Department of the TREASURY NEWS

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STATEMENT OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE BUDGET COMMITTEE

SEPTEMBER 9, 1980

Mr. Chairman and Members of the Committee:

Thank you for giving me the opportunity to discuss with you the economic revitalization program that has been proposed by the President. The program is the product of careful deliberation as well as consultation with the Congress and the public. Our economic problems are longstanding in nature and they will not be solved overnight. But this program represents an important step to healthy economic growth during the decade of the 1980's and beyond.

The President's program will help reinforce the imminent recovery from the current recession, the seventh in the postwar period. However, the program is not a traditional stimulus package, but rather is designed to help us meet the long-term challenges facing our economy.

The importance of following such a course is clear. Traditional stimulus programs have almost always been enacted too late in the business cycle; rather than cushioning the fall in the economy they have accelerated inflation during the ensuing recovery. Difficulties in forecasting the exact timing of economic change as well as the time needed for legislative changes have made this process almost inevitable.

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While the decline in national output in the second quarter of this year was steep, a wide range of statistics suggests that the situation is now improving. Much of the current recession has been concentrated in the automobile and housing industries. Aided by lower interest rates, there are signs of recovery in both of these sectors. Consumer spending has also risen significantly in recent months. Manufactures' new orders have increased sharply after a period of decline. Labor markets are beginning to stabilize and the unemployment rate actually declined slightly in August. The index of leading economic indicators rose sharply in the last two months.

While natural healing forces are building a base for recovery from this recession, inflation is still too high and many of the longer-term problems facing our economy must still be addressed.

The program the President announced on August 28 will address these problems and is a strong first step toward building an even more vital economy.

AN ECONOMIC PROGRAM FOR THE 1980's

The Administration's economic program for the 1980's will encompass comprehensive policies directed at our principal objectives:

- To reinforce recovery from the current recession and put people back to work in productive jobs.

- To revitalize American industry, working in partnership with business, labor and the public.

- To increase substantially the share of national output devoted to investment in order to create jobs, encourage innovation and improve productivity.

- To continue the war against inflation so the gains from industrial growth are not eroded.

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- To implement our national energy policy of reducing oil dependence so that more of our workers' dollars will stay at home.

- To maintain a sound and stable dollar which contributes to world economic and financial stability and growth.

INDUSTRIAL REVITALIZATION

Revitalizing American industry to provide even stronger growth in jobs and national income in the 1980's will require a new spirit of cooperation among business, labor and Government.

A great strength of the American economy is its primary reliance on the private enterprise system. The cumulative effect of millions of decisions by individuals and businesses within a competitive marketplace is by far the most effective and efficient way to provide for our Nation's needs and wants. However, private industry and workers in America face the challenge of unprecedented change.

The economic world of the 1980's is vastly more complex than that of the 1950's and the 1960's. We have become more heavily involved in international trade, and forces influencing the international competitiveness of our industries have taken on increased importance. The pace of technological change has accelerated, creating opportunities but necessitating adjustment. The character of American industry and the work skills it needs are changing. Actions of government at the Federal, State and local levels increasingly affect our industries.

The role of the Federal Government in seeking to revitalize American industry is primarily to create a climate which encourages private innovation and investment and creates permanent and productive private sector jobs. In present circumstances, because of the speed and scale of change in the Nation's industrial structure, Government must go further. It should also help smooth the adjustment process of communities and workers to avoid undue distress and hardship.

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Encouraging Cooperative Efforts

The President's Economic Revitalization Board: To reinforce cooperation between Government and the private sector in dealing with the complex issues of industrial policy, the President will establish a new, high-level Economic Revitalization Board, comprised of representatives of industry, labor and the public. The Board will advise the President on the broad range of issues involved in the on-going process of revitalization.

The Board will be requested to develop specific recommendations to the President for establishment of an industrial development authority to provide financial assistance for industrial development and economic revitalization in areas in transition and affected by industrial dislocation or high unemployment, or if needed to remove industrial bottlenecks.

The authority would mobilize both public and private resources, such as Federal, State and local monies and capital from private markets and pension funds. Its programs would be coordinated with State and local development functions. The authority would be subject to annual budget control.

The President will seek the Board's advice on other matters, including:

- Providing guidance on improving the skills of the American workers to meet the needs of the coming decade.

- Recommending ways the social goals of regulations can be accomplished while minimizing compliance costs and maximizing productivity of industry.

- Dealing with the impact of industrial dislocation on workers and communities.

This extensive mandate to work with the Administration on major policy issues on a sustained basis is appropriate in view of the intricate and interdependent relationship among Government, labor and business.

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Encouraging Private Capital Investment

Substantial gains in our standard of living depend on strong and continuous growth in productivity. Our productivity growth, however, has slowed seriously over the last decade. Insufficient capital investment is an important cause of this disappointing trend.

To improve productivity, as well as to provide for the energy resources necessary for our economic and national security, will require that an increased share of our national output be devoted to investment. To accomplish this, the Administration will propose tax changes to encourage investment.

Liberalized Depreciation: A new system of depreciation allowance -- the amounts a business may deduct from its income to recapture its capital investment costs -- will be proposed for enactment next year, effective January 1, 1981. Liberalized depreciation allowances will encourage business to expand investment, to modernize productive capacity and to provide new jobs. The depreciation program will be designed:

- To provide for a constant annual rate of depreciation for each asset class.
- To reduce the number of asset and industry classes to 30 or less from the present 130. Few taxpayers would use more than 2 or 3 classes.
- To simplify the procedures for using accelerated depreciation.
- To increase the allowable depreciation rate by approximately 40 percent.
- To allow roughly equal liberalization of depreciation for all assets, thus minimizing economic distortions.
- To take effect immediately upon the specified effective date, thus avoiding complicated transition rules that tend to delay some investments.

The Constant Rate Depreciation System will reduce tax revenues by an estimated $6.3 billion in the first year, increasing to $24.2 billion by 1985.

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Refundable Investment Tax Credit: To help industry obtain capital for investment in new plants and equipment, the tax code permits a 10% investment tax credit against the first $25,000 of tax liability and against 90% of the remainder (80% in 1981).

Since this investment incentive is in the form of a tax credit, it offers no current benefit to industries with either limited or no tax liability. Thus, it is of little or no immediate value to firms suffering temporary losses or reduced profits. The present investment credit is also effectively denied, at least in part, to new firms just starting out which have not yet produced taxable earnings. These enterprises are often an important source of technological progress and innovation.

As part of its program, the Administration will propose that 30% of the earned but unused investment tax credit be made refundable beginning in 1981. The portion of the credit not made refundable will be available for carry-back or carry-forward as under present law.

It is estimated that the first year cost will be $2.4 billion, and the fifth year cost $2.3 billion.

Reducing Employer Payroll Taxes

Liberalized depreciation allowances and a partially refundable investment credit will reduce industry's capital costs and encourage investment. The Administration will also propose measures to reduce labor costs and further encourage employment. The Social Security tax increase for employers scheduled to take effect in 1981 is essential to maintaining the system's financial integrity, but it adds to labor costs and thus to inflation. This increase would be particularly burdensome on those businesses which rely more heavily on labor than on machinery.

The Social Security credit will be in effect for two years beginning in 1981. This will allow time to consider the broader issues of Social Security financing. The first year revenue cost is estimated at $6.6 billion.

Aiding Small Business: The Administration is particularly interested in small business because it is a prime source of innovation, provides a large share of the growth in jobs each year, and includes many minority

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entrepreneurs. Liberalized and simplified depreciation allowances and the refundable investment tax credit are of particular value to small business. In the past, the complexities and recordkeeping requirements of accelerated depreciation have effectively denied this incentive to many small businesses. The Administration's proposal greatly simplifies the depreciation system and substantially reduces recordkeeping requirements. The refundable investment tax credit will be beneficial to newly established companies during the start-up period when they have not yet generated taxable earnings. Since many small businesses rely more heavily on labor than machinery, the employer Social Security tax credit also will be particularly beneficial to them.

The Administration will also propose changes in the tax code that will allow new businesses to write-off most startup costs, and recommend liberalizing Subchapter S requirements to enable more investors to participate in new ventures. The Administration's support of the Regulatory Flexibility Act reflects its continued commitment to reduce regulatory burdens on businesses, and particularly on smaller companies.

Assistance to Distressed Areas

While private capital and its allocation through the marketplace is the basis of the Administration's revitalization program, more encouragement of private investment and public development capital is needed for industrial renewal in areas undergoing economic transition.

