

8/28/80 [4]

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1. Charlie Schultze
2. Secretary Miller
3. Stu Eizenstat
4. Fred Kahn
5. The Vice President
6. NSC
7. Secretary Marshall
8. Secretary Klutznick
9. Secretary Muskie - *Act Cooper*
10. Jim McIntyre

THE WHITE HOUSE
WASHINGTON

8/28/80

The President has asked that you review the attached speech and return your comments as soon as possible. This speech will be delivered at 2:00 PM. All comments should be returned no later than 12:00 NOON to my office. Please do not distribute this speech to anyone. Thanks.

Rick Hutcheson

EYES ONLY

THE WHITE HOUSE
WASHINGTON

Susan -

Final draft

~~July~~ done / 82

EPG masters

Type speech text

J

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THE WHITE HOUSE
WASHINGTON

EPD

(Core Group)

McIntyre
Schultze
Miller
Eizenstat

(Rest of Group)

Fred Kahn
The Vice President
Henry Owen for Dr. Brzezinski

(Other Members of the
Executive Committee)

Secretary Marshall
Secretary Klutznick
Dick Cooper for Secretary Muskie

In addition --
~~technically speaking All Members of
the Cabinet are members of the PEG
officially, but that group has never
met (and have not been involved in
evolution of remarks.)~~

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THE WHITE HOUSE
WASHINGTON

Revitalization with or entity
Semi-public corp. - use private/pub \$
Regional projects - depressed areas
Use loan guarantees, interest subsidies
Mobilize pension funds (\$600 bil)

Econ = \$2500 bil

Private bus invest = \$250 bil/yr

Must permit Δ

Limit role of corp

Make-up of board

Degree of independence

Autos/steel

Bail out failing firms

Pension funds being mismanaged

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THE WHITE HOUSE
WASHINGTON

Lane comments -

Marriage penalty - No. anomalous

3/80 CETA cut 13 B

No pressure for ind tax cuts

Counter cyclical - fairly good

R & D \$600M - ok - for business

EDA Reg des for Sm business

* Beef up programs -

(Bill says \$7 bil in 2 years)

Tax elements not very palatable

Acc dep doubtful benefit (Acoves
the board)

US > Japan, FRG

US 43% 15 year 73% 15-3 yrs

FRG 25 " 48 "

Japan 35 " 60 "

Labor can eat if total program ok

Ownership tax credits - no - debatable

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Rick Hutcheson

EYES ONLY

Move up goals

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Gordon Stewart
Draft A-1; 8/26/80
Scheduled Delivery:
Thur, Aug 28, 2 PM

cc Jody
Dino Hall

Economic Future

but also a time of opportunity

This is a time of economic testing [^] Inflation ^v has fallen
continues to be a serious problem but i
sharply. The recession is near bottom ~~and~~ we will recover.
but the signs are clear that

~~[This is also a time of opportunity]~~ If we choose, we can
build in a progressive way ~~to~~ a future in which America will
innovate and grow more vigorously than any time since our first
industrial revolution over 100 years ago.

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

The steps I am proposing today will put people back to work,
They will
reduce taxes, and increase public and private investment ~~in~~
~~America~~ *begin that journey toward a* ~~and do so in ways that will make our country~~ more
productive, more competitive, and more prosperous *American economy.*

2

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 only the symptoms of inflation and ignore their underlying causes. [~~Sending \$85 billion this year to pay for imported oil is a hemorrhage that must be stopped.~~]

Second -- inflation and recession breed more of each other.

[~~If we merely escape from one to the other we will remain forever a prisoner of both.~~]

Third -- the longer we ignore our decline in productivity [~~as statistics in the abstract~~], the ^{more likely we are to} [~~longer we will~~] live with hard times [~~in reality.~~]

The fourth lesson -- and it may be most important of all -- is that if a solution is politically attractive, it is often economically wrong. [~~To propose huge immediate tax cuts and massive~~ ^{their} ~~massive~~]

~~stimulation now would be like serving up a double helping of
dessert instead of the balanced diet America needs for real growth.~~

2/3

Now -- in the heat of an election year -- is not the time
to ^{buy} ~~[be appealing] for~~ votes with ^{ill considered} ~~[massive, across-the-board]~~ tax
cuts that will only rob back in inflation the few dollars the
^{average} ~~[average working]~~ American ^{taxpayer} would get. America needs to build
muscle, not add fat. I will not accept a pre-election tax cut.

~~[As President I have to consider carefully every responsible
economic proposal, and I know from experience] There are no simple,
easy, and appealing solutions to serious problems that have built
up over long periods of time. [If there were, good sense should
tell you they would have been done long ago.]~~

← But there are responsible ways to create real jobs without
re-igniting inflation. There are responsible ways to restore
our technological and competitive lead in the world. There are
responsible ways to ^{revitalize} ~~build~~ an economy strong 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.

