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memo w/att	From Watson to The President (12 pp.) re: Nomination at the E.P.A./enclosed in Hutcheson to Watson 8/28/80	8/27/80	C
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ECONOMIC FUTURE

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This is a time of economic testing for our nation. Inflation has fallen sharply. The recession is near bottom and we will recover.

This is no time for an economic stimulus program nor for inflationary tax reductions. We must be responsible, and make careful investments in American productivity.

We can build in a progressive way a future in which America will be creative and will grow more vigorously than at any time since our first industrial revolution over 100 years ago.

According to a well-known proverb, "A journey of one thousand miles begins with a single step."

The steps I describe now will begin that journey toward a more productive, more competitive, and more prosperous American economy. They will put people back to work, reduce taxes, ~~and~~ increase public and private investment, *and* *constrain inflation.*

But such progress will be possible only if we regard the past not as a refuge in which to hide -- but as a treasury of lessons from which to learn.

Let us consider some of those lessons:

First -- we cannot treat just the symptoms of inflation and ignore the underlying causes.

Second -- inflation and recession augment each other.

Third -- the longer we ignore our decline in productivity, the more likely we are to live with hard times.

The fourth lesson -- and it may be most important of all -- is that if a solution is politically attractive, it is often economically wrong.

Now -- in the heat of an election year -- is not the time to seek votes with ill-considered tax cuts that would steal back in inflation the few dollars the average American taxpayer would get. America needs to build muscle, not add fat.

I will not accept a pre-election bill to cut taxes.

There are no simple or easy solutions to serious problems that build up over long periods of time. But there are responsible ways to create productive jobs without re-igniting inflation. There are responsible ways to restore our technological and competitive lead in the world. There are responsible ways to strengthen our economy enough to guarantee opportunity and security for every American.

The fundamental challenge to our economy in the 1980s is to create full employment, stable prices, and real growth, with jobs that attack our declining productivity and energy dependence -- the major causes of inflation and recession in the first place.

Our detailed program sets forth measures I will ask the Congress to enact next year. There are four major goals:

1. Increase private and public investment to revitalize America's economy.

2. Create a forward-looking partnership between government and the private sector to deal with those national problems that only cooperation can solve.
3. Help people and communities overcome the effects of industrial dislocation.
4. Help to offset rising individual tax burdens in ways that do not rekindle inflation.

My new proposals will add almost a half million jobs in the coming year and a total of one million jobs by the end of 1982. These are in addition to those which normal recovery and our other new programs will provide. We expect to add 2 percent growth to the GNP, increase real investment by 10 percent, and help to hold down inflation at the same time.

We must now build on the progress we have made in many vital areas. In the last 3½ years, we have added more than 8 million new workers to America's job rolls -- more than in any similar period of time in our history. Exports have grown

substantially. And with the 1981 budget we will have cut in half the real growth in federal spending.

We are reducing the anti-competitive regulation of the airlines, trucking, rail, banking, and communications industries. This is the most fundamental restructuring of the relationship between government and business since the New Deal.

Above all, after vigorous debate and painful political decisions, we have put in place a national energy policy that has already helped reduce our oil imports by 20 percent and has encouraged more drilling of oil and gas wells today than at any time in the past quarter of a century.

We must continue to build. Our task is nothing less than to revitalize America's economy. Increasing productivity is the foremost economic challenge of the 1980s.

From management, we need innovation, and more long-range planning. From labor, we must have more participation in

decisions, dedicated work, and the skills to take advantage of the most modern tools and technology. From government, we must have sound judgment and political courage. From all Americans there must be commitment and common sense.

We will meet the challenge of a more productive America as if our economic life depended on it -- because it does.

And this is how we will do it.

1. To increase private and public investment to revitalize America's economy:

The most important step we can take to revitalize American industry is to provide incentives for greater private investment.

We need a major increase in depreciation allowances to promote investment in modern plants and equipment, and a drastic simplification of the tax code so that small businesses can benefit from this change.

The investment tax credit is now of no help to new firms or to distressed industries which have no earnings and therefore no taxes.

Therefore, part of the investment tax credit must be refundable. This will provide immediate help to small businesses and to new industries -- an important source of both technological progress and employment. It will also be of special help to industries most in need of modernization -- such as those which produce steel and automobiles.

We will implement many of the recommendations of the White House Conference on Small Business.

To complement the benefits derived from tax changes for the private sector, we must also expand public investment -- especially in the crucial areas of energy, technology, transportation, and exports.

Our energy program already approved for the 1980s is the most massive peacetime undertaking in American history. Its impact will be immense -- ranging from the hundreds of thousands who will work in synthetic fuel plants to the millions of individuals who are weatherizing their homes, using solar power, or building our new fuel-efficient cars.

Since I took office, we have enacted tax credits and have more than doubled direct spending in order to stimulate energy production and conservation. In addition, we will create a vast new synthetic fuels industry, and we are seeking new authority to convert utilities from oil to coal. We need to add another \$1 billion for work on energy conservation projects that will help us to fight inflation and achieve energy security.

Technological advance has provided much of the productivity growth of the United States in this century,

and can create literally millions of jobs in the years ahead.

In addition to tax incentives for investment in the latest technology, I favor a substantial real growth in federal support of basic research, particularly in the research centers of our universities.

Mark Twain once said, "An American is a person who does things because they haven't been done before." The exciting possibilities for Americans in the 1980s range from lasers for surgery to super-alloys that never rust -- from exotic energy technologies to microchips that can make computers as common as radios and as compact as wristwatches. These advances in science and technology can well exceed anything our century has seen thus far.