Increased Economic Development Funding: The Carter Administration has substantially increased government support for economic development. In FY 1980, overall economic development programs are funded at more than $3.5 billion, 70 percent above the level when the Administration came into office. This includes the Administration's new $675 million Urban Development Action Grant program to stimulate private investment in distressed areas. In addition, funding for programs to aid small business has almost doubled. Further, the Congress now has before it the Administration's proposal to increase the Economic Development Administration's program level from $600 million in FY 1980 to $1.7 billion in FY 1981. The Administration urges prompt enactment of the proposed EDA legislation.

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To enhance existing public efforts and meet expanded needs, next year the President will propose additional program levels of $1 billion for FY 1981 and $2 billion for FY 1982 for economic and industrial development programs.

Targeted Investment Tax Credit: As a supplement to ongoing programs designed to foster growth in economically distressed areas, the Administration will propose a special targeted investment tax credit of 10 percent for eligible investment projects in localities of high unemployment.

It is estimated that the revenue cost will be $200 million in the first year and an average of $800 million a year through 1985.

Investment in Energy Security

Continued progress in the energy area is an essential part of the Administration's economic program. Enormous investments in conservation and domestic energy production are required over the next decade to accomplish the reduction in oil imports so essential to our national and economic security. These investments will create hundreds of thousands of jobs domestically and will help protect the jobs of all Americans from future oil price shocks.

Through phased decontrol and the other measures already undertaken, America has reduced its oil imports by about 20% from their previous peak levels. Most importantly, this reduction has been the result primarily of increased conservation and use of domestic energy resources and not lower economic activity. The amount of energy required per unit of output has been substantially reduced.

Together with Congress, the Administration has provided for vastly increased funding for energy conservation and production since 1977. In addition to appropriations for the Synthetic Fuels Corporation, the 1980 budget provides about $5 billion for energy production and conservation, more than twice the level when the Administration took office.

Over the last four years, to stimulate production and conservation, Congress has approved tax credits which

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will provide $4 billion in benefits by the end of FY 1981. In addition, $20 billion (out of an ultimate $88 billion) in budgetary authority has been appropriated for the Synthetic Fuels Corporation to assist the private sector in creating a major new synthetic fuels industry. The goal is for synthetic fuels to supply about 2 million barrels of oil per day by 1992.

The 1981 budget provides for even greater funding for energy conservation and production. The Administration has proposed to the Congress a $10 billion program to help finance electric utility conversion from oil to coal or other fuels. This program will save an additional 500,000 barrels of oil per day by 1990.

The Congress also has before it our proposal to create an Energy Mobilization Board to help expedite the administrative process in establishing energy related facilities.

Both of these pending bills need to be enacted by Congress as soon as possible.

The Administration will propose in January an additional $1.2 billion over two years for energy conservation, including increased funding for the Solar and Energy Conservation Bank, conservation investments in Federally-owned public housing units, improvements in the efficiency of Federally-owned power plants, and weatherization of schools and hospitals and low-income housing units throughout the United States.

Research and Technological Development

Technological advance and innovation have accounted for much of the productivity growth in the United States in the past half century. They are essential elements of economic vitality.

In cooperation with Congress, the Carter Administration has increased obligations for research and development from $26.2 billion in FY 1978 to $35.4 billion in FY 1981. Basic research spending increased by about 35 percent in the same period, from $3.6 to $4.9 billion. In addition, the Administration has stimulated new research programs between industry and universities, encouraged Government-industry cooperation -- for example, in the

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automotive sector -- and has increased support of smaller high technology firms.

As part of the economic revitalization program, and beyond the fiscal proposals aimed at stimulating investment and innovation, the President will propose in January an additional $600 million in budget authority for fiscal years 1981 and 1982 to stimulate research and technological development. With this commitment, funds for basic research will grow in real terms by 3 percent per year.

Export Promotion

In the past ten years, the share of the American economy devoted to exports has almost doubled from 6.4 percent in 1970 to over 12 percent in the first half of 1980. Foreign markets have become increasingly important for American firms. When President Carter took office, exports of goods accounted for about 6.7 percent of GNP; this year they will account for about 9 percent. In dollar terms, exports of manufactured items have grown by 75 percent. This increase in exports has been an essential source of jobs and of revenues needed to pay for oil and other imports.

This Administration will continue to stress the growth of U.S. exports. To do this it has already increased support of the Export-Import Bank more than seven-fold over the last four years, and it has reorganized and combined the Government programs which support U.S. international trade.

In addition, the Administration has supported Export Trading Company legislation now in Congress that will encourage small and midsize business participation in export markets. In January, we will propose an amendment to the Internal Revenue Code to provide for an exclusion for income earned abroad in certain areas. This is designed to help improve the ability of U.S. firms to sell and service products abroad.

Developing Economic Infrastructure

Transportation: The ability to transport people and goods efficiently is essential to our economic, energy and national security objectives. Since the beginning of this Administration, Federal funding for transportation

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has increased by 96 percent. We must continue to make substantial investments in all areas of transportation. For example, Congress now has before it a five year program amounting to $25 billion for mass transit facilities, $6.1 billion for airports and the airway system, and $1.5 billion to assist in restructuring the Nation's railroad system, particularly in the Middle West. Improvements to the northeast rail corridor totalling $2.5 billion are already underway.

Our national highway system is an integral part of our transportation system and has been constructed over many years at great expense. Evidence is mounting, however, that more investment is needed to maintain this vital national asset. The 1981 budget contains $8.4 billion to complete and repair the Federal highway system, including $950 million for rehabilitation of bridges.

The Administration will propose a $600 million increase in FY 1981 transportation obligations to deal with additional needs of the highway system and other forms of transportation.

Coal: The United States has enormous deposits of coal, and there is a great opportunity to expand the use of this energy resource both at home and abroad. Coal will be an important new export product for the United States. Bottlenecks in our coal transportation system, particularly at seaports, however, are a serious impediment to expanding the use of this abundant natural resource.

Port facilities for coal exports need modernization and enlargement. While much of the investment will come from private sources, the Federal Government will play a role in deepening ship channels to accommodate larger and more efficient coal-carrying vessels. The President has asked the Army Corps of Engineers and other Federal agencies to expedite all aspects of their review of coal port projects.

Regulatory Reform

Health, safety and a clean environment are important national goals, just as are economic growth, stable prices, energy self-sufficiency, social justice and national security. Some of these goals conflict with one

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another, and all compete for resources. Choosing the policy that achieves the best balance among these conflicting and competing goals is a difficult task.

Regulatory reform is an important element in policies to promote healthy economic growth and to improve productivity. The President continues to call for passage of the Regulatory Reform Act and the Regulatory Flexibility Act.

Over the past three years, the Carter Administration has taken major steps in regulatory reform. We will build on that foundation and attempt to reduce still further the dead weight of unnecessary Government regulatory interference.

ASSISTANCE TO PEOPLE AND COMMUNITIES

The economic changes taking place around the world create special problems for many people and communities. The Federal Government must play a part in helping to ease the burden of adjustment for those affected adversely. The changes also provide increased opportunities. Government must facilitate the training, retraining and education of Americans for jobs in the industries of the 1980's.

Proposed Extension of Unemployment Benefits

Our unemployment compensation system is an essential form of assistance to workers who have lost their jobs. The President is proposing a temporary unemployment compensation program so that workers suffering long-term unemployment in this reccession will be eligible for benefit payments for an additional 13 weeks.

Human Resources

The more than 8 million jobs created during the Carter Administration -- the largest growth in employment over any similar period in our history -- are the product of both private and public initiative. Federal funding for employment and training has expanded from $6.3 billion

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when this Administration took office to about $10.4 billion in FY 1980. Federal spending for basic and vocational education expanded from $4.7 billion in 1976 to $7.3 billion in FY 1980. In 1981, the Vocational Education Act will be up for renewal. The Administration will be continuing a major effort to prepare our citizens for employment.

Adjustment and Training Programs: The Trade Adjustment Assistance Program provides benefits, job training and relocation to workers who have been adversely affected by imports. Currently, 310,000 auto workers are eligible for benefits in addition to 134,000 workers in other adversely affected industries. FY 1980 benefit outlays to date amount to about $1 billion.

The Administration is also working to devise better means of retraining and relocating workers displaced by industrial changes. The President has proposed broadening the Trade Adjustment Assistance Program to supplier industries to make sure that all workers receive its protection. A series of special demonstration projects, under the Department of Labor, will be launched to assess the merits of different methods for retraining and relocating displaced workers. One such project is already underway in Michigan.