~~[The fundamental answer is to get America working ~~in~~]~~ ^{with} jobs ^{with}

that attack our energy dependence and declining productivity --
the major causes of inflation and recession in the first place.

3
4

The Economic Paper and fact sheets we are releasing set
forth measures I will ask the Congress to enact next year.

There are two broad categories:

We will invest in revitalizing America's economy --
so we can produce more, sell more, and employ more.

We will help people and communities make economic
^{progress}
~~[change]~~ -- in ways that reduce rather than rekindle
inflation.

~~[If we take]~~ The actions I am recommending today ~~[the result]~~

^{add}
will ~~[be]~~ almost a half million jobs in the coming year and one

million jobs by the end of 1982. These are in addition to those

the normal recovery and our other new programs will provide. ~~Our~~

~~economic renewal program~~ ^{We} will add 2 per cent growth to the GNP,

for an overall advance of 8 per cent to 9 per cent over two years.

~~During the same time real investment~~ ^{We} ^{real investment} will increase [^] by 10 per cent.

~~more than it would rise without the program~~ And ~~since part of~~

~~the program involves a reduction in business costs~~ ^{actually} it will [^] help

^{hold down} to ~~moderate~~ inflation. 4 } 5

We must ^{build on} ~~sustain~~ the progress we have already made in many

vital areas. In the last 3 1/2 years, we have added ^{more than} 8 million

new men and women to America's job rolls -- more than at any other

such period of time in our history. The volume of America's

exports have grown by over 8 per cent a year. ~~We are gaining~~

~~control of federal spending~~ And with the new budget ^{we} will ^{have cut} ~~slow~~ ^{in half} ~~its~~ ^{the}

^{in federal spending [by one-half]} ~~real growth~~ ~~from 4 per cent to 2 per cent~~

We are ^{cutting} ~~reforming~~ the anti-competitive regulation of the

airlines, trucking, rail, banking, and communications industries.

More to p 1

American consumers

The reforms we have already made will save ¹more than \$10 billion *each*
~~[per]~~ year and cut 15 per cent from the burden of federal paperwork.

~~[Many regulations are essential to protect the public, so we will
continue to overhaul them carefully rule by rule.]~~

after rigorous debate & painful political decisions

Above all, ¹we have put in place ~~[the cornerstones of]~~ a
national energy policy that has already helped reduce our oil
imports by 20 per cent ~~[= and winning the fight for energy~~
and to ^{encourage} produce more drilling for of
oil and gas wells today than at any time in the past quarter of
~~security is half the battle for economic renewal]~~ *century.*

Now, ^{realize} ~~[for American workers to [regain] fully the promise of
personal economic security, [and for American industry to regain~~

~~a position of greater strength in international competition.]~~ *We must
build upon the ~~difficult~~ achievements of the past 3 yrs.*
~~must [also]~~ ^{that of} revitalize the productive roots of America's economy.

Our task is nothing less than ~~the~~ to
~~[Renewed] Productivity [growth]~~ is the economic frontier of the 1980s.

we will need
From management, ~~[this will require much]~~ more ~~[faith in]~~
innovation, and more long range planning. From labor, ^{we must have} ~~[it will~~
~~require]~~ more participation in decisions, dedicated work, and ~~the~~
*skills to take advantage of the most modern tools
and technology.*

~~[modern tools with which to do the job]~~ From government, ^{we must have} ~~[it~~
~~will require]~~ sound ^{judgment} ~~[policies]~~ and political courage. From all
 Americans ^{there must be commitment} ~~[it will require looking ahead]~~ and common sense.

~~[The 1980s will be a decade when the volume of needed~~
~~investment is greater than any other time in our history.]~~ We
 must meet ^{the challenge of a more productive America} ~~[that need just as we are meeting our energy needs]~~
 as if our national life depended on it -- because it does.

~~[Investment means greater productivity, so we can make more,
 sell more, and earn more. Investment means competing successfully
 around the world. Investment means more jobs. And that is what
 we are going to do -- invest in America -- in its industry,
 in its underlying structures, and in its people.]~~

I. Industrial Revitalization

First, business, labor, and government must ^{form a new and} ~~[stop fighting~~
^{rital partnership.} ~~with each other and start cooperating]~~ We are all in this

together, and the sooner we start acting like it, the better.

67

In some areas, such as national security, government ~~alone~~

must play the dominant role.

~~must be the leader.]~~ But in the economic sphere government

functions best not as a boss or a provider but as a partner

It can be done. We are doing it

with business and labor. ~~[We are proving this in our work]~~ with

the coal, steel, and auto industries, as well as in every aspect

of our energy program.

