (Tab A). You are scheduled to speak for 15-25 minutes beginning at about 1:15 p.m. Arthur Levitt, President of the American Stock Exchange, and Chairman of the President's Committee on Small Business will introduce you. No question and answer period is expected after you complete your remarks.

We have furnished the text to Joe Laitin. If you have no objections, copies will be distributed at the luncheon tomorrow.

Okay to distribute: ✓ "Bill" 1-15

Prefer no distribution: \_\_\_\_\_

Attachment

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	SE:Smith					SKANCKE
Initials / Date						4/1/14



REMARKS OF THE HONORABLE  
G. WILLIAM MILLER  
SECRETARY OF THE TREASURY  
BEFORE THE WHITE HOUSE CONFERENCE  
ON SMALL BUSINESS  
WASHINGTON, D. C.

JANUARY 15, 1980

[YOU WILL BE INTRODUCED TO THE DELEGATES BY ARTHUR LEVITT, JR.]

IT IS A PLEASURE TO BE HERE WITH ALL OF YOU. I ACCEPTED  
THIS INVITATION WITH GREAT ENTHUSIASM BECAUSE YOU, AS  
REPRESENTATIVES OF SMALL BUSINESS, ARE WHAT OUR AMERICAN  
ENTERPRISE SYSTEM IS ALL ABOUT. THERE IS MUCH THAT GOVERNMENT  
CAN LEARN FROM YOU.



FEW CAN BE MORE AWARE THAN THOSE OF YOU HERE TODAY OF THE MAJOR ISSUES FACING BUSINESS AND GOVERNMENT AS WE ENTER A NEW DECADE. INDEPENDENT BUSINESS MEN AND WOMEN LIKE YOU CREATE ABOUT HALF OF OUR NATION'S GROSS BUSINESS PRODUCT, NEARLY THREE-QUARTERS OF RETAIL SALES, AND YOU ACCOUNT FOR OVER HALF OF THE NONFARM PRIVATE WORKFORCE. SO IN THE MOST LITERAL SENSE, YOU ARE THE ROCK UPON WHICH OUR ECONOMIC SYSTEM IS BUILT.

THIS SYSTEM FACES A SEVERE TEST. HIGH AND PERSISTENT INFLATION HAS BECOME DEEPLY EMBEDDED IN OUR ECONOMIC STRUCTURE OVER THE LAST 15 YEARS. ITS CAUSES ARE MANY AND ARE WELL KNOWN TO YOU. INFLATION THREATENS TO BRING US TO OUR KNEES AS IT DESTROYS REAL INCOMES AND REAL VALUES. INFLATION DRIES OUT THE JOB-CREATING INVESTMENTS THAT WE NEED TO KEEP OUR ECONOMY GOING. IT IMPEDES PRODUCTIVITY, AND BREEDS RECESSION. ITS BURDENS FALL MOST HEAVILY ON THOSE WHO CAN LEAST AFFORD IT. SMALL AND INDEPENDENT BUSINESS -- INDEED FIRMS OF ANY SIZE -- CAN PROSPER



IN THE COMING DECADE ONLY BY BEING ABLE TO OPERATE IN A CLIMATE OF STABLE PRICES AND ECONOMIC GROWTH. THEREFORE, ALL OF OUR ECONOMIC POLICIES ARE AND MUST BE DIRECTED FIRST TOWARDS TOTAL WAR AGAINST INFLATION.

I WOULD LIKE TO TALK TO YOU TODAY ABOUT SOME OF THESE POLICIES. IN MANY RESPECTS, THE FUTURE OF SMALL BUSINESS IS LINKED DIRECTLY TO THESE EFFORTS TO WRING OUT INFLATION AND TO RESTORE A CLIMATE FOR SOUND ECONOMIC GROWTH GENERALLY. THIS CONFERENCE IS AN IMPORTANT OPPORTUNITY TO FORMULATE A FRAMEWORK FOR GREATER COOPERATION BETWEEN GOVERNMENT AND INDEPENDENT ENTERPRISE IN THE 1980'S. AS REPRESENTATIVES OF INDEPENDENT BUSINESS FROM ACROSS THE COUNTRY, YOUR RECOMMENDATIONS WILL BE LISTENED TO CAREFULLY. YOU CAN ALSO HELP TO FOCUS GOVERNMENT ATTENTION ON THE PROBLEMS UNIQUE TO SMALL AND GROWING FIRMS. THERE ARE MANY ADDITIONAL STEPS THAT GOVERNMENT CAN AND SHOULD TAKE TO PROVIDE CONTINUED ASSURANCE OF A HEALTHY INDEPENDENT BUSINESS SECTOR. THIS GATHERING AND THE RECOMMENDATIONS THAT