The Administration has established two public services employment programs under CETA which now provide 400,000 jobs. Welfare reform demonstration projects in 12 sites around the country are enrolling welfare recipients in employment activities which will ultimately lead to another approximately 400,000 job opportunities. In addition, CETA presently spends over $2 billion on programs designed to prepare the disadvantaged for jobs.

The President will request an additional $300 million in FY 1981 for training under CETA to provide job opportunities for the disadvantaged and the unemployed. The program will be based on the experience of the present network of employment and training programs, but will require special efforts to identify jobs in emerging sectors of the economy.

The Administration recognizes the paramount importance of private sector permanent jobs and the essential role

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of the private sector in providing job training and employment. The Private Sector Initiative program, funded at $400 million during FY 1980, directly involves business and labor in training activities. Private Industry Councils, composed of a cross section of local communities, have been organized with virtually every CETA prime sponsor throughout the country. In addition, The Targeted Job Tax Credit provides incentives for private employers to hire economically disadvantaged persons. The goal this year is 215,000 job placements.

Youth Employment: Youth represent one of our most vital natural resources. Expenditures on youth training and employment have expanded from less than $2.5 billion in 1977 to over $4 billion today.

Young people must develop basic job skills to participate in the economy's growth. The President has proposed a $2 billion two-year youth initiative, pending before the Congress. The initiative draws together programs in the Departments of Labor and Education to assist disadvantaged youth in breaking free from idleness and poverty. The program needs to be enacted promptly.

Countercyclical Revenue Sharing

Because of the scale of change, some communities undergoing economic transition will require financial assistance to help maintain local services. Increased countercyclical revenue sharing will help assure that harmful temporary reductions in service levels do not take place. The Congress is considering countercyclical aid to cities and communities. The President will work with the Congress to enact a $1 billion countercyclical revenue sharing program for FY 1981.

REDUCING INDIVIDUAL TAX BURDENS

Offsetting Social Security Tax Increase

Inflation has reduced the real disposable income of American workers both by diminishing their purchasing power and increasing their tax burdens. But general tax

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cuts that result in a greatly expanded Federal deficit and reignite inflation are not of lasting benefit to Americans.

The Social Security tax increase scheduled to take effect in 1981 will increase tax burdens on individuals and retard the recovery of consumer purchases. While the revenues from that Social Security tax increase are necessary to assure the financial soundness of the Social Security System, the increased tax burden on workers is best offset by carefully targeted reductions in income taxes.

The President plans to accomplish this objective through a Social Security income tax credit for individuals to be proposed in January. It will be available to all individual taxpayers and will consist of a nonrefundable credit against Federal income taxes equal to 8 percent of the Social Security taxes paid. The credit will be in effect for two years beginning in 1981, thus allowing time in which to consider the broader issues of Social Security financing. The first year revenue cost is estimated at $6.2 billion.

Earned Income Tax Credit

The President will also propose liberalization of the present earned income tax credit in order to provide relief for nontaxable people with dependent children. Under current law, individuals with dependent children may claim a refundable earned income credit equal to 10 percent of the first $5,000 of earnings. The credit phases out as income increases from $6,000 to $10,000. The Administration will propose raising the credit from 10 percent to 12 percent, while increasing the phase-out to $7,000 to $11,000. The first year cost is estimated to be $900 million.

Reducing the Marriage Tax Penalty

The marriage penalty is another tax burden that needs to be addressed. Families with two wage earners may owe higher income taxes than would be the case if the spouses were unmarried individuals. The President will propose a tax deduction equal to 10 percent of the lower-earning spouse's earnings up to a limit of $30,000.

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The first year revenue cost is estimated at $4.7 million, rising to $8.9 billion in the fifth year.

ANTI-INFLATIONARY FISCAL AND INCOMES POLICIES

The acceleration in productivity growth that results from the measures proposed by the President will slow the rise in business costs and thereby lead to lower inflation. As the President's energy programs are carried out, the Nation's dependence on foreign oil and its vulnerability to inflationary external shocks will be reduced.

But these inflation-lowering consequences of the Administration's economic program will take effect gradually. And they are not sufficient, taken alone, to accomplish the tasks of preventing the reemergence of inflationary pressures and of steadily lowering the inflation rate.

Budget Policy: Measures to increase supply, raise productivity and improve our energy security must be undertaken within the framework of prudent and cautious budgetary policies. The Administration wants to speed recovery. It does not want, however, to risk a renewal of inflationary pressures and invite a resurgence of sharp increases in interest rates.

- That is why the President has insisted that a tax cut prior to the election is unacceptable. A tax bill, developed, debated and passed in a few weeks, during the heat of an election campaign, is certain to be incompatible, in both size and design, with anti-inflationary objectives.

- That is why the measures in this program have been rigorously screened to ensure that Federal spending is not increased by a dollar more than is needed to meet the Nation's goals for industrial modernization, energy security, and smoothing the path of economic adjustments.

- That is why the President strongly opposes proposals which have been made for a schedule of

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massive tax reductions in 1981 and subsequent years that would guarantee huge and inflationary budget deficits.

- That is why the President decided to propose reduction of tax burdens through a credit against social security payroll taxes, since this approach cuts employer payroll costs and thereby contributes to lower prices.

Taken together, the tax and spending measures recommended by the President will reduce revenues by some $27.5 billion in calendar year 1981 before taking into account the offsetting revenue gains from higher economic activity. This gross revenue loss would rise to an estimated $58 billion by 1985. In 1981, and even more strikingly in later years, the revenue losses from these tax measures are substantially less than those contained in other tax proposals which have been prominently mentioned in recent weeks and months. With the President's measures, outlays will be increased by about $2 billion in fiscal 1981 and by about the same amount in fiscal 1982.

Because the recommended program will increase economic activity and taxable income, the net loss of Federal revenues will be smaller than the numbers cited above. Some savings in unemployment compensation payments, and other outlays relative to the level of unemployment, will also occur. Moreover, the tax reductions and other programs will not become effective until the fiscal year is already well underway. As a consequence, the measures proposed in the President's overall program will increase the 1981 budget deficit by $6.0 to $7.5 billion.

Income Policies: Even with continued budget restraint, the rate of inflation is unlikely to come down sharply as the economic recovery proceeds. Budget and monetary policies need to be supplemented with other approaches to wage and price moderation. As noted earlier, the voluntary pay and price standards, which the President introduced in 1978, played an important role in moderating wage and price increases during a highly inflationary period. After several years of good service, however, it is questionable whether these standards could remain effective if simply extended indefinitely in their current form. The Administration will, therefore, be consulting during the remainder of this year with business, labor, and

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other groups to explore ways of achieving moderation in wage and price increases in 1981 and subsequent years.

CONCLUSION

The Administration's economic program for the 1980's is both responsible and dynamic. It builds on previous gains and addresses current problems. It establishes the basis for long-term growth that will both create permanent jobs and help contain inflation. At the same time, the Administration's program provides assistance for workers and communities facing serious transitional problems.

The effects of this program will begin to be realized in a relatively short time. About 500,000 jobs will be created by the end of 1981 and a total of 1,000,000 jobs by the end of 1982, in addition to those generated through normal economic recovery. And over the decade millions of jobs will be available to carry out the task of building our Nation's industrial might.

The Administration intends to seek legislative action on this program early next year. The proposed policies will help shape our Nation's economic progress for many years and deserve careful consideration by Congress. It would not be desirable to attempt to hurry legislative action in the short time remaining before the national election.

While the economic measures respond to some of our most pressing economic challenges, they are not intended as the final answer or to be all-inclusive. Economic policy must continue to meet new circumstances and deal with new issues.

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The President's program will help reinforce the imminent recovery from the current recession, the seventh in the postwar period. However, the program is not a traditional stimulus package, but rather is designed to help us meet the long-term challenges facing our economy.

The importance of following such a course is clear. Traditional stimulus programs have almost always been enacted too late in the business cycle; rather than cushioning the fall in the economy they have accelerated inflation during the ensuing recovery. Difficulties in forecasting the exact timing of economic change as well as the time needed for legislative changes have made this process almost inevitable.

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While natural healing forces are building a base for recovery from this recession, inflation is still too high and many of the longer-term problems facing our economy must still be addressed.

The program the President announced on August 28 will address these problems and is a strong first step toward building an even more vital economy.

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- To increase substantially the share of national output devoted to investment in order to create jobs, encourage innovation and improve productivity.

