Lundy, Richard

March 24, 1980

Dear Richard:

It was a great pleasure, after so many years, to be back for a visit in Borger. It was a brief stopover, but I enjoyed the opportunity to visit with many of my friends and former schoolmates. There are many new people, of course, who seem to keep the city moving ahead.

Please express my appreciation to the Rotary Club for its hospitality to me, my wife, Ariadna, and to members of my family.

Best wishes.

Sincerely,

(Signed) Bill

G. William Miller

Mr. Richard C. Lundy
President
The Rotary Club of Borger, Texas
P. O. Box 1280
Borger, TX 79007

THE ROTARY CLUB

of BORGER, TEXAS

P. O. Box 1280
BORGER, TEXAS 79007

3/18

February 29, 1980

G. William Miller
Secretary of the Treasury
Department of the Treasury
Washington, D.C. 20220

Dear Secretary Miller:

On behalf of our club I want to again extend our appreciation to you and your wife for taking the time to honor us with a visit. I believe that you could readily tell from the size of the crowd that you have a great deal of respect and support in our city.

We extend to you our best wishes in your efforts to cope with the many difficult economic issues facing us today. Additionally, we extend to you an open invitation to visit us anytime you are in our area.

Sincerely yours,

Richard C. Lundy

Richard C. Lundy
President

RCL:pn

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

RELEASE ON DELIVERY
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FEBRUARY 19, 1980

REMARKS OF
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SECRETARY OF THE TREASURY
BEFORE THE
AMARILLO CHAMBER OF COMMERCE
AMARILLO, TEXAS

It is a special pleasure for me to be here today. I was raised in Borger just 60 miles from here, and attended Amarillo College for a year. So this is a sentimental journey for me. It also provides me with the opportunity to visit with some of my family who live here in Amarillo, and to renew old acquaintances.

I haven't been home to this area as often as I would like. There was one memorable visit that I particularly cherish. In 1947, I returned after a year of service in China. I was 22 years old, a junior officer in the Coast Guard. My new bride, Ariadna, was seeing America for the first time. The warmth and affection with which she was received made a powerful statement about the real qualities of people like those here tonight.

It was part of the heritage growing out of the harsh challenges of the Great Plains which sharpened appreciation for human values and human dignity.

I was still a baby in my mother's arms when my family decided to leave Oklahoma, where I was born, to live in Borger. Borger was a boom town then. The boom came before the town. First there was the discovery of oil and gas, and then Borger rose up out of the plains where there had been nothing but a prairie before. Suddenly there were thousands of people living in tents and shacks.

Amarillo was -- and still is -- the big city. In my early years, Amarillo had all the banks and offices and hotels and stores. People in Borger had to drive across the prairie to deposit their money here in Amarillo. There were no real roads, just wheel tracks across the open spaces.

Amarillo was the great financial and distribution center. Compared to Borger, it was a stable and sedate metropolis.

When I was very young, Borger had the reputation usually associated with oil boom towns. The Texas Rangers showed up from time to time to put things back in order. We even had a period of martial law, and to a young boy this was all pretty exciting.

M-331

The Borger economy was tied to oil and gas, with oil refining and extensive manufacture of carbon black. Natural gas was just burned off to produce the carbon black. At that time, this one area produced most of the carbon black made in the entire world.

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Like most youngsters, though, I didn't pay that much attention to what the adults were doing. It was more intriguing to dwell on stories about conquistadores, Indian tribes, buffalo hunters and great longhorn cattle drives. The old West blended slowly into a new era.

Borger and Amarillo are far different places today than when I was growing up. In fact, several basic periods of change -- economic change, especially -- have occurred during my own lifetime. You here in Amarillo and the Panhandle have had to adapt, even strain on occasion to survive, as the economy and the world changed around you. Like most of America, you have seen a continuing evolution in your economic life.

Indeed, in preparing to speak to you as a special audience of former neighbors and friends, I thought a great deal about the experience of change. Not only in Amarillo, but in most of America changes have come again and again since the first settlers arrived.

In fact, the superior ability of Americans, and of our private enterprise system, to rise to meet the repeated challenges, and to surmount them, has been the foundation for our position of leadership in the free world.

Yet today we face challenges -- at home and abroad -- as great as we or our forebears have ever experienced. They foreshadow the necessity for changes that will profoundly alter the structure of our nation's economy.

Amarillo and this region are in many ways a microcosm of what has been going on in this land almost since America was founded. When those buffalo hunters clashed with the plains Indians, their battles were but the conflict between two competing and distinctly different ways of life. The buffalo hunters in due course gave way to ranchers who, themselves, reluctantly made room for the farmers. All this brought progressive economic change, with new technologies and fresh infusions of capital to develop them. At the time my family arrived in Borger, still more changes were underway -- the boom produced by the discovery of oil and natural gas provided essential fuel and petro products for the rapidly emerging automotive industry.