ENSUE FROM IT, WILL BE INSTRUMENTAL IN HELPING TO FOCUS THE ATTENTION OF GOVERNMENT ON THE IMPEDIMENTS THAT STAND IN THE WAY OF THE CONTINUED VITALITY OF THE SMALL BUSINESS SECTOR.

INFLATION CANNOT BE ERADICATED OVERNIGHT. WE ARE VERY FAR FROM THE PERIOD OF EFFECTIVE PRICE STABILITY OF THE EARLY 1960's. TREATING SYMPTOMS WILL NO LONGER WORK; WE MUST BE COURAGEOUS ENOUGH TO ATTACK THE ROOT CAUSES. THE ADMINISTRATION HAS ALREADY MARSHALLED A BROAD RANGE OF POLICIES TO DO THIS. WE HAVE PUT INTO PLACE A COMPREHENSIVE ANTI-INFLATION PROGRAM INCLUDING MONETARY AND FISCAL RESTRAINT, REGULATORY REFORM, VOLUNTARY PRICE AND PAY MODERATION, GREATER BALANCE IN INTERNATIONAL PAYMENTS, GREATER STABILITY FOR THE DOLLAR, AND MAJOR REDIRECTION OF ENERGY POLICIES. TAKEN TOGETHER, THESE POLICIES MAKE UP A SOUND STRATEGY FOR DEFEATING INFLATION. IF WE ARE WILLING TO ACCEPT AND TO SHARE FAIRLY SOME AUSTERITY NOW, ALL OF US WILL BE ABLE TO REAP THE GREATER REWARDS OF OUR NATION'S BOUNTY AS WE RETURN TO THE PERIOD OF BALANCED ECONOMIC GROWTH, PRICE STABILITY, AND FULL EMPLOYMENT THAT IS THE GOAL OF OUR ECONOMIC POLICY.



## I. FISCAL POLICY

THE CHOICES WE HAVE NOW ARE DIFFICULT. WE HAVE BEEN LIVING BEYOND OUR MEANS FAR TOO LONG, AND ALL OF US FACE TOUGH DECISIONS TO RETURN TO A PERIOD OF FISCAL DISCIPLINE AND RESPONSIBILITY. INFLATION MAKES THESE CHOICES EVEN HARDER. HOWEVER, WE ARE DETERMINED TO REVERSE THE TREND OF EXPANDING FEDERAL DEFICITS AND EXPANDING FEDERAL CLAIMS ON THE NATIONAL ECONOMY. OVER TIME, THE NET RESULT OF THESE EFFORTS WILL BE TO REDUCE THE DEMANDS OF THE FEDERAL GOVERNMENT ON THE ECONOMY AND TO RELEASE SUBSTANTIAL RESOURCES TO THE PRIVATE SECTOR WHERE THEY WILL DO THE MOST GOOD.

THIS SAME CONCERN THAT GOVERNMENT RESOURCES ARE BEING WASTED -- AND FEDERAL DEFICITS EXPANDED -- THROUGH INEFFICIENT SPENDING PROGRAMS SHOULD ALSO EXTEND TO THE OTHER SIDE OF THE FEDERAL LEDGER -- EXPENDITURES THROUGH THE TAX SYSTEM. THE TAX SYSTEM IS NOW DOING MUCH MORE THAN JUST COLLECTING REVENUES TO PAY FOR



SPENDING PROGRAMS. THE INTERNAL REVENUE CODE IS ITSELF BECOMING AN UNWIELDY NETWORK OF SPENDING PROGRAMS, AMOUNTING TO MORE THAN \$150 BILLION A YEAR IN TAX EXPENDITURES. SUCH A SUBSTANTIAL PORTION OF THE BUDGET MUST BE SUBJECT TO GREATER ACCOUNTABILITY. WHERE THESE TAX PROGRAMS ARE INEFFICIENT, UNDULY COMPLICATED, OR INEQUITABLE, THEY SHOULD BE MODIFIED OR REPEALED. EFFORTS TO ELIMINATE GOVERNMENT WASTE, REDUCE BUDGET DEFICITS AND RATIONALIZE FEDERAL PROGRAMS MUST NOT END WITH AN EXAMINATION OF DIRECT GOVERNMENT SPENDING.