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The President's Economic Revitalization Board: To reinforce cooperation between Government and the private sector in dealing with the complex issues of industrial policy, the President will establish a new, high-level Economic Revitalization Board, comprised of representatives of industry, labor and the public. The Board will advise the President on the broad range of issues involved in the on-going process of revitalization.

The Board will be requested to develop specific recommendations to the President for establishment of an industrial development authority to provide financial assistance for industrial development and economic revitalization in areas in transition and affected by industrial dislocation or high unemployment, or if needed to remove industrial bottlenecks.

The authority would mobilize both public and private resources, such as Federal, State and local monies and capital from private markets and pension funds. Its programs would be coordinated with State and local development functions. The authority would be subject to annual budget control.

The President will seek the Board's advice on other matters, including:

- Providing guidance on improving the skills of the American workers to meet the needs of the coming decade.

- Recommending ways the social goals of regulations can be accomplished while minimizing compliance costs and maximizing productivity of industry.

- Dealing with the impact of industrial dislocation on workers and communities.

This extensive mandate to work with the Administration on major policy issues on a sustained basis is appropriate in view of the intricate and interdependent relationship among Government, labor and business.

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Encouraging Private Capital Investment

Substantial gains in our standard of living depend on strong and continuous growth in productivity. Our productivity growth, however, has slowed seriously over the last decade. Insufficient capital investment is an important cause of this disappointing trend.

To improve productivity, as well as to provide for the energy resources necessary for our economic and national security, will require that an increased share of our national output be devoted to investment. To accomplish this, the Administration will propose tax changes to encourage investment.

Liberalized Depreciation: A new system of depreciation allowance -- the amounts a business may deduct from its income to recapture its capital investment costs -- will be proposed for enactment next year, effective January 1, 1981. Liberalized depreciation allowances will encourage business to expand investment, to modernize productive capacity and to provide new jobs. The depreciation program will be designed:

- To provide for a constant annual rate of depreciation for each asset class.
- To reduce the number of asset and industry classes to 30 or less from the present 130. Few taxpayers would use more than 2 or 3 classes.
- To simplify the procedures for using accelerated depreciation.
- To increase the allowable depreciation rate by approximately 40 percent.
- To allow roughly equal liberalization of depreciation for all assets, thus minimizing economic distortions.
- To take effect immediately upon the specified effective date, thus avoiding complicated transition rules that tend to delay some investments.

The Constant Rate Depreciation System will reduce tax revenues by an estimated $6.3 billion in the first year, increasing to $24.2 billion by 1985.

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Refundable Investment Tax Credit: To help industry obtain capital for investment in new plants and equipment, the tax code permits a 10% investment tax credit against the first $25,000 of tax liability and against 90% of the remainder (80% in 1981).

Since this investment incentive is in the form of a tax credit, it offers no current benefit to industries with either limited or no tax liability. Thus, it is of little or no immediate value to firms suffering temporary losses or reduced profits. The present investment credit is also effectively denied, at least in part, to new firms just starting out which have not yet produced taxable earnings. These enterprises are often an important source of technological progress and innovation.

As part of its program, the Administration will propose that 30% of the earned but unused investment tax credit be made refundable beginning in 1981. The portion of the credit not made refundable will be available for carry-back or carry-forward as under present law.

It is estimated that the first year cost will be $2.4 billion, and the fifth year cost $2.3 billion.

Reducing Employer Payroll Taxes

Liberalized depreciation allowances and a partially refundable investment credit will reduce industry's capital costs and encourage investment. The Administration will also propose measures to reduce labor costs and further encourage employment. The Social Security tax increase for employers scheduled to take effect in 1981 is essential to maintaining the system's financial integrity, but it adds to labor costs and thus to inflation. This increase would be particularly burdensome on those businesses which rely more heavily on labor than on machinery.

The Social Security credit will be in effect for two years beginning in 1981. This will allow time to consider the broader issues of Social Security financing. The first year revenue cost is estimated at $6.6 billion.

Aiding Small Business: The Administration is particularly interested in small business because it is a prime source of innovation, provides a large share of the growth in jobs each year, and includes many minority

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entrepreneurs. Liberalized and simplified depreciation allowances and the refundable investment tax credit are of particular value to small business. In the past, the complexities and recordkeeping requirements of accelerated depreciation have effectively denied this incentive to many small businesses. The Administration's proposal greatly simplifies the depreciation system and substantially reduces recordkeeping requirements. The refundable investment tax credit will be beneficial to newly established companies during the start-up period when they have not yet generated taxable earnings. Since many small businesses rely more heavily on labor than machinery, the employer Social Security tax credit also will be particularly beneficial to them.

The Administration will also propose changes in the tax code that will allow new businesses to write-off most startup costs, and recommend liberalizing Subchapter S requirements to enable more investors to participate in new ventures. The Administration's support of the Regulatory Flexibility Act reflects its continued commitment to reduce regulatory burdens on businesses, and particularly on smaller companies.

Assistance to Distressed Areas

While private capital and its allocation through the marketplace is the basis of the Administration's revitalization program, more encouragement of private investment and public development capital is needed for industrial renewal in areas undergoing economic transition.

Increased Economic Development Funding: The Carter Administration has substantially increased government support for economic development. In FY 1980, overall economic development programs are funded at more than $3.5 billion, 70 percent above the level when the Administration came into office. This includes the Administration's new $675 million Urban Development Action Grant program to stimulate private investment in distressed areas. In addition, funding for programs to aid small business has almost doubled. Further, the Congress now has before it the Administration's proposal to increase the Economic Development Administration's program level from $600 million in FY 1980 to $1.7 billion in FY 1981. The Administration urges prompt enactment of the proposed EDA legislation.

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To enhance existing public efforts and meet expanded needs, next year the President will propose additional program levels of $1 billion for FY 1981 and $2 billion for FY 1982 for economic and industrial development programs.

Targeted Investment Tax Credit: As a supplement to ongoing programs designed to foster growth in economically distressed areas, the Administration will propose a special targeted investment tax credit of 10 percent for eligible investment projects in localities of high unemployment.

It is estimated that the revenue cost will be $200 million in the first year and an average of $800 million a year through 1985.

Investment in Energy Security

Continued progress in the energy area is an essential part of the Administration's economic program. Enormous investments in conservation and domestic energy production are required over the next decade to accomplish the reduction in oil imports so essential to our national and economic security. These investments will create hundreds of thousands of jobs domestically and will help protect the jobs of all Americans from future oil price shocks.

Through phased decontrol and the other measures already undertaken, America has reduced its oil imports by about 20% from their previous peak levels. Most importantly, this reduction has been the result primarily of increased conservation and use of domestic energy resources and not lower economic activity. The amount of energy required per unit of output has been substantially reduced.

Together with Congress, the Administration has provided for vastly increased funding for energy conservation and production since 1977. In addition to appropriations for the Synthetic Fuels Corporation, the 1980 budget provides about $5 billion for energy production and conservation, more than twice the level when the Administration took office.

Over the last four years, to stimulate production and conservation, Congress has approved tax credits which

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will provide $4 billion in benefits by the end of FY 1981. In addition, $20 billion (out of an ultimate $88 billion) in budgetary authority has been appropriated for the Synthetic Fuels Corporation to assist the private sector in creating a major new synthetic fuels industry. The goal is for synthetic fuels to supply about 2 million barrels of oil per day by 1992.

The 1981 budget provides for even greater funding for energy conservation and production. The Administration has proposed to the Congress a $10 billion program to help finance electric utility conversion from oil to coal or other fuels. This program will save an additional 500,000 barrels of oil per day by 1990.

The Congress also has before it our proposal to create an Energy Mobilization Board to help expedite the administrative process in establishing energy related facilities.

Both of these pending bills need to be enacted by Congress as soon as possible.

The Administration will propose in January an additional $1.2 billion over two years for energy conservation, including increased funding for the Solar and Energy Conservation Bank, conservation investments in Federally-owned public housing units, improvements in the efficiency of Federally-owned power plants, and weatherization of schools and hospitals and low-income housing units throughout the United States.

Research and Technological Development

Technological advance and innovation have accounted for much of the productivity growth in the United States in the past half century. They are essential elements of economic vitality.

In cooperation with Congress, the Carter Administration has increased obligations for research and development from $26.2 billion in FY 1978 to $35.4 billion in FY 1981. Basic research spending increased by about 35 percent in the same period, from $3.6 to $4.9 billion. In addition, the Administration has stimulated new research programs between industry and universities, encouraged Government-industry cooperation -- for example, in the

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automotive sector -- and has increased support of smaller high technology firms.