Time brings continuous economic change. Some of you here are old enough to recall the Great Depression, typified to many of us by the terrible dust bowl that swept over the Panhandle. Those days seemed to offer an ultimate test of our character and of our capacity to cope.

But, through perserverence and hard work, prosperity began to return, first grudgingly and then spurred by defense spending for World War II. Prosperity has stayed with us for the most part, though occasionally interrupted by recession. None, of course, has been as severe as the Great Depression.

The lesson is clear. Through the efforts of strong and resilient and free people, our economy has responded again and again to the need for change. Sometimes these changes require a thoroughgoing restructuring of our economic base, as in the case of Borger and much of the Panhandle.

Today, we are confronted by new challenges that represent a major test of our economic system and of our way of life.

Consider the challenge of energy. It is absolutely essential that we reduce our dependence on foreign oil. It is absolutely essential that we reduce our reliance on long and fragile lines of supply. It is absolutely essential that we regain control of our own destiny.

And it is equally important that we do not delude ourselves with the belief that oil will again be cheap.

For a long time, we were fortunate to have abundant and inexpensive domestic oil and gas and other energy. We used this to build the highest standard of living for the most number of people of any nation in the world. But times have changed, and the availability and cost of energy has changed. Just as it would be unthinkable today to burn off natural gas merely to produce carbon black, as was done in the 1930's, so would it be unthinkable today for us to fail to make a transition to deal with the present reality of altered energy supplies and prices.

It will take 10 to 15 years to make the transition. There will be a need for sacrifices in the short run so that we can assure the security and vitality of our nation in the long run.

The task will not be small or easy. On the contrary, the transition will require a massive and sustained effort in energy conservation, in developing conventional domestic energy sources, in developing unconventional and renewable energy sources, in reshaping our transportation network with fuel-efficient autos and expanded public transit, in weatherizing our homes and other buildings, in re-tooling industry with energy-efficient processes, and in revitalizing our technological base.

The total investment required for this great endeavor will be of a scale and scope and duration not seen since the Marshall Plan provided the wherewithal to get the European economy moving again. Indeed, the capital required will dwarf the Marshall Plan and the Apollo Program combined.

While this is a herculean undertaking, we should remember that we start from a good economic base. The fact is we will be making our transition from a position of relative strength. Consider, if you will the progress since the deep recession of 1974-75. Employment has grown by an unprecedented nine million jobs, mainly in the private sector. Real output of the economy is 12 percent above the level of three years ago. Adjusted for inflation, after-tax per capita income has increased 7.5 percent.

But while we have created millions of new jobs, we have not yet matched them with sufficient growth in capital investment.

All economic growth begins with savings and investment and productivity, and not with personal consumption. Fortunately, capital spending plans of businesses today are a relatively bright spot. But we're still a long way from providing the kind of investment that is needed to re-vitalize the economy and increase growth in productivity. For twenty years after World War II, our annual productivity gains for the entire economy averaged about 2.6 percent. But then in the years between 1968 and 1973, that annual increase fell to about 1-3/4 percent. Between 1973 and 1978, the gain was even less, falling to only eight tenths of one percent. In 1979, there was actually a sizeable decline.

All the while, most, if not all, of our main trading partners maintained much better records of productivity growth. So we have lost some of our competitive edge in the world.

The slowdown in our capital investment relative to the growth in our labor force is a major reason for our lower productivity, at least since 1973. Japan spends over 20 percent of its gross national product on capital investment; West Germany over 15 percent. The United States has averaged around 10 percent. Obviously we have been falling behind. Our modernization has lagged.

Clearly, this is a basic structural problem. We have been under-investing across-the-board. It is now time to begin to re-capitalize our national economy. We need to emphasize those investments that will produce higher productivity, that will introduce new technologies, and that will contribute to greater energy supply and efficiency.

A look at the energy industry itself suggests the magnitude of requirements. The Department of Energy has estimated that the domestic oil and gas sector will need to invest an average of $25 to $30 billion annually during this decade for exploration, development, production and refining capacity just to meet the low side of industry supply projections. Incidentally, private estimates put the spending even higher -- up to $35 billion annually. And for the sake of comparison, the actual expenditures of the oil and gas sector in 1972 were less than $13 billion. By 1978, they had risen to $20 billion.

A similar picture emerges in the coal industry, which will need to invest between $5 and $6 billion a year during the 1980s, according to Department of Energy estimates. The coal industry actually invested less than $1 billion in 1972 and $2.4 billion in 1978.

You might well ask how we are going to trigger the kind of massive capital spending needed in the decades ahead. One of the first major triggers is President Carter's courageous decision to de-control domestic oil prices. This recognizes the realities of both supply and demand.