## II. ENERGY

A LASTING REDUCTION IN INFLATION WILL NOT BE BROUGHT ABOUT UNTIL WE HAVE PUT IN PLACE EFFECTIVE PROGRAMS FOR DIMINISHING OUR DEPENDENCE ON IMPORTED OIL. ENERGY PRICE INCREASES DIRECTLY ADDED ABOUT 2-1/2 PERCENTAGE POINTS TO THE CPI LAST YEAR. THE INDIRECT IMPACT OF FUEL PRICES MAY HAVE ACCOUNTED FOR AN ADDITIONAL 1 TO 2 POINTS.



LIKE INFLATION, OUR ENERGY PROBLEMS DID NOT BEGIN YESTERDAY. OUR BILL FOR IMPORTED OIL HAS INCREASED FROM LESS THAN \$3 BILLION IN 1970 TO ABOUT \$60 BILLION LAST YEAR. NOT ALL OF THIS IS ACCOUNTED FOR BY THE HUGE PRICE INCREASES OF OPEC OIL. U.S. OIL IMPORTS HAVE ALSO RISEN DRAMATICALLY SINCE 1970 -- FROM 3.4 MILLION BARRELS PER DAY TO ABOUT 8 MILLION BARRELS PER DAY. DURING THAT SAME TIME, DOMESTIC OIL PRODUCTION HAS FALLEN BY ABOUT 1 MILLION BARRELS PER DAY. IN ADDITION, DOMESTIC PRODUCTION OF NATURAL GAS DECLINED BY THE EQUIVALENT OF 1-1/2 MILLION BARRELS PER DAY -- A TREND WHICH ONLY RECENTLY HAS BEEN REVERSED. EVEN THOUGH CONSERVATION AND OTHER MEASURES TO REDUCE THE USE OF OIL HAVE SUBSTANTIALLY CUT THE AMOUNT OF ENERGY USED TO PRODUCE A DOLLAR'S WORTH OF OUTPUT, BECAUSE OF THE DECLINE IN U.S. OIL AND GAS PRODUCTION AND THE NEEDS OF OUR GROWING ECONOMY, THE U.S. NOW IMPORTS MORE THAN 40 PERCENT OF ITS OIL -- ALMOST TWICE AS MUCH AS IN 1970.

ACTIONS BY OPEC AND OTHER PRODUCERS, ON A DAY TO DAY BASIS, DEMONSTRATE THE PERIL WE FACE IF WE DO NOT REDUCE OUR FOREIGN OIL IMPORTS. PRICING DOMESTICALLY PRODUCED FUELS AT THEIR TRUE REPLACEMENT COST IS AN ESSENTIAL STEP, AND ONE THAT WE ARE ALREADY TAKING. HOWEVER, DECONTROL OF DOMESTIC OIL PRICES WITHOUT OTHER ACTION WOULD RESULT IN ENORMOUS PROFITS TO PRODUCERS. MUCH OF THIS WOULD BE PURE WINDFALL AND NOT THE RESULT OF ANY NEW ECONOMIC ACTIVITY ON THE PART OF OIL COMPANIES. THE PROPOSED WINDFALL PROFITS TAX WOULD TAKE AN EQUITABLE PORTION OF THE INCREASE IN OIL COMPANY EARNINGS RESULTING FROM DECONTROL, AND USE IT TO FINANCE A NUMBER OF ENERGY PROGRAMS ESSENTIAL TO OUR NATION'S FUTURE. THE TAX IS ALSO ESSENTIAL TO HELP PAY FOR FINANCIAL ASSISTANCE TO THOSE LEAST ABLE TO BEAR THE BURDEN OF HIGHER ENERGY COSTS. THE TAX IS CAREFULLY DESIGNED SO THAT OIL COMPANIES WILL BE LEFT WITH AMPLE FUNDS AND AMPLE INCENTIVE FOR THE EXPLORATION AND DEVELOPMENT OF NEW ENERGY. FAVORABLE ACTION ON THE PROPOSAL BY BOTH HOUSES OF CONGRESS, AND THE PROGRESS