As part of the economic revitalization program, and beyond the fiscal proposals aimed at stimulating investment and innovation, the President will propose in January an additional $600 million in budget authority for fiscal years 1981 and 1982 to stimulate research and technological development. With this commitment, funds for basic research will grow in real terms by 3 percent per year.

Export Promotion

In the past ten years, the share of the American economy devoted to exports has almost doubled from 6.4 percent in 1970 to over 12 percent in the first half of 1980. Foreign markets have become increasingly important for American firms. When President Carter took office, exports of goods accounted for about 6.7 percent of GNP; this year they will account for about 9 percent. In dollar terms, exports of manufactured items have grown by 75 percent. This increase in exports has been an essential source of jobs and of revenues needed to pay for oil and other imports.

This Administration will continue to stress the growth of U.S. exports. To do this it has already increased support of the Export-Import Bank more than seven-fold over the last four years, and it has reorganized and combined the Government programs which support U.S. international trade.

In addition, the Administration has supported Export Trading Company legislation now in Congress that will encourage small and midsize business participation in export markets. In January, we will propose an amendment to the Internal Revenue Code to provide for an exclusion for income earned abroad in certain areas. This is designed to help improve the ability of U.S. firms to sell and service products abroad.

Developing Economic Infrastructure

Transportation: The ability to transport people and goods efficiently is essential to our economic, energy and national security objectives. Since the beginning of this Administration, Federal funding for transportation

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has increased by 96 percent. We must continue to make substantial investments in all areas of transportation. For example, Congress now has before it a five year program amounting to $25 billion for mass transit facilities, $6.1 billion for airports and the airway system, and $1.5 billion to assist in restructuring the Nation's railroad system, particularly in the Middle West. Improvements to the northeast rail corridor totalling $2.5 billion are already underway.

Our national highway system is an integral part of our transportation system and has been constructed over many years at great expense. Evidence is mounting, however, that more investment is needed to maintain this vital national asset. The 1981 budget contains $8.4 billion to complete and repair the Federal highway system, including $950 million for rehabilitation of bridges.

The Administration will propose a $600 million increase in FY 1981 transportation obligations to deal with additional needs of the highway system and other forms of transportation.

Coal: The United States has enormous deposits of coal, and there is a great opportunity to expand the use of this energy resource both at home and abroad. Coal will be an important new export product for the United States. Bottlenecks in our coal transportation system, particularly at seaports, however, are a serious impediment to expanding the use of this abundant natural resource.

Port facilities for coal exports need modernization and enlargement. While much of the investment will come from private sources, the Federal Government will play a role in deepening ship channels to accommodate larger and more efficient coal-carrying vessels. The President has asked the Army Corps of Engineers and other Federal agencies to expedite all aspects of their review of coal port projects.

Regulatory Reform

Health, safety and a clean environment are important national goals, just as are economic growth, stable prices, energy self-sufficiency, social justice and national security. Some of these goals conflict with one

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another, and all compete for resources. Choosing the policy that achieves the best balance among these conflicting and competing goals is a difficult task.

Regulatory reform is an important element in policies to promote healthy economic growth and to improve productivity. The President continues to call for passage of the Regulatory Reform Act and the Regulatory Flexibility Act.

Over the past three years, the Carter Administration has taken major steps in regulatory reform. We will build on that foundation and attempt to reduce still further the dead weight of unnecessary Government regulatory interference.

ASSISTANCE TO PEOPLE AND COMMUNITIES

The economic changes taking place around the world create special problems for many people and communities. The Federal Government must play a part in helping to ease the burden of adjustment for those affected adversely. The changes also provide increased opportunities. Government must facilitate the training, retraining and education of Americans for jobs in the industries of the 1980's.

Proposed Extension of Unemployment Benefits

Our unemployment compensation system is an essential form of assistance to workers who have lost their jobs. The President is proposing a temporary unemployment compensation program so that workers suffering long-term unemployment in this reccession will be eligible for benefit payments for an additional 13 weeks.

Human Resources

The more than 8 million jobs created during the Carter Administration -- the largest growth in employment over any similar period in our history -- are the product of both private and public initiative. Federal funding for employment and training has expanded from $6.3 billion

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when this Administration took office to about $10.4 billion in FY 1980. Federal spending for basic and vocational education expanded from $4.7 billion in 1976 to $7.3 billion in FY 1980. In 1981, the Vocational Education Act will be up for renewal. The Administration will be continuing a major effort to prepare our citizens for employment.

Adjustment and Training Programs: The Trade Adjustment Assistance Program provides benefits, job training and relocation to workers who have been adversely affected by imports. Currently, 310,000 auto workers are eligible for benefits in addition to 134,000 workers in other adversely affected industries. FY 1980 benefit outlays to date amount to about $1 billion.

The Administration is also working to devise better means of retraining and relocating workers displaced by industrial changes. The President has proposed broadening the Trade Adjustment Assistance Program to supplier industries to make sure that all workers receive its protection. A series of special demonstration projects, under the Department of Labor, will be launched to assess the merits of different methods for retraining and relocating displaced workers. One such project is already underway in Michigan.

The Administration has established two public services employment programs under CETA which now provide 400,000 jobs. Welfare reform demonstration projects in 12 sites around the country are enrolling welfare recipients in employment activities which will ultimately lead to another approximately 400,000 job opportunities. In addition, CETA presently spends over $2 billion on programs designed to prepare the disadvantaged for jobs.

The President will request an additional $300 million in FY 1981 for training under CETA to provide job opportunities for the disadvantaged and the unemployed. The program will be based on the experience of the present network of employment and training programs, but will require special efforts to identify jobs in emerging sectors of the economy.

The Administration recognizes the paramount importance of private sector permanent jobs and the essential role

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of the private sector in providing job training and employment. The Private Sector Initiative program, funded at $400 million during FY 1980, directly involves business and labor in training activities. Private Industry Councils, composed of a cross section of local communities, have been organized with virtually every CETA prime sponsor throughout the country. In addition, The Targeted Job Tax Credit provides incentives for private employers to hire economically disadvantaged persons. The goal this year is 215,000 job placements.

Youth Employment: Youth represent one of our most vital natural resources. Expenditures on youth training and employment have expanded from less than $2.5 billion in 1977 to over $4 billion today.

Young people must develop basic job skills to participate in the economy's growth. The President has proposed a $2 billion two-year youth initiative, pending before the Congress. The initiative draws together programs in the Departments of Labor and Education to assist disadvantaged youth in breaking free from idleness and poverty. The program needs to be enacted promptly.

Countercyclical Revenue Sharing

Because of the scale of change, some communities undergoing economic transition will require financial assistance to help maintain local services. Increased countercyclical revenue sharing will help assure that harmful temporary reductions in service levels do not take place. The Congress is considering countercyclical aid to cities and communities. The President will work with the Congress to enact a $1 billion countercyclical revenue sharing program for FY 1981.

REDUCING INDIVIDUAL TAX BURDENS

Offsetting Social Security Tax Increase

Inflation has reduced the real disposable income of American workers both by diminishing their purchasing power and increasing their tax burdens. But general tax

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cuts that result in a greatly expanded Federal deficit and reignite inflation are not of lasting benefit to Americans.

The Social Security tax increase scheduled to take effect in 1981 will increase tax burdens on individuals and retard the recovery of consumer purchases. While the revenues from that Social Security tax increase are necessary to assure the financial soundness of the Social Security System, the increased tax burden on workers is best offset by carefully targeted reductions in income taxes.

The President plans to accomplish this objective through a Social Security income tax credit for individuals to be proposed in January. It will be available to all individual taxpayers and will consist of a nonrefundable credit against Federal income taxes equal to 8 percent of the Social Security taxes paid. The credit will be in effect for two years beginning in 1981, thus allowing time in which to consider the broader issues of Social Security financing. The first year revenue cost is estimated at $6.2 billion.

Earned Income Tax Credit

The President will also propose liberalization of the present earned income tax credit in order to provide relief for nontaxable people with dependent children. Under current law, individuals with dependent children may claim a refundable earned income credit equal to 10 percent of the first $5,000 of earnings. The credit phases out as income increases from $6,000 to $10,000. The Administration will propose raising the credit from 10 percent to 12 percent, while increasing the phase-out to $7,000 to $11,000. The first year cost is estimated to be $900 million.

Reducing the Marriage Tax Penalty

The marriage penalty is another tax burden that needs to be addressed. Families with two wage earners may owe higher income taxes than would be the case if the spouses were unmarried individuals. The President will propose a tax deduction equal to 10 percent of the lower-earning spouse's earnings up to a limit of $30,000.