Being able to price energy at its real replacement cost, energy producers will have an incentive to invest -- which is far more powerful than any government mandate. Even after sharing the increased revenues from decontrol with the public sector through the windfall profits tax, a great deal more money than ever before will be in the hands of the oil and gas producers. Those producers will have an incentive to use the additional funds to develop both new and conventional sources of energy.

The Federal government is also planning to provide substantial assistance to the private sector in financing projects to produce synthetic fuels. In many cases, the financing requirements and risks involved in such projects are greater than most private companies can assume on their own. So the President has proposed -- and both houses of Congress have approved -- an Energy Security Corporation to work with the private sector in the development of synthetic fuels. The Corporation will be a financing vehicle, which will be able to make direct loans as well as price, purchase and loan guarantees, with respect to a variety of synthetic fuels to be produced by private companies. The Energy Corporation itself will be financed separately to give it autonomy. In its first phase, the Corporation will receive a multi-year appropriation of $20 billion.

Let me emphasize that oil price decontrol and the Energy Security Corporation are only triggers which should set off a chain reaction of capital investment. In my view they will start the ball rolling, perhaps slowly at first, in a major renewal of capital spending by the private sector.

Beyond these developments, we expect to pursue policies that progressively and purposely create incentives for the broad spectrum of our private sector to make the kind of investments that in the past made the United States the world's leader in productivity. These policies will have the overall objective of assuring an adequate real return on invested capital.

One area for a future policy initiative might be depreciation allowances for plant and equipment. While it has served the economy and private businesses well, the tax depreciation system could be modified in order to create greater incentives for capital expansion in periods of rapid inflation and financial uncertainty. The tax depreciation system could also be simplified to make it easier for businessmen to apply the rules.

Sustained expansion of capital investment also depends on the overall economic climate and the pursuit of policies that will progressively wring inflation out of our system. In the area of fiscal policy, we must reverse the trend of expanding federal deficits. The fiscal 1981 budget reflects this policy direction, with no proposed increase in real spending and with the smallest deficit in seven years.

Within government itself substantial additional efforts must be made to eliminate waste, and government programs must be able to withstand clear-eyed evaluation of their costs and benefits.

There are powerful lessons to be learned from our experience over the past 15 years. We know all too well that government spending alone cannot fulfill our aspirations, that excessive regulation can stifle initiative and creativity, and that we cannot consume unless we can produce.

Thus, the Administration is now on a course of working to reduce federal deficits and to achieve a balanced budget. Only the prospects of a mild recession have prevented the Administration from presenting a balanced budget for fiscal 1981.

To fight inflation, fiscal policy restraint must work in tandem with a similar monetary posture. To be sure, policies of monetary discipline are never popular. They are associated with credit shortages and higher interest rates, even though these are more the result of inflation than of the policies themselves. In order to prevent the kind of excess growth in money and credit that would aggravate inflation, persistent monetary restraint is essential. A significant and lasting decline in interest rates can be achieved only through progress in reducing inflation.

Sound fiscal and monetary policies are of critical importance, but the war against inflation will not be won unless we deal successfully with the issue of energy. A reduction in inflation will not be possible until we have reduced our dependence on imported oil. Energy price increases alone added about

3.2 points to the consumer price index last year, while the indirect effects accounted for another one or two percentage points.

The price actions of OPEC last year and this year demonstrate the problem. But, we are not just a victim of higher prices, we have been a contributing cause as well. We have continually increased our appetite for foreign oil. Our national bill for imported oil rose from $3 billion a year in 1970 to about $60 billion last year. The latest price increases will add even more billions. The message is clear.

Recent events have strengthened and renewed our national understanding that America's position in the world is dependent on our strength -- strength not only in military power, vital as that is; strength not only from the rightness of our moral principles and our democratic political system, fundamental though they are; but strength that is rooted in the productiveness and efficiency of our economy.

That strength is now being tested. And Americans themselves are being tested. We are being tested as to our determination, our commitment, our perserverence, our will, and our inherent character.

If we stand united, we will pass the test. If we stand united, there is nothing we cannot accomplish. And we will need to stand united in order to meet the towering challenges of change.

I believe that we shall prevail. And in the process, we shall assure that America remains pre-eminent among nations. Its strength will then provide not only for our own well-being but also contribute to the causes of peace and prosperity and freedom throughout the world.

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The task will not be small or easy. On the contrary, the transition will require a massive and sustained effort in energy conservation, in developing conventional domestic energy sources, in developing unconventional and renewable energy sources, in reshaping our transportation network with fuel-efficient autos and expanded public transit, in weatherizing our homes and other buildings, in re-tooling industry with energy-efficient processes, and in revitalizing our technological base.

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