~~[Let us now move to replace conflict throughout our economy with a partnership for higher quality, greater productivity, lower costs, stronger competition, more rewarding work, and greater sharing of initiative.]~~

The time has now come to extend this experience
~~[To make sure that we take only the best paths to a~~
in partnership.

~~re-industrialized America]~~ I will establish an ~~low-high level~~

composed of

Industrial Revitalization Board ~~[drawn from]~~ the best minds ~~[in]~~ *from*

American labor, industry and the public.

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

deleg.

7 } 8

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

[Almost twenty years ago President John F. Kennedy said:

"Obsolescence is slowing down our growth, handicapping our productivity, and worsening our competitive position abroad.

Nothing can reverse our balance of payment deficit if American machinery and equipment cannot produce the newest products of the highest quality in the most efficient manner."

The measures Congress passed then increased productivity for many years. Today, it is time to act again. America cannot expect its workers to produce and compete with outmoded machinery, anymore than we can ask our military to defend us with obsolete weapons.] # I will propose a major increase in the

depreciation allowances to promote investment in modern plants and equipment, ~~[and I will propose]~~ ^{and} a drastic simplification of the tax code so that small business as well as ~~to create more production and more good jobs making the machinery large can benefit.~~ ~~we need to grow.]~~

for instance, that are new and innovative and

Tax reductions are not much help to firms, that have no

earnings and therefore no taxes. ~~[Yet many firms in the very~~
industries that most need to invest in new plants and equipment,
as well as many small and beginning businesses, are in precisely
~~this situation.]~~

Therefore, I ^{propose that} ~~[will recommend we take the major step of making]~~ part of
the investment tax credit ^{be} ~~[partially]~~ refundable. This will provide ^{will encourage innovation and modernization}
immediate help to industries most in need of modernization --
such as steel and automobiles. It will also be of special help ⁸ to ⁹
new growing firms and to small businesses -- an important source
of both technological progress and employment. ~~[This is not~~
the government trying to pick winners and losers -- it is the
government making the difference between a business being able
to ~~hire new workers or being forced to lay off current ones.]~~

^{We must also reduce} ~~increase employment and hold down inflation by~~
~~[I am also proposing measures to reduce]~~ the cost of hiring
^{To help offset}
workers. ^a The Social Security tax increase scheduled to take
effect in 1981 ~~[will be a special problem for businesses which~~

~~rely heavily on labor. To help offset this increase~~] I will
and for workers
propose a Social Security tax credit for employers, ~~and another~~
~~for workers.~~] Because it lowers costs, this step also helps us
fight inflation.]

~~[The revitalization of American industry will require a~~
~~dedicated partnership.]~~ To complement the efforts in the private
sector which the tax changes will help stimulate, we must also
increase public investment -- especially in the crucial areas
of energy, technology, transportation, and exports.

Our energy program 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 ~~[vast]~~ ~~[multi-billion dollar]~~ synthetic fuel plants to the
millions of individuals who are weatherizing ~~[their]~~ homes, ~~buying~~ *using*
[a] solar ~~[hot water heater]~~ *power*, or building our new fuel-efficient
cars.] (10)

9 } 10

Since I took office, we have more than doubled direct spending for energy production and conservation, ~~[to a total of some \$5 billion in 1980 alone.]~~ ~~[We have]~~ enacted \$4 billion in tax credits to stimulate energy production and conservation. In addition, we have appropriated \$20 billion to create a major new synthetic fuels industry, and we are seeking \$10 billion to convert utilities from oil to coal. ^{I propose that we} ~~[Today, I am proposing to]~~ add almost another \$1 billion for ^{labor-intensive} energy conservation, ~~needed~~.

Technological advance has ^{provided} ~~[been responsible for]~~ nearly half the productivity growth of the United States in this century, ^{and} ~~[it]~~ ^{in addition to} can create literally millions of jobs in the years ahead. ~~[My]~~ ^{incentive for} the tax ~~[program encourages industry to]~~ invest ^{ment} in ~~[applying]~~ the latest technology, ~~[and]~~ I am proposing ^{a substantial} ~~[to achieve]~~ ~~[3 per cent]~~ real growth in federal support of basic research.

Mark Twain once said, "An American is a person who does things because they haven't been done before." The exciting

19 } 1/11

10 } 11

possibilities for Americans in the 1980s range from lasers for surgery to bio-chemistry that makes metal alloys last forever -- from exotic energy technologies to microchips that will make computers as common as radios and as compact as

wristwatches. We ^{will create a partnership of} ~~will develop a greater partnership among~~

government, industry, and the universities ~~to ensure~~ that ~~will produce~~

will not occur ^{can well exceed}

~~the~~ advances ~~we make~~ in the next generation of American

~~science and technology will more than match~~ anything our

^{thus} century has seen ~~so~~ far.

see
p. 11
lines 5-8

^{is vital.}
Transportation ~~of people and goods -- quickly and cheaply --~~

~~is equally essential.~~ The difference between a broken-down

highway or a dying railroad ~~and~~ a healthy transportation network ~~and~~

is the difference between jobs and joblessness for thousands of

people -- and between ~~weakness and~~ strength ^{and} for our nation.