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The first year revenue cost is estimated at $4.7 million, rising to $8.9 billion in the fifth year.

ANTI-INFLATIONARY FISCAL AND INCOMES POLICIES

The acceleration in productivity growth that results from the measures proposed by the President will slow the rise in business costs and thereby lead to lower inflation. As the President's energy programs are carried out, the Nation's dependence on foreign oil and its vulnerability to inflationary external shocks will be reduced.

But these inflation-lowering consequences of the Administration's economic program will take effect gradually. And they are not sufficient, taken alone, to accomplish the tasks of preventing the reemergence of inflationary pressures and of steadily lowering the inflation rate.

Budget Policy: Measures to increase supply, raise productivity and improve our energy security must be undertaken within the framework of prudent and cautious budgetary policies. The Administration wants to speed recovery. It does not want, however, to risk a renewal of inflationary pressures and invite a resurgence of sharp increases in interest rates.

- That is why the President has insisted that a tax cut prior to the election is unacceptable. A tax bill, developed, debated and passed in a few weeks, during the heat of an election campaign, is certain to be incompatible, in both size and design, with anti-inflationary objectives.

- That is why the measures in this program have been rigorously screened to ensure that Federal spending is not increased by a dollar more than is needed to meet the Nation's goals for industrial modernization, energy security, and smoothing the path of economic adjustments.

- That is why the President strongly opposes proposals which have been made for a schedule of

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massive tax reductions in 1981 and subsequent years that would guarantee huge and inflationary budget deficits.

- That is why the President decided to propose reduction of tax burdens through a credit against social security payroll taxes, since this approach cuts employer payroll costs and thereby contributes to lower prices.

Taken together, the tax and spending measures recommended by the President will reduce revenues by some $27.5 billion in calendar year 1981 before taking into account the offsetting revenue gains from higher economic activity. This gross revenue loss would rise to an estimated $58 billion by 1985. In 1981, and even more strikingly in later years, the revenue losses from these tax measures are substantially less than those contained in other tax proposals which have been prominently mentioned in recent weeks and months. With the President's measures, outlays will be increased by about $2 billion in fiscal 1981 and by about the same amount in fiscal 1982.

Because the recommended program will increase economic activity and taxable income, the net loss of Federal revenues will be smaller than the numbers cited above. Some savings in unemployment compensation payments, and other outlays relative to the level of unemployment, will also occur. Moreover, the tax reductions and other programs will not become effective until the fiscal year is already well underway. As a consequence, the measures proposed in the President's overall program will increase the 1981 budget deficit by $6.0 to $7.5 billion.

Income Policies: Even with continued budget restraint, the rate of inflation is unlikely to come down sharply as the economic recovery proceeds. Budget and monetary policies need to be supplemented with other approaches to wage and price moderation. As noted earlier, the voluntary pay and price standards, which the President introduced in 1978, played an important role in moderating wage and price increases during a highly inflationary period. After several years of good service, however, it is questionable whether these standards could remain effective if simply extended indefinitely in their current form. The Administration will, therefore, be consulting during the remainder of this year with business, labor, and

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other groups to explore ways of achieving moderation in wage and price increases in 1981 and subsequent years.

CONCLUSION

The Administration's economic program for the 1980's is both responsible and dynamic. It builds on previous gains and addresses current problems. It establishes the basis for long-term growth that will both create permanent jobs and help contain inflation. At the same time, the Administration's program provides assistance for workers and communities facing serious transitional problems.

The effects of this program will begin to be realized in a relatively short time. About 500,000 jobs will be created by the end of 1981 and a total of 1,000,000 jobs by the end of 1982, in addition to those generated through normal economic recovery. And over the decade millions of jobs will be available to carry out the task of building our Nation's industrial might.

The Administration intends to seek legislative action on this program early next year. The proposed policies will help shape our Nation's economic progress for many years and deserve careful consideration by Congress. It would not be desirable to attempt to hurry legislative action in the short time remaining before the national election.

While the economic measures respond to some of our most pressing economic challenges, they are not intended as the final answer or to be all-inclusive. Economic policy must continue to meet new circumstances and deal with new issues.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

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STATEMENT OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE BUDGET COMMITTEE

SEPTEMBER 9, 1980

Mr. Chairman and Members of the Committee:

Thank you for giving me the opportunity to discuss with you the economic revitalization program that has been proposed by the President. The program is the product of careful deliberation as well as consultation with the Congress and the public. Our economic problems are longstanding in nature and they will not be solved overnight. But this program represents an important step to healthy economic growth during the decade of the 1980's and beyond.

The President's program will help reinforce the imminent recovery from the current recession, the seventh in the postwar period. However, the program is not a traditional stimulus package, but rather is designed to help us meet the long-term challenges facing our economy.

The importance of following such a course is clear. Traditional stimulus programs have almost always been enacted too late in the business cycle; rather than cushioning the fall in the economy they have accelerated inflation during the ensuing recovery. Difficulties in forecasting the exact timing of economic change as well as the time needed for legislative changes have made this process almost inevitable.

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While the fall in national output in the second quarter of this year was very steep, a wide range of statistics suggests that most of the decline is now behind us and that this recession may be one of the shortest in history. Much of the current recession has been concentrated in the automobile and housing industries. Aided by falling interest rates, there are signs of recovery in both of these sectors. Consumer spending has also risen significantly in recent months. Manufactures' new orders have increased sharply after a period of decline. Labor markets are beginning to stabilize and the unemployment rate actually declined slightly in August. The index of leading economic indicators rose very sharply in the last two months.

While natural healing forces are building a base for recovery from this recession, inflation is still too high and many of the longer-term problems facing our economy must still be addressed.

The program the President announced on August 28 will address these problems and is a strong first step toward building an even more vital economy.

AN ECONOMIC PROGRAM FOR THE 1980's

The Administration's economic program for the 1980's will encompass comprehensive policies directed at our principal objectives:

- To reinforce recovery from the current recession and put people back to work in productive jobs.

- To revitalize American industry, working in partnership with business, labor and the public.

- To increase substantially the share of national output devoted to investment in order to create jobs, encourage innovation and improve productivity.

- To continue the war against inflation so the gains from industrial growth are not eroded.

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- To implement our national energy policy of reducing oil dependence so that more of our workers' dollars will stay at home.

- To maintain a sound and stable dollar which contributes to world economic and financial stability and growth.

INDUSTRIAL REVITALIZATION

Revitalizing American industry to provide even stronger growth in jobs and national income in the 1980's will require a new spirit of cooperation among business, labor and Government.

A great strength of the American economy is its primary reliance on the private enterprise system. The cumulative effect of millions of decisions by individuals and businesses within a competitive marketplace is by far the most effective and efficient way to provide for our Nation's needs and wants. However, private industry and workers in America face the challenge of unprecedented change.

The economic world of the 1980's is vastly more complex than that of the 1950's and the 1960's. We have become more heavily involved in international trade, and forces influencing the international competitiveness of our industries have taken on increased importance. The pace of technological change has accelerated, creating opportunities but necessitating adjustment. The character of American industry and the work skills it needs are changing. Actions of government at the Federal, State and local levels increasingly affect our industries.

The role of the Federal Government in seeking to revitalize American industry is primarily to create a climate which encourages private innovation and investment and creates permanent and productive private sector jobs. In present circumstances, because of the speed and scale of change in the Nation's industrial structure, Government must go further. It should also help smooth the adjustment process of communities and workers to avoid undue distress and hardship.

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Reducing Employer Payroll Taxes

Liberalized depreciation allowances and a partially refundable investment credit will reduce industry's capital costs and encourage investment. The Administration will also propose measures to reduce labor costs and further encourage employment. The Social Security tax increase for employers scheduled to take effect in 1981 is essential to maintaining the system's financial integrity, but it adds to labor costs and thus to inflation. This increase would be particularly burdensome on those businesses which rely more heavily on labor than on machinery.

The Social Security credit will be in effect for two years beginning in 1981. This will allow time to consider the broader issues of Social Security financing. The first year revenue cost is estimated at $6.6 billion.

