



FOR RELEASE ON DELIVERY
EXPECTED AT 10:30 A.M.
FEBRUARY 1, 1980

TESTIMONY OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE

Mr. Chairman and members of this distinguished Committee:

I appreciate this opportunity to appear before the Joint Economic Committee to discuss the Administration's 1981 Budget and Economic Program. OMB Director McIntyre and Council of Economic Advisers Chairman Schultze will be testifying at a later date and we have submitted a joint statement for the record.

This morning I thought it might be useful to summarize briefly the Administration's view of the economic situation, how the 1981 Budget fits into our overall program for containing and reducing inflation, as well as to address some issues I know are of particular interest to this Committee.

We have made substantial economic progress over the last three years. Since this Administration came into office, real GNP has increased almost 12 percent, real after tax per capita income has risen 7-1/2 percent, and real after tax profits have

grown almost 15 percent. There are now 9.3 million more jobs than there were in 1976, a record of employment growth that has no parallel in the postwar period.

The most significant economic disappointment of the last few years has been inflation. At the beginning of last year it was widely expected the rate of price increase would moderate. However, just as our programs for reducing inflation were becoming effective, we were overtaken by events in the international energy market. The doubling of world oil prices was the single most important factor in the more than 13 percent increase in the Consumer Price Index last year.

Reducing inflation must be the first priority of economic policy for next year. To contain inflation now it is essential that we prevent the recent huge increases in energy prices from spilling over and becoming embedded in generalized wage and price inflation. To reduce inflation over the longer run we must improve the structure and efficiency of our economy to restore growth in productivity--the basis for future gains in real income. The 1981 Budget will help us meet these challenges.

The 1981 Budget attacks inflation both by fiscal discipline and through its programmatic priorities. The growth of budget outlays is held to the lowest rates consistent with our national and economic security. The 1981 Budget proposes an increase in Federal spending in real terms of only two-tenths of one percent. Budget outlays would be \$615.8 billion and receipts \$600 billion. The resulting

\$15.8 billion deficit would be the lowest in seven years and equivalent to only six-tenths of a percent of GNP. The 1981 Budget would be balanced if it were not for the mild economic decline we are forecasting in the first half of this year.

Over the four quarters of 1980, real GNP is forecast to decrease by 1 percent; in 1981, an increase of 2.8 percent is expected. This forecast is broadly in line with many others, including that of the Congressional Budget Office. If this recession does not occur and the unemployment rate remains at the current level, the 1981 Budget would be in surplus by about \$15 billion.

Fiscal discipline combined with monetary restraint will provide the macroeconomic climate necessary for containing and reducing inflation. However, in the current environment, inflation cannot be reduced by these policies alone, without enormous losses in output and employment. In addition, we must have programs designed to alleviate the underlying structural causes of inflation--in the areas of energy, productivity, investment and government regulation. Because fundamental reforms will take time to become effective, we must also have pay and price policies to help keep inflation under control until basic improvements take hold.

The 1981 Budget provides for programmatic increases in two general areas: national defense and efforts to enhance our longer run economic efficiency. The 1981 Budget continues the

Administration's pattern of increased outlays for U.S. energy security. All of our efforts to reduce inflation will be ineffective if we remain vulnerable to continued shocks from increases in the price of imported oil. Twice in the last ten years we have seen huge increases in OPEC oil prices. Both times the U.S. and world economy have suffered badly. During the first four years of this Administration, spending on energy programs will have increased over 90 percent. These programs promote increased conservation as well as expanded domestic production from conventional, unconventional and renewable energy sources.

The 1981 Budget also makes provisions for addressing our underlying productivity problem through increased research and development. Over the long run, increases in productivity are dependent upon technical advances. The primary source of these advances are basic research and development. Obligations for research and development will increase by 13 percent in the 1981 Budget.

The 1981 Budget also contains important new initiatives to reduce structural unemployment through programs designed to prepare today's youth for the labor markets of the 1980's. While we have made tremendous advances, unemployment among some groups, particularly minority youth, remains unacceptably high. Attempting to address this problem through macroeconomic policies alone is likely to be both inflationary and ineffective.

Targeted programs will help us to reduce unemployment among disadvantaged youth without inflationary consequences.

Mr. Chairman, I know that this Committee is particularly interested in promoting capital formation. In last year's joint Economic Report, your Committee recommended, from a longer-run perspective, the adoption of tax incentives to increase savings and investment. In particular, liberalization of depreciation allowances and other incentives were recommended to stimulate capital formation.

The 1981 Budget contains no new tax incentives for investment. In our view, reductions of significant magnitude in business taxation would have been inconsistent with the basic policy of fiscal restraint that must characterize this budget. I agree, however, that as budgetary conditions permit we should consider the tax incentives that offer the greatest long-run potential for stimulating savings and investment. As you know, I have supported the concept of accelerating tax depreciation as an appropriate approach.

Mr. Chairman, let me conclude by emphasizing the importance of moving back toward budgetary balance. The Administration urges the Congress to join in focusing on the fiscal discipline that is essential in order to contain and reduce inflation.

Thank you.

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Thank you.

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Date: February 1, 1980

MEMORANDUM FOR: SECRETARY MILLER

From: Dick Syron (S)

Subject: JEC Testimony and January Unemployment Rate

You may well be asked about the 6.2 percent unemployment rate released this morning. Janet Norwood, Commissioner of Labor Statistics, will testify before you, and we will have someone there to let us know what she says.

Some Points

Although the unemployment rate rose from 5.9 percent to 6.2 percent, it is still far from clear that downturn in economy has started. Other indications, such as new orders for capital goods and leading indicators, show mixed performance.

Even in employment, the establishment data contradicted the household survey and showed an increase of 305,000 in employment in January. Part of this reflects a return from strikes of about 45,000 workers in the machinery industry.

Employment declines thus far are probably concentrated in a few industries rather than being economy-wide. January employment in the transportation industry was down 60,000--11 of 13 Ford plants were closed during unemployment survey week for inventory adjustment.

We have been forecasting a 7.5 percent unemployment rate by the end of 1980. The latest data we have is consistent with that. Attached is Quarterly Forecast of Unemployment, which has not been made public.

Attachment

	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Ex. Sec.
Surname	E:SYRON					
Initials / Date	/	/	/	/	/	/

Quarterly Path of
Economic Assumptions Underlying Budget

	Real GNP (% ch. annual rate)	GNP Deflator (%)	Unemploy- ment rate (%)
1979-IV (actual)	0.8	8.7	5.9
1980-I	-3.2	9.4	6.5
II	-1.7	8.4	6.9
III	-0.3	8.4	7.3
IV	1.2	9.7	7.5
1981-I	2.0	9.1	7.5
II	3.0	8.3	7.4
III	3.0	8.5	7.4
IV	3.2	8.7	7.3
<u>Year to year</u>			
1979	2.3	8.9	5.8
1980	-0.6	8.9	7.0
1981	1.7	8.8	7.4
<u>Fourth to fourth</u>			
1979	0.8	9.0	5.9
1980	-1.0	9.0	7.5
1981	2.8	8.6	7.3

- Latest figure of 6.2% for the unemployment rate in January is not inconsistent with quarterly pattern of forecast which contained a 6.5% rate for the first quarter.
- Overall, first quarter still appears stronger than was expected when the forecast was put together.

2/1/80