Administration proposals for major funding increases for mass transit, air transportation and railroad assistance programs are

already pending before Congress. These should be enacted and

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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.

11 } 12

We will conduct an interagency study to provide coordination of U.S. transport development during the next 10 year study ten years.

~~Exports are not just the homeruns and touchdowns of some statistical ball game -- in terms of what we can afford to buy abroad they are the ball game.~~ Exports accounted for about

6.5 per cent of our GNP when I took office; this year they will be about 9 per cent. This increase has been an essential source

we have a tremendous potential for even greater growth in

of jobs and ~~I will continue aggressively to support the growth~~

jobs and exports in our vast reserves of coal.

~~of U.S. exports~~ ~~For example~~ ~~a private and public partnership to~~

We must begin immediately to forge

upgrade port facilities for coal exports, ~~will help make American~~

our transportation and

~~coal a powerful economic force in the world~~

Page 12 of 21 draft, June 12

II. Helping Communities and People

As we work together on the massive problems and intricate issues of economic renewal, we must never forget that we are talking about real people in real places. There must be change

* STC WOULD ADD EXPORT TRADING COMPANIES AND TAX EXEMPTIONS FOR AMERICANS ABROAD.

12 } 13
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 behind one of the most important programs of my Presidency -- economic development in distressed areas. [~~That may sound like a distant federal program, but it is actually the center of a real community's life -- its stores, offices, factories.~~] People cannot live where there is no work.

We can be proud that direct government support for economic development has increased by nearly 40 per cent ^{in the past 3 years.} [~~since I took office~~] We have instituted ^{an effective} a \$675 million ^{a year} urban development action grant program to stimulate private investment in distressed areas. [~~In addition~~] Funding for programs to promote small business has more than doubled. The Congress now has before it my proposal

for more than \$1 billion in new economic development financing.

But we must do
~~[We are going to do still]~~ more. 13 | 14

I will propose additional economic development program levels of \$1 billion for FY '81 and \$2 billion for FY '82. ~~E~~

~~either through existing agencies or for a new Industrial~~

~~Development Authority]~~ With these funds, the Federal Government *and the new Industrial Development Authority*
~~[-- in partnership with private and state and local capital --]~~

will create new *permanent* ~~[productive]~~ jobs ~~[opportunities]~~ in industries and regions hard hit by industrial changes.

In addition

^ I will also propose a special targeted investment tax credit of \$1 billion a year *to provide American business - large and small - with strong incentives* ~~[for eligible investment projects]~~
to invest and create jobs in areas ~~[of high unemployment]~~ threatened by economic decline.

These measures, stimulate business to enter a community's life. But when a city or town 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 funding for countercyclical revenue sharing at a level of \$1 billion in 1981.

14 } 15

An exciting future of positive industrial change will create vast new opportunities for thousands of workers, but for many it will also mean learning new skills. We care about the way lives grow and change -- not just how industries do. We are increasing funding for employment and training, and support for basic and vocational education.

My major new domestic program this year is a \$2 billion *jobs and training program for American young people which was passed in the House this week* ~~youth initiative~~ *§* ~~now pending before the Congress~~ *✓* help *This program will* young people ~~[develop basic literacy and mathematical skills~~ ~~so they can]~~ look forward to a future of hope, not a life of waste. *We need this bill and I call on* ~~[Once again I urge]~~ all of you to help us pass this bill.

We must further expand

~~I am requesting an additional \$300 million to expand~~

resources for training and upgrading skills of workers,

particularly ~~[these who are]~~ ^{the} most disadvantaged. ~~[The Department~~

~~of Labor is mounting projects to design aid in retraining or~~

~~relocating workers in high unemployment areas.]~~

I am also transmitting -- now -- a legislative proposal

to the Congress which would provide additional 13 weeks of

unemployment compensation during the recession to ^{eligible} workers in

high unemployment states, ~~[who meet the job and need qualifications]~~

~~Since~~ ^{Since} ~~The Social Security tax increase will increase tax burdens -~~
~~particular by on middle income families~~
~~[on individuals, and thus help to keep consumers from aiding~~

~~economic growth, and] I will propose a Social Security income tax~~

~~credit.~~ In addition, the earned income tax credit, which helps

low income families, will be expanded. ¹⁵ ¹⁶

~~[There is another tax burden which also needs to be addressed,~~
~~and that is the so-called marriage penalty.]~~ Today families where

both husband and wife work typically pay more in taxes than two single individuals making the same amount. ~~This tax penalty on marriage is unfair~~ *and anti-family* We will offer a special tax deduction to counter that *inequity.* [~~penalty~~]

For any nation's economy, the roughest times are the times of great change. For our nation, this is one of those times.