Aiding Small Business: The Administration is particularly interested in small business because it is a prime source of innovation, provides a large share of the growth in jobs each year, and includes many minority

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entrepreneurs. Liberalized and simplified depreciation allowances and the refundable investment tax credit are of particular value to small business. In the past, the complexities and recordkeeping requirements of accelerated depreciation have effectively denied this incentive to many small businesses. The Administration's proposal greatly simplifies the depreciation system and substantially reduces recordkeeping requirements. The refundable investment tax credit will be beneficial to newly established companies during the start-up period when they have not yet generated taxable earnings. Since many small businesses rely more heavily on labor than machinery, the employer Social Security tax credit also will be particularly beneficial to them.

The Administration will also propose changes in the tax code that will allow new businesses to write-off most startup costs, and recommend liberalizing Subchapter S requirements to enable more investors to participate in new ventures. The Administration's support of the Regulatory Flexibility Act reflects its continued commitment to reduce regulatory burdens on businesses, and particularly on smaller companies.

Assistance to Distressed Areas

While private capital and its allocation through the marketplace is the basis of the Administration's revitalization program, more encouragement of private investment and public development capital is needed for industrial renewal in areas undergoing economic transition.

Increased Economic Development Funding: The Carter Administration has substantially increased government support for economic development. In FY 1980, overall economic development programs are funded at more than $3.5 billion, 70 percent above the level when the Administration came into office. This includes the Administration's new $675 million Urban Development Action Grant program to stimulate private investment in distressed areas. In addition, funding for programs to aid small business has almost doubled. Further, the Congress now has before it the Administration's proposal to increase the Economic Development Administration's program level from $600 million in FY 1980 to $1.7 billion in FY 1981. The Administration urges prompt enactment of the proposed EDA legislation.

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To enhance existing public efforts and meet expanded needs, next year the President will propose additional program levels of $1 billion for FY 1981 and $2 billion for FY 1982 for economic and industrial development programs.

Targeted Investment Tax Credit: As a supplement to ongoing programs designed to foster growth in economically distressed areas, the Administration will propose a special targeted investment tax credit of 10 percent for eligible investment projects in localities of high unemployment.

It is estimated that the revenue cost will be $200 million in the first year and an average of $800 million a year through 1985.

Investment in Energy Security

Continued progress in the energy area is an essential part of the Administration's economic program. Enormous investments in conservation and domestic energy production are required over the next decade to accomplish the reduction in oil imports so essential to our national and economic security. These investments will create hundreds of thousands of jobs domestically and will help protect the jobs of all Americans from future oil price shocks.

Through phased decontrol and the other measures already undertaken, America has reduced its oil imports by about 20% from their previous peak levels. Most importantly, this reduction has been the result primarily of increased conservation and use of domestic energy resources and not lower economic activity. The amount of energy required per unit of output has been substantially reduced.

Together with Congress, the Administration has provided for vastly increased funding for energy conservation and production since 1977. In addition to appropriations for the Synthetic Fuels Corporation, the 1980 budget provides about $5 billion for energy production and conservation, more than twice the level when the Administration took office.

Over the last four years, to stimulate production and conservation, Congress has approved tax credits which

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will provide $4 billion in benefits by the end of FY 1981. In addition, $20 billion (out of an ultimate $88 billion) in budgetary authority has been appropriated for the Synthetic Fuels Corporation to assist the private sector in creating a major new synthetic fuels industry. The goal is for synthetic fuels to supply about 2 million barrels of oil per day by 1992.

The 1981 budget provides for even greater funding for energy conservation and production. The Administration has proposed to the Congress a $10 billion program to help finance electric utility conversion from oil to coal or other fuels. This program will save an additional 500,000 barrels of oil per day by 1990.

The Congress also has before it our proposal to create an Energy Mobilization Board to help expedite the administrative process in establishing energy related facilities.

Both of these pending bills need to be enacted by Congress as soon as possible.

The Administration will propose in January an additional $1.2 billion over two years for energy conservation, including increased funding for the Solar and Energy Conservation Bank, conservation investments in Federally-owned public housing units, improvements in the efficiency of Federally-owned power plants, and weatherization of schools and hospitals and low-income housing units throughout the United States.

Research and Technological Development

Technological advance and innovation have accounted for much of the productivity growth in the United States in the past half century. They are essential elements of economic vitality.

In cooperation with Congress, the Carter Administration has increased obligations for research and development from $26.2 billion in FY 1978 to $35.4 billion in FY 1981. Basic research spending increased by about 35 percent in the same period, from $3.6 to $4.9 billion. In addition, the Administration has stimulated new research programs between industry and universities, encouraged Government-industry cooperation -- for example, in the

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automotive sector -- and has increased support of smaller high technology firms.

As part of the economic revitalization program, and beyond the fiscal proposals aimed at stimulating investment and innovation, the President will propose in January an additional $600 million in budget authority for fiscal years 1981 and 1982 to stimulate research and technological development. With this commitment, funds for basic research will grow in real terms by 3 percent per year.

Export Promotion

In the past ten years, the share of the American economy devoted to exports has almost doubled from 6.4 percent in 1970 to over 12 percent in the first half of 1980. Foreign markets have become increasingly important for American firms. When President Carter took office, exports of goods accounted for about 6.7 percent of GNP; this year they will account for about 9 percent. In dollar terms, exports of manufactured items have grown by 75 percent. This increase in exports has been an essential source of jobs and of revenues needed to pay for oil and other imports.

This Administration will continue to stress the growth of U.S. exports. To do this it has already increased support of the Export-Import Bank more than seven-fold over the last four years, and it has reorganized and combined the Government programs which support U.S. international trade.

In addition, the Administration has supported Export Trading Company legislation now in Congress that will encourage small and midsize business participation in export markets. In January, we will propose an amendment to the Internal Revenue Code to provide for an exclusion for income earned abroad in certain areas. This is designed to help improve the ability of U.S. firms to sell and service products abroad.

Developing Economic Infrastructure

Transportation: The ability to transport people and goods efficiently is essential to our economic, energy and national security objectives. Since the beginning of this Administration, Federal funding for transportation

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has increased by 96 percent. We must continue to make substantial investments in all areas of transportation. For example, Congress now has before it a five year program amounting to $25 billion for mass transit facilities, $6.1 billion for airports and the airway system, and $1.5 billion to assist in restructuring the Nation's railroad system, particularly in the Middle West. Improvements to the northeast rail corridor totalling $2.5 billion are already underway.

Our national highway system is an integral part of our transportation system and has been constructed over many years at great expense. Evidence is mounting, however, that more investment is needed to maintain this vital national asset. The 1981 budget contains $8.4 billion to complete and repair the Federal highway system, including $950 million for rehabilitation of bridges.

The Administration will propose a $600 million increase in FY 1981 transportation obligations to deal with additional needs of the highway system and other forms of transportation.

Coal: The United States has enormous deposits of coal, and there is a great opportunity to expand the use of this energy resource both at home and abroad. Coal will be an important new export product for the United States. Bottlenecks in our coal transportation system, particularly at seaports, however, are a serious impediment to expanding the use of this abundant natural resource.

Port facilities for coal exports need modernization and enlargement. While much of the investment will come from private sources, the Federal Government will play a role in deepening ship channels to accommodate larger and more efficient coal-carrying vessels. The President has asked the Army Corps of Engineers and other Federal agencies to expedite all aspects of their review of coal port projects.

Regulatory Reform

Health, safety and a clean environment are important national goals, just as are economic growth, stable prices, energy self-sufficiency, social justice and national security. Some of these goals conflict with one

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another, and all compete for resources. Choosing the policy that achieves the best balance among these conflicting and competing goals is a difficult task.

Regulatory reform is an important element in policies to promote healthy economic growth and to improve productivity. The President continues to call for passage of the Regulatory Reform Act and the Regulatory Flexibility Act.

Over the past three years, the Carter Administration has taken major steps in regulatory reform. We will build on that foundation and attempt to reduce still further the dead weight of unnecessary Government regulatory interference.

ASSISTANCE TO PEOPLE AND COMMUNITIES

The economic changes taking place around the world create special problems for many people and communities. The Federal Government must play a part in helping to ease the burden of adjustment for those affected adversely. The changes also provide increased opportunities. Government must facilitate the training, retraining and education of Americans for jobs in the industries of the 1980's.

Proposed Extension of Unemployment Benefits

Our unemployment compensation system is an essential form of assistance to workers who have lost their jobs. The President is proposing a temporary unemployment compensation program so that workers suffering long-term unemployment in this reccession will be eligible for benefit payments for an additional 13 weeks.