Transportation is vital. The difference between a healthy transportation network and a broken-down highway or a dying railroad is the difference between jobs and joblessness

for thousands of people -- and between strength and weakness for our nation. My proposals for major improvements in mass transit, air transportation and railroad assistance programs are already pending before Congress. These should be enacted and funded without delay. I will propose a further increase of \$600 million for surface transportation programs. There is no more essential investment in America's future.

Exports, which accounted for about 6.5 percent of our GNP when I took office have now jumped to about 9 percent. This increase has been an essential source of jobs and we have a great potential for even more growth in jobs and exports in our vast reserves of coal. We must begin immediately to upgrade our transportation and port facilities for coal exports. Through tax modification and a new concept of export trading companies we will even further expand American exports.

2. To create a forward-looking partnership between government and the private sector to deal with those national problems that only cooperation can solve.

To help us revitalize American industry, business, labor, and government must form a new and vital partnership. We are all in this together, and the sooner we start acting like it, the better.

In some areas, such as national security, government must play the dominant role. But where government is involved in the economic sphere it will function best not as a boss but to assist or to cooperate with business and labor only as necessary. It can be done. We are cooperating properly with the coal, steel, and auto industries, as well as in many aspects of our energy program.

The time has now come to extend this experience in cooperation. I will establish an Economic Revitalization Board composed of some of the best leaders from American labor,

industry and the public. Co-chairmen will be Irving Shapiro, chief executive officer of DuPont, and Lane Kirkland, President of AFL-CIO.

I will ask that Board to develop specific recommendations for an industrial development authority to mobilize both public and private resources, including capital from private markets and pension funds, to help revitalize American industry in areas most affected by economic dislocation or industrial bottlenecks. The Board will also consider the integration of industrial development activities now carried out in various government agencies, and will address the long-range problems of balancing regulatory costs and benefits.

Any project receiving financial assistance must meet tough standards of economic viability. Only a commitment that promotes progress -- not obsolescence -- will be truly in the interests of business, labor, and the American people.

3. To help people and communities overcome the effects of industrial dislocation.

As we work together on the problems and intricate issues of economic renewal, we must never forget that we are talking about real people in real places. Change is inevitable if we are to grow. But as we cope with change, it is also my responsibility as President to safeguard communities that are a valuable part of our national life -- and the individual lives of the men, women, and children who are America.

That is the whole thrust of one of the most important programs of my Presidency -- economic development in distressed areas. A community cannot exist where there is no work.

We can be proud that direct government support for economic development has increased by nearly 40 percent in the past three years. We have instituted effective urban and rural programs to stimulate private investment in distressed areas. Funding for programs to promote small business has

more than doubled. The Congress now has before it my proposal for substantial increases in economic development financing.

But we must do more.

I will propose an additional annual increase in funding for economic development of \$1 billion for FY '81 and for FY '82 to create permanent jobs in industries and regions hard hit by industrial changes.

We also need a special targeted investment tax credit of \$1 billion a year to provide strong incentives for American businesses to invest and create jobs in areas threatened by economic decline.

These measures stimulate business, but when a community is in financial distress -- when it cannot maintain good police, fire, or sanitation services -- it loses both new and old industry. In order to help communities maintain the services

necessary to promote development, I will propose countercyclical revenue sharing at a level of \$1 billion in 1981.

My major new domestic program this year is a jobs and training program to help young Americans look forward to a future of hope, not a life of waste. This is the one action we can take now that will make a difference to the lives of a whole generation of Americans.

I am also asking the Congress now to provide 13 additional weeks of unemployment compensation for eligible workers in high unemployment states.

4. To help offset rising individual tax burdens in ways that do not rekindle inflation.

Tax burdens are scheduled to rise in ways that will both increase inflation and slow recovery. Therefore, I will ask Congress for three measures next year to deal with this problem.

-- To help offset the Social Security tax increases scheduled to take effect in 1981, a Social Security tax credit for employers and for workers.

-- In addition, the earned income tax credit, which helps low income families, to be expanded.

-- A special tax deduction to counter the inequity where a husband and wife who work typically pay more in taxes than two single individuals making the same amount.

* * *

All of these policies will be carried out within a responsible budget, so that we can simultaneously promote economic recovery and reduce the pressures of inflation.

To make still further progress, we will consult with business, labor, and other groups about how to improve our voluntary wage and price policies. Because inflation is such a stubborn problem, we must design future tax reductions --

earned by continued control of federal spending -- in ways that contribute to moderating wage and price increases.

* * *

For any nation's economy, the severe problems come in times of great change. For our nation, this is one of those times.

If we keep firmly to our path and attack our problems with courage and responsibility, the result will be an exciting future for our economy and our nation.

Let us not forget that this country of ours still has the most productive work force on earth. Our standard of living is the highest in the world. Our industrial base is the strongest in world history. We have the greatest human and physical resources of any nation on earth. But we cannot draw them down forever. We must renew these resources -- and we will.

We are embarking on a course to build a major synthetic fuels industry, to double our production and expand the export of coal, to retool our automobile industry to produce more fuel-efficient cars, to modernize our basic industries, to make our houses and buildings and factories more energy efficient, to shift our electric power generation from oil to coal and other fuels, to create a whole new industry to produce solar and other renewable energy systems, to rebuild our cities and towns, to continue progress toward a cleaner and healthier and safer environment, to expand and modernize our public transportation, to provide our workforce with skills and jobs, to ease the burdens of change, and to continue to build the homes and produce the goods and services needed by a growing America.

Our difficult struggle toward economic renewal will be waged in many ways -- but we are united in our purpose.

We will put Americans to work fighting the major long-term causes of inflation itself -- our declining productivity and our dependence on foreign oil.

We will fight for full employment, stable prices, and healthy growth.

We will overcome the problems of today by building for a better future -- a better life for all Americans.

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