ALREADY MADE BY THE HOUSE AND SENATE CONFEREES ON THE SIZE OF THE WINDFALL PROFITS TAX IS ENCOURAGING. HOWEVER, IT IS IMPORTANT FOR THE CONFEREES TO ACT PROMPTLY TO RESOLVE OUTSTANDING DIFFERENCES IN A WAY THAT ASSURES STRONG PRODUCTION INCENTIVES.

IT IS OF THE UTMOST IMPORTANCE TO MOVE AHEAD RAPIDLY WITH THE OTHER ELEMENTS OF THE ADMINISTRATION'S PROGRAM TO REDUCE DEPENDENCE ON FOREIGN OIL. THIS STRATEGY IS A DOUBLE EDGED ONE. DEMAND FOR OIL CAN BE REDUCED THROUGH CONSERVATION AND FUEL SWITCHING. AT THE SAME TIME, WE ARE TAKING A SERIES OF SPECIFIC STEPS TO ENCOURAGE DOMESTIC ENERGY PRODUCTION FROM BOTH NEW AND CONVENTIONAL ENERGY SOURCES. THIS IS AN AMBITIOUS UNDERTAKING THAT WILL REQUIRE AN EXTRAORDINARY DEGREE OF COOPERATION BETWEEN GOVERNMENT AND INDUSTRY. SINCE THE SUCCESS OF MOST OF THESE INITIATIVES DEPENDS PRIMARILY ON PRIVATE -- NOT GOVERNMENT -- DEVELOPMENT, THE LEADERSHIP OF INDEPENDENT BUSINESS WILL BE TESTED MORE STRENUOUSLY THAN AT ANY TIME SINCE WORLD WAR II.

WITHOUT ALL OF THESE STEPS -- BOTH THOSE ALREADY UNDERWAY AND THOSE ONLY NOW BEING PLANNED -- BY 1990 THE UNITED STATES COULD BE IMPORTING 13 TO 15 MILLION BARRELS OF OIL PER DAY. SUCH A POSSIBILITY PRESENTS STAGGERING ECONOMIC COSTS AND GREAT RISK TO OUR 200-YEAR OLD EXPERIMENT WITH DEMOCRACY. THIS IS WHY THE STEPS WE ARE TAKING ARE OF THE UTMOST IMPORTANCE -- TO YOU AND TO ALL AMERICANS. TAKEN TOGETHER, THE PRESIDENT'S INITIATIVES WILL REDUCE FUTURE OIL IMPORTS BY CLOSE TO 9 MILLION BARRELS PER DAY BY 1990, CUTTING IMPORTS ROUGHLY IN HALF FROM THEIR PRESENT LEVEL.

### III. REGULATION

IT IS ALSO NECESSARY TO CONTINUE THE PROGRESS ALREADY MADE TO ROOT OUT UNNECESSARY COST-RAISING GOVERNMENT REGULATION. WHEN THIS ADMINISTRATION CAME INTO OFFICE IN 1977, THE REGULATORY SITUATION REMINDED ME QUITE A BIT OF THE RIDER WHO HAD JUMPED ON HIS HORSE AND GALLOPED OFF IN ALL DIRECTIONS. BETWEEN THE LATE



60's AND MID 70's, CONGRESS CREATED 26 NEW RULEMAKING AGENCIES. THE PROLIFERATION OF GOVERNMENT REQUIREMENTS AND THE FRAGMENTATION OF GOVERNMENT-WIDE RULEMAKING SHOWED FEW SIGNS OF ABATEMENT.