Human Resources

The more than 8 million jobs created during the Carter Administration -- the largest growth in employment over any similar period in our history -- are the product of both private and public initiative. Federal funding for employment and training has expanded from $6.3 billion

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when this Administration took office to about $10.4 billion in FY 1980. Federal spending for basic and vocational education expanded from $4.7 billion in 1976 to $7.3 billion in FY 1980. In 1981, the Vocational Education Act will be up for renewal. The Administration will be continuing a major effort to prepare our citizens for employment.

Adjustment and Training Programs: The Trade Adjustment Assistance Program provides benefits, job training and relocation to workers who have been adversely affected by imports. Currently, 310,000 auto workers are eligible for benefits in addition to 134,000 workers in other adversely affected industries. FY 1980 benefit outlays to date amount to about $1 billion.

The Administration is also working to devise better means of retraining and relocating workers displaced by industrial changes. The President has proposed broadening the Trade Adjustment Assistance Program to supplier industries to make sure that all workers receive its protection. A series of special demonstration projects, under the Department of Labor, will be launched to assess the merits of different methods for retraining and relocating displaced workers. One such project is already underway in Michigan.

The Administration has established two public services employment programs under CETA which now provide 400,000 jobs. Welfare reform demonstration projects in 12 sites around the country are enrolling welfare recipients in employment activities which will ultimately lead to another approximately 400,000 job opportunities. In addition, CETA presently spends over $2 billion on programs designed to prepare the disadvantaged for jobs.

The President will request an additional $300 million in FY 1981 for training under CETA to provide job opportunities for the disadvantaged and the unemployed. The program will be based on the experience of the present network of employment and training programs, but will require special efforts to identify jobs in emerging sectors of the economy.

The Administration recognizes the paramount importance of private sector permanent jobs and the essential role

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of the private sector in providing job training and employment. The Private Sector Initiative program, funded at $400 million during FY 1980, directly involves business and labor in training activities. Private Industry Councils, composed of a cross section of local communities, have been organized with virtually every CETA prime sponsor throughout the country. In addition, The Targeted Job Tax Credit provides incentives for private employers to hire economically disadvantaged persons. The goal this year is 215,000 job placements.

Youth Employment: Youth represent one of our most vital natural resources. Expenditures on youth training and employment have expanded from less than $2.5 billion in 1977 to over $4 billion today.

Young people must develop basic job skills to participate in the economy's growth. The President has proposed a $2 billion two-year youth initiative, pending before the Congress. The initiative draws together programs in the Departments of Labor and Education to assist disadvantaged youth in breaking free from idleness and poverty. The program needs to be enacted promptly.

Countercyclical Revenue Sharing

Because of the scale of change, some communities undergoing economic transition will require financial assistance to help maintain local services. Increased countercyclical revenue sharing will help assure that harmful temporary reductions in service levels do not take place. The Congress is considering countercyclical aid to cities and communities. The President will work with the Congress to enact a $1 billion countercyclical revenue sharing program for FY 1981.

REDUCING INDIVIDUAL TAX BURDENS

Offsetting Social Security Tax Increase

Inflation has reduced the real disposable income of American workers both by diminishing their purchasing power and increasing their tax burdens. But general tax

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cuts that result in a greatly expanded Federal deficit and reignite inflation are not of lasting benefit to Americans.

The Social Security tax increase scheduled to take effect in 1981 will increase tax burdens on individuals and retard the recovery of consumer purchases. While the revenues from that Social Security tax increase are necessary to assure the financial soundness of the Social Security System, the increased tax burden on workers is best offset by carefully targeted reductions in income taxes.

The President plans to accomplish this objective through a Social Security income tax credit for individuals to be proposed in January. It will be available to all individual taxpayers and will consist of a nonrefundable credit against Federal income taxes equal to 8 percent of the Social Security taxes paid. The credit will be in effect for two years beginning in 1981, thus allowing time in which to consider the broader issues of Social Security financing. The first year revenue cost is estimated at $6.2 billion.

Earned Income Tax Credit

The President will also propose liberalization of the present earned income tax credit in order to provide relief for nontaxable people with dependent children. Under current law, individuals with dependent children may claim a refundable earned income credit equal to 10 percent of the first $5,000 of earnings. The credit phases out as income increases from $6,000 to $10,000. The Administration will propose raising the credit from 10 percent to 12 percent, while increasing the phase-out to $7,000 to $11,000. The first year cost is estimated to be $900 million.

Reducing the Marriage Tax Penalty

The marriage penalty is another tax burden that needs to be addressed. Families with two wage earners may owe higher income taxes than would be the case if the spouses were unmarried individuals. The President will propose a tax deduction equal to 10 percent of the lower-earning spouse's earnings up to a limit of $30,000.

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The first year revenue cost is estimated at $4.7 million, rising to $8.9 billion in the fifth year.

ANTI-INFLATIONARY FISCAL AND INCOMES POLICIES

The acceleration in productivity growth that results from the measures proposed by the President will slow the rise in business costs and thereby lead to lower inflation. As the President's energy programs are carried out, the Nation's dependence on foreign oil and its vulnerability to inflationary external shocks will be reduced.

But these inflation-lowering consequences of the Administration's economic program will take effect gradually. And they are not sufficient, taken alone, to accomplish the tasks of preventing the reemergence of inflationary pressures and of steadily lowering the inflation rate.

Budget Policy: Measures to increase supply, raise productivity and improve our energy security must be undertaken within the framework of prudent and cautious budgetary policies. The Administration wants to speed recovery. It does not want, however, to risk a renewal of inflationary pressures and invite a resurgence of sharp increases in interest rates.

- That is why the President has insisted that a tax cut prior to the election is unacceptable. A tax bill, developed, debated and passed in a few weeks, during the heat of an election campaign, is certain to be incompatible, in both size and design, with anti-inflationary objectives.

- That is why the measures in this program have been rigorously screened to ensure that Federal spending is not increased by a dollar more than is needed to meet the Nation's goals for industrial modernization, energy security, and smoothing the path of economic adjustments.

- That is why the President strongly opposes proposals which have been made for a schedule of

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massive tax reductions in 1981 and subsequent years that would guarantee huge and inflationary budget deficits.

- That is why the President decided to propose reduction of tax burdens through a credit against social security payroll taxes, since this approach cuts employer payroll costs and thereby contributes to lower prices.

Taken together, the tax and spending measures recommended by the President will reduce revenues by some $27.5 billion in calendar year 1981 before taking into account the offsetting revenue gains from higher economic activity. This gross revenue loss would rise to an estimated $58 billion by 1985. In 1981, and even more strikingly in later years, the revenue losses from these tax measures are substantially less than those contained in other tax proposals which have been prominently mentioned in recent weeks and months. With the President's measures, outlays will be increased by about $2 billion in fiscal 1981 and by about the same amount in fiscal 1982.

Because the recommended program will increase economic activity and taxable income, the net loss of Federal revenues will be smaller than the numbers cited above. Some savings in unemployment compensation payments, and other outlays relative to the level of unemployment, will also occur. Moreover, the tax reductions and other programs will not become effective until the fiscal year is already well underway. As a consequence, the measures proposed in the President's overall program will increase the 1981 budget deficit by $6.0 to $7.5 billion.

Income Policies: Even with continued budget restraint, the rate of inflation is unlikely to come down sharply as the economic recovery proceeds. Budget and monetary policies need to be supplemented with other approaches to wage and price moderation. As noted earlier, the voluntary pay and price standards, which the President introduced in 1978, played an important role in moderating wage and price increases during a highly inflationary period. After several years of good service, however, it is questionable whether these standards could remain effective if simply extended indefinitely in their current form. The Administration will, therefore, be consulting during the remainder of this year with business, labor, and

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other groups to explore ways of achieving moderation in wage and price increases in 1981 and subsequent years.

CONCLUSION

The Administration's economic program for the 1980's is both responsible and dynamic. It builds on previous gains and addresses current problems. It establishes the basis for long-term growth that will both create permanent jobs and help contain inflation. At the same time, the Administration's program provides assistance for workers and communities facing serious transitional problems.

The effects of this program will begin to be realized in a relatively short time. About 500,000 jobs will be created by the end of 1981 and a total of 1,000,000 jobs by the end of 1982, in addition to those generated through normal economic recovery. And over the decade millions of jobs will be available to carry out the task of building our Nation's industrial might.

The Administration intends to seek legislative action on this program early next year. The proposed policies will help shape our Nation's economic progress for many years and deserve careful consideration by Congress. It would not be desirable to attempt to hurry legislative action in the short time remaining before the national election.

While the economic measures respond to some of our most pressing economic challenges, they are not intended as the final answer or to be all-inclusive. Economic policy must continue to meet new circumstances and deal with new issues.

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