~~[The question is not whether we can avoid this transition -- we cannot. The question is how we will emerge from it. The answer to that question will measure the maturity and vision of our people and leaders.]~~ If we can keep our eyes firmly on the future -- and meet our problems head-on -- the result will be *an exciting and beneficial* a true turning point for our economy and our nation.

Let us not forget 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 greatest ~~ever built~~ in world history. We have the greatest human and physical resources of any nation on earth. But we cannot draw on those resources forever. We must renew them -- and we will.

16 17

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 existing housing and buildings and factories more energy efficient, to shift our electric power generation from oil to coal and other fuels, to create a 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 and retain millions of jobs, to ease

the burdens of change, and to continue to build the houses and produce the goods and services needed by a growing America.

Our struggle
~~[In our progress] toward economic renewal (we will draw upon~~
our own great human and physical resources, upon fresh ideas
from all sectors of our society, and upon foreign experiences
both good and bad. There has been -- and will be --
~~consultation, controversy, and compromise. Our struggle]~~ will
be waged on many fronts, but we are united in our purpose. 17] 18

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 a future of full employment, of stable prices, and of healthy growth.

We will overcome the problems of today by building for a better future -- responsibly, aggressively, and together.

copies to Staff Secretary

7:45am

original returned per
instructions

cc Confidential to
Bill, Jim, Charle,
Stu.

Draft

Statement by the AFL-CIO Executive Council

on

Reindustrialization

4 see me for
noon lunch meeting
8/25 J.

August , 1980
Chicago, Illinois

(orig to me)

The future economic health of the nation requires a strong industrial base to produce the goods America needs and wants. What remains of America's industrial base is being buffeted by a variety of forces as the nation continues to slip closer to a service-dominated economy.

It is time for the government to take the lead in developing a new partnership with labor and business to help reestablish a growing, diversified and secure industrial economy.

The modernization of existing plant and equipment and the creation of new capacity are needed in many industries. This will require the combined efforts of labor, business and government to design and implement a comprehensive reindustrialization program. The effort must include a broad spectrum of industrial activities, so that America will have a diversified industrial capacity to meet its basic needs and to protect the security of the nation. To plan such a program will require the cooperation of the major economic forces in the country and to implement it will require large amounts of capital.

The AFL-CIO urges the creation of a tripartite National Reindustrialization Board, consisting of representatives of the government, labor and industry, which would recommend the priority and magnitude of reindustrialization to be undertaken in various industrial sectors and geographic regions, in light of the national economic and security interests.

The Board should have appropriate tripartite industrial and regional subcommittees to review the special needs of specific industries, as well as the particular problems faced by geographic regions.

The Board should review industrial development and the various factors affecting such development. The Board should seek to forestall shortages or bottlenecks that might have inflationary repercussions. In the process, the Board could also play an important role in reviewing inflationary forces that might be evidenced in the particular industrial sectors.

The Board should also be empowered to direct the activities of a Reindustrialization Financing Corporation (RFC), which would make or guarantee loans or participate in loans made by private lenders to finance reindustrialization projects approved by the Board.

The RFC should have access to both public and private funds to enhance its lending capability. Specific provision should be made for pension funds to invest part of their assets in the RFC. Pension investments should be guaranteed, however, as to their safety and return in order to meet the criteria established by the "prudent man" rule.

The RFC should invest in private and quasi-public ventures through direct loans, loan guarantees and below market rate financing, and should supplement and complement existing public investment programs in building and developing facilities that serve as industrial infrastructure and encourage development.

In addition to the funds appropriated by Congress, the RFC should also have the power to use tax policy as a tool for reindustrialization. This will require structuring business tax policy in terms of precise and planned goals by making the tax incentives more flexible and selective, rather than across-the-board.

For example, the RFC should have the authority to determine and allocate business tax incentives, such as investment tax credits and depreciation allowances, to particular firms on the basis of need and individual certificates of necessity.

Since the RFC should receive funds through the appropriations process and a specific tax allotment, the Congress would maintain oversight responsibility. Yet the expertise of public and private parties would be brought together to solve the nation's economic problems. At the same time, the experience in particular segments of industry could be monitored and evaluated.

While individuals and business will remain unfettered in terms of making their own business decisions, the granting of additional governmental funds and tax reductions will be based upon the general national interests.