SINCE THEN, HOWEVER, MUCH HAS BEEN DONE GOVERNMENT-WIDE TO REDUCE REGULATORY BARRIERS TO EFFICIENCY AND COMPETITION, AND TO REDUCE THE ADMINISTRATIVE BURDENS ON BUSINESS IN COMPLYING WITH REGULATION. IN THE FIRST TWO YEARS OF THIS ADMINISTRATION, GOVERNMENT-CREATED PAPERWORK WAS CUT BY ABOUT 15 PERCENT OVERALL. REPORTING REQUIREMENTS JUST UNDER ERISA -- THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974 -- HAVE BEEN MORE THAN CUT IN HALF, AT A SAVINGS OF ABOUT 5 MILLION HOURS OF THE PUBLIC'S TIME. THE MAJOR BENEFIT OF THIS REDUCTION ACCRUES TO SMALL BUSINESS. SIGNIFICANT PROGRESS HAS ALSO BEEN MADE IN ELIMINATING MANY OF THE FRUSTRATIONS AND THE INORDINATE DELAY THAT RESULTED FROM PREVIOUSLY OVERLAPPING RULEMAKING AUTHORITY BETWEEN THE TREASURY AND LABOR DEPARTMENTS. RETIREMENT SAVINGS ARRANGEMENTS HAVE BEEN SIMPLIFIED, AND A NEW TYPE OF PLAN INTRODUCED, INVOLVING SUBSTANTIALLY REDUCED COMPLIANCE BURDENS.

BUT MUCH MORE CAN BE ACCOMPLISHED BY WAY OF REDUCING REGULATORY BURDENS. WITH RESPECT TO MY OWN DEPARTMENT, WE HAVE PROPOSED CHANGES THAT WILL REDUCE SUBSTANTIALLY THE FREQUENCY WITH WHICH SMALL FIRMS MUST MAKE DEPOSITS OF WITHHELD INCOME AND EMPLOYMENT TAXES. WE ARE ACTIVELY STUDYING THE TAX RETURN FORMS PRESENTLY IN USE BY SMALL CORPORATIONS AND PARTNERSHIPS TO SEE HOW THEY CAN BE SIMPLIFIED. IN ADDITION, WE ARE LOOKING SERIOUSLY AT MEASURES THAT COULD GREATLY CUT THE COMPLEXITY OF THE LIFO METHOD OF INVENTORY ACCOUNTING FOR SMALL BUSINESS, THUS OPENING THE DOOR TO SMALLER FIRMS TO THE ADVANTAGES OF THIS METHOD.

BUT MUCH REGULATION IS FOUNDED IN STATUTE -- THIS IS PARTICULARLY TRUE UNDER THE REVENUE LAWS. ADMINISTRATIVELY, WE CAN CLARIFY AND SIMPLIFY, BUT FREQUENTLY, WE WILL NEED LEGISLATION TO ACHIEVE REAL REDUCTIONS IN BURDEN.



#### IV. TAX POLICY

ECONOMIC PROGRESS WITH PRICE STABILITY IS ALSO CRITICALLY DEPENDENT UPON IMPROVEMENT IN THE RATE OF PRIVATE SAVINGS AND INVESTMENT. SLUGGISH SAVINGS AND INVESTMENT PERFORMANCE OVER THE PAST SEVERAL YEARS HAS CONTRIBUTED TO A MARKED SLOWING OF PRODUCTIVITY GROWTH -- A TREND THAT HAS, IN TURN, CONTRIBUTED TO SPIRALING WAGE AND PRICE ADJUSTMENTS. TAX POLICY CANNOT IGNORE THESE DEVELOPMENTS; IT MUST BE SHAPED TO PROMOTE JOB-CREATING INVESTMENT AND TO RESTRAIN BUSINESS COSTS.