Any reindustrialization policy must take account of the problem of plant closings. The devastating effects on workers and their communities from unannounced, sudden plant shutdowns and relocations should be eased by legislation that should require: advance notification, financial assistance to workers, and basic employee protections of transfer rights, relocation expenses, severance pay, continuation of pension and health care benefits and job retraining.

A reindustrialization program will require the cooperation and participation of everyone in society: taxpayers, through the government, would bear the burden of direct and indirect financial outlays; business would invest capital in needed expansion and modernization, and the pension funds of workers would also be used to invest in future economic health for the nation.

Only through true cooperative action, reflecting a balance of the interests of government, labor and industry, can the reindustrialization program objectives be achieved. The success of the program is vital for each of the interests concerned and for the nation as a whole.

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SUMMARY OF DECISIONS

	Approve	Disapprove
<u>Tax Components of the Program</u>		
A. Constant Rate Depreciation	✓	
B. Refundable Investment Tax Credit*		
30% Refundable	✓	
50% Refundable		✓
C. Targeted Investment Tax Credit	✓	
D. Credit for Social Security Taxes Paid	✓	
E. Liberalization of Earned Income Tax Credit	✓	
F. Reduction of Marriage Penalty *		
10% Exclusion Immediately	✓	
5% Exclusion 1982, 10% after 1981	✓	
G. Hardship Exclusion for Americans Working Abroad	✓	
<u>Spending Components of the Program</u>		
A. Investment in Economic Base		
1. Expansion of EDA* <i>Restrict int subsidy & leveraging</i>	✓	
2. Increased Funding for Scientific Research & Technological Development <i>Hype up language</i>	✓	
3. Increased Federal Highway Obligation Level <i>Expand?</i>	✓	
B. Increased Funding for Energy Conservation	✓	
C. Human Resources		
1. Positive Adjustment Assistance Demonstration Project	✓	
2. Industry/Government Cooperative Proj.	✓	
3. Federal Supplemental Benefits* <i>No forgiveness of trust fund debt</i>	✓	
4. CETA Title II-B/C (Training)* <i>m=Intype see me</i>	✓	
5. CETA Title VII (Private Sector Init.)*		✓
6. CETA Title IV (Youth Programs)*		✓

Approve

Disapprove

D. Countercyclical Revenue Sharing

\$500 million level

\$1 billion level

✓

Industrial Revitalization Board

✓

*Expand
Cautiously a la Kirkland
Consult re
language/commitment*

* These items in disagreement

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CLS
 Note revision.
 This portion is
 only that managed
 by banks, etc. The portion
 with Life Insurance Cos is
 listed below.

Pension and Retirement Funds
 (\$ Billions)

Private Pension Funds	Net Change				Outstanding 1979
	1976	1977	1978	1979	
Bank Deposits & Currency	--	2.6	5.6	-1.3	10.6
Corporate Equity	7.3	4.5	5.3	13.1	136.4
U.S. Gov't Securities	3.9	5.4	2.1	2.8	25.4
Corporate Bonds	-.3	5.4	5.9	5.7	55.2
Mortgages	--	.4	.6	.5	3.5
Miscellaneous	.2	-.5	.1	.4	5.8
Total	11.2	17.8	19.6	21.2	236.9

Life Ins. 15.3 13.9 19.5 19.7 } 139.8 } 375

State & Local Gov't Funds	Net Change				Outstanding 1979
	1976	1977	1978	1979	
Bank Deposits & Currency	--	.3	1.1	1.3	3.7
Corporate Equity	3.1	3.7	2.7	4.5	43.6
U.S. Gov't Securities	3.1	5.6	6.4	7.5	32.1
Corporate Bonds	5.3	5.6	8.6	5.7	86.2
Mortgages	.2	.5	.7	.7	9.4
State & Local Oblig.	1.4	.2	.4	--	4.0
Total	13.1	15.9	19.9	19.7	179.0

Source: Flow of Funds estimates from SEC and Census surveys.

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THE WHITE HOUSE
WASHINGTON

8-24-80

Summary of Kirkland Comments:

- a) Marriage penalty reduction. anomaly
- b) CETA. Cut \$13 B.1 2800, needs increase
- c) No pressure from ~~members~~ for indiv. tax cuts - (exceptions - Gaphant)
- d) Countercyclical. fairly good
- e) R & D boom. ok - for business
- f) EDA. Regional. ~~hand~~ out to business
- g) Need to beef ~~up~~ programs above \$7 bil in 2 years
- h) Tax elements not palatable. too much for business. Accel. depre. in US greater than Japan or FRG
- i) Labor can eat ~~of~~ total package o.k.
- j) Overseas tax credits. debatable value
- k) Strongly desires Revitalization Auth
Need to expand safe use of pension \$
Not designed to prop up obsolescence.
Limit scope to industrial development, but
incl plant closing & depressed area impact
- l) See AFL-CIO Statement

①

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

August 24, 1980

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MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze *CLS*

Subject: Your meeting with Lane Kirkland
and the proposed "RFC"

You asked for a few lines on this subject.

I. What Lane wants

I have only heard Lane describe his ideas once several months ago, and so I may not have the latest version. I don't think he has yet gone beyond a very general concept to the specifics. But essentially he would like something with the following characteristics:

1. A semi-public corporation which can mobilize private funds (probably through loan guarantees and interest subsidies) for "socially desirable investments".
2. Among other things, the socially desirable investments would involve regional projects to restore specific areas, and assistance to important industries that are having difficulties. There might be other objectives.
3. Presumably such a corporation would need only modest budget support as backup for its loan guarantees and perhaps for interest subsidies. A large volume of investment could be influenced at relatively small budget cost.
4. Very importantly, he sees this as a way to mobilize the pension funds controlled or influenced by unions for investments in "socially desirable" ways. Right now there is no way these funds can be "prudently" invested outside the normal commercial ventures.
5. I think Lane contemplates that there would be some union representation on the board of directors of the new corporation. I am sure he sees this as a means by which the AFL-CIO could have an important voice in directing the flow of investment and resources in the nation.

II. What are the dangers in this approach

1. Economic problems Private business investment in plant and equipment now runs at about \$270 billion a year. It is the engine of change for a \$2-1/2 trillion economy. Growth of productivity and living standards necessarily means change. New industries wax and old ones wane. Poor regions begin to blossom and grow faster than older richer ones.

Change is painful. We have programs to ease its burden. We can improve and give them more resources. But the more we try to stop change, the more we try to protect existing locations, industries, and wage scales against the winds of change the more we frustrate the very goal we now seek -- a revitalized American industry.

2. Political problems. If we set up a new semi-public institution that can mobilize and direct the use of large amounts of private capital, we run into a major dilemma.

A. If the new institution is closely controlled by the Executive Branch, its decisions necessarily become subject to all kinds of political pressures, especially from the Congress. National investment decisions are then continually subject to the same kinds of pressures that made it impossible to run the Post Office efficiently when it was a Cabinet agency and that still make it terribly difficult to close or shrink obsolete military bases.

The British, French and Italians suffer terribly from this problem. The French, in particular, are trying to get the government out of such a large role in investment decisions.

B. On the other hand, if we give the new institution the ability to mobilize and subsidize large amounts of investments for "social purposes" and make it autonomous, we will have created a potential monster out of control.

III. What is the problem that needs to be solved

The U. S. has been suffering from a widespread slowdown of productivity growth. But up until the current recession began -- whose effects will be temporary -- there was no evidence that we needed a new and vastly enlarged federal role in channeling investment among industries or locations.

1. With two exceptions individual American industries had not suddenly turned into problem children.

- one exception is autos which faces a large rise in gasoline prices and change in consumer preferences; a new RFC would be no real help.
- another exception is steel, which has a serious problem of world overcapacity. Up until the recession this problem in Europe was worse than in the U. S.; a new source of capital would help, but our tax proposals do that.

We don't need a new institution to deal with these problems.

2. There is no evidence that the long standing and gradual shift in the relative industrial strengths of various regions in the country has been speeding up.

- The proportion of the nation's manufacturing work force located in New England, the new alliance and the Mid-West has been gradually declining for 30 years, but this pace has not speeded up.
- The absolute number of manufacturing jobs in the Northeast rose between 1976 and 1979 after a ten year decline.

IV. Some points to make and questions to ask

1. What kinds of investments for what purposes does Lane expect the new RFC to make?

- o Investing in the development of depressed areas or helping them adjust to sudden plant closings? (If so, no problem, so long as the magnitudes are modest)
- o Keeping open plants that are likely to close? (Once in a while this makes sense. But on a large scale and over long periods of time it would seriously erode the growth of productivity)
- o Helping to bail out failing firms? (Again, once in a while under stringent conditions, O.K. But once we set up a body with power to do this, we invite clientele. EDA, in effect now does this on a limited scale for smaller firms; large cases ought to follow the Chrysler example -- go through Congress on a case by case basis).

- o Picking the winners -- subsidizing capital for promising firms or techniques? (Why should the government or a government appointed board be smarter at picking winners than the thousands of independent forces in the private market?)

2. Does Lane see this new corporation ultimately as mobilizing very large amounts of capital and engaging in many social functions, or does he see it as a limited tool to be used only in critical situations?