SPECIFIC ILLUSTRATIONS MAY BE HELPFUL. AMONG THE ITEMS LISTED ON THIS CONFERENCE'S AGENDA IS A PROPOSAL TO GREATLY ACCELERATE RECOVERY OF CAPITAL COSTS. THE SO-CALLED "10-5-3" PROPOSAL IS ONE OF SEVERAL MEASURES ADVANCED AS A POTENTIAL RESPONSE TO THE NATION'S ECONOMIC NEEDS. 10-5-3 HAS SOME SERIOUS SHORTCOMINGS. THERE IS, HOWEVER, WIDESPREAD AGREEMENT WITH THE DESIRABILITY OF RESTRUCTURING DEPRECIATION ALLOWANCES AT AN

APPROPRIATE TIME. THE PRESENT DEPRECIATION SYSTEM SHOULD BE SIMPLIFIED SO THAT ALL BUSINESSES, LARGE AND SMALL, ARE ACCORDED THE SAME TAX ADVANTAGES, AND SO THEY CAN READILY COMPLY WITH TAX RULES. INFLATION HAS HAD THE EFFECT OF REDUCING THE VALUE OF DEPRECIATION ALLOWANCES, THEREBY REDUCING THE INCENTIVE FOR CAPITAL INVESTMENT.

ANALYSIS OF CAPITAL RECOVERY PROPOSALS SHOULD ALSO INVOLVE CONSIDERATION OF EXPENDITURES MANDATED BY GOVERNMENT, SUCH AS THOSE FOR POLLUTION CONTROL EQUIPMENT. RECENT DATA INDICATE THAT ABOUT 5 PERCENT OF ALL CAPITAL EXPENDITURES ARE DEVOTED TO POLLUTION ABATEMENT. EXPENDITURES SUCH AS THESE ARE SOMETIMES SUBSIDIZED BY THE GOVERNMENT THROUGH SPECIAL TAX PROVISIONS. OTHERS ARE BORNE BY THE CONSUMERS OF THE PRODUCT, THROUGH HIGHER PRODUCT COSTS, AND NOT BY TAXPAYERS GENERALLY. THIS ALLOCATION ISSUE INVOLVES FUNDAMENTAL QUESTIONS OF ECONOMIC AND SOCIAL POLICY -- QUESTIONS THAT THE TREASURY IS CURRENTLY ADDRESSING IN A STUDY, REQUESTED BY CONGRESS, ON THE APPROPRIATE TAX TREATMENT OF GOVERNMENT MANDATED EXPENDITURES.



I HAVE MENTIONED BRIEFLY SOME OF THE POLICIES WE NEED TO PURSUE TO PUT US BACK ON THE ROAD TOWARD BALANCED ECONOMIC GROWTH AND PRICE STABILITY, ALONG WITH SOME STEPS THAT CAN HELP SMALL BUSINESS SPECIFICALLY. BEYOND THIS, THERE IS ANOTHER FUNDAMENTAL POLICY THAT IS ESSENTIAL TO OUR STRENGTH AND OUR WELL-BEING. IT IS CRITICAL THAT AMERICA BE RETURNED TO A SENSE OF INNOVATION AND CREATIVITY -- TO ACHIEVING THE RATE OF PRODUCTIVITY GROWTH THAT HAS BEEN AT THE FOUNDATION OF OUR INDUSTRIAL SUPERIORITY. SMALL BUSINESS POSSESSES THE SUPERIOR SKILLS THAT ARE SO NECESSARY IN MELDING HUMAN AND CAPITAL RESOURCES INTO THE ENTERPRISES THAT REPRESENT THE BASIC VITALITY OF OUR NATION. WE MUST DO ALL WE CAN TO ENSURE THAT THESE SKILLS ARE PUT TO THEIR BEST USE.

OUR PRIVATE ENTERPRISE SYSTEM IS DEEPLY ENTWINED WITH OUR HIGHEST IDEALS. IT IS UNIQUE IN AMERICA AND WE CHERISH IT. OUR ECONOMIC SYSTEM OFFERS FREEDOM OF OPPORTUNITY AND FREEDOM OF CHOICE. IT IS A SYSTEM MADE UP OF INDIVIDUALS -- OF ALL BUSINESS

MEN AND WOMEN -- AND ITS SUCCESS DEPENDS ON THE CHARACTER,  
MOTIVATION, AND ACHIEVEMENT OF PEOPLE LIKE YOU. BEING AMONG YOU  
TODAY STRENGTHENS MY SENSE OF CONFIDENCE IN THE VITALITY OF SMALL  
BUSINESS. YOU HOLD THE KEYS TO OUR FUTURE -- I HAVE NO DOUBT YOU  
WILL MAKE GOOD USE OF THEM.