3. What should be the composition of the Committee or Commission to make recommendations to you about the new RFC?

- o I strongly urge that you not commit a Commission made up principally from business and labor with only a few public members. Too often, -- in my somewhat cynical view -- large business and large labor combine to screw the public.
- o The Commission, of course, should have business and labor membership, but should be heavily salted with public citizens with no particular axe to grind.
- o A Tripartite committee is great for many purposes, but a 1/3, 1/3, 1/3 makeup of this Commission is probably not a good idea.

4. Does Lane envisage the new institution, once created as being fairly independent, -- like TVA?

- o I'm torn on this one, but on balance I think that we must keep control in the hands of the President.



THE SECRETARY OF COMMERCE
Washington, D.C. 20230

"Priority"

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August 24, 1980

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Suggestions for an Economic Program for the 1980's

As you make your final decisions on the components of a program to revitalize the American economy, let me make several suggestions that I believe will strengthen the overall package.

First, as it now stands the package is too oriented toward tax cuts for business relative to improving the utilization of our human resources. A recession is the time to invest in education and retraining so that the unemployed have the proper skills to participate in the economy during the recovery. Therefore, I support the Domestic Policy Staff and Department of Labor recommendations on human capital. In particular, I recommend that we move ahead with the demonstration projects for positive adjustment, with a commitment toward a major positive adjustment program, as well as the \$300 million for CETA Title II - B/C to provide retraining that focuses on skill shortages in areas of anticipated long-term job expansion. The industrial and regional adjustment challenges we face now, and will face through the decade of the 1980's, will depend upon human capital just as much as physical capital.

Second, and related to the first point, the present set of proposals gives no attention to either minority business development or minority employment. Although there will be important indirect effects from some of the proposed measures, I believe there should be a conscious effort, in the public pronouncements on this program, to show that it addresses minority concerns. This can be done by: a) providing a set-aside for minorities in the enlarged EDA adjustment program; b) explicitly indicating that the small business innovation research program applies to minorities; c) approving the additional job training measures recommended by DPS/DOL; and d) acknowledging the important role minority business leaders can play in expanding exports.

Third, I cannot emphasize too strongly how important it is to stress the crucial role of technology and innovation in revitalizing the economy. I understand that final decisions on specifics in this area will be made in the budget process, following your announcement that \$600 million more will be allocated in fiscal years 1981 and 1982. I urge you to talk about some of the specifics we are considering, however, so that people get a sense of where and how the government will invest its money.

In particular, the Department of Commerce has proposed the creation of a National Center for Productivity Technology at the National Bureau of Standards in Gaithersburg, Maryland. The Center will initially focus on improving the application of technology in the areas of automated parts

manufacturing and assembly, material processing and substitution, and improving construction technology. Together, these three activities will impact on industries that account for about half of our total GNP. Through such efforts, the Center will provide the environment and investment necessary to enable businesses, universities, and governments to apply ideas that will project industries and methods beyond modernization to a new generation of world technological leadership.

Fourth, while the proposal to exclude income earned abroad is to be welcomed, basing it entirely upon hardships confuses equity considerations with marketing and international relations needs. We need U.S. citizens throughout the world to market our products, but even more importantly, to provide a U.S. commercial and cultural presence abroad. The effect of the proposal before you is to exclude major areas of important trade relations, including all of the OECD countries. This will reduce our ability to maintain the necessary presence in these countries.

One of the simplest means for broadening the proposal would be to increase the amount of the exclusion to about \$35,000 and to augment this by additional exclusions related to the hardship adjustments allowed by the Department of State for Foreign Service Officers. At the very least, we ought to be sure that the OECD countries are not excluded from measures to maintain Americans abroad to work on expanding exports. The revenue cost of a broader policy is modest (approximately \$200 million); it will allow us to place the people abroad we need to expand exports; and, it will be seen as a credible action by the business community.

Fifth, I support the recommendations that have been made for expanding EDA's authority and capability to address industrial and regional adjustment. For this to be successful, however, we need to resolve the deadlock that persists between House and Senate conferees on EDA legislation. Working with Stuart Eizenstat and Vice President Mondale, we will be meeting with the Public Works Conferees early next week, and I believe it is essential for you to drop by this meeting to encourage prompt action.

Sixth, while I support the Constant Rate Depreciation proposal, I believe that it could be made more appealing to business if it was further simplified. The present proposal of approximately 30 asset guideline classes is still too complicated. Many of the classes of assets specialized to a particular industry could be reduced further by combining categories with nearly equal constant depreciation rates. I believe the number of categories can be reduced to about 15, without distorting the Treasury approach, and providing enough simplification to be fully competitive to 10-5-3 and the Senate depreciation proposals. I urge you to indicate that the Administration depreciation proposal will have no more than 30 asset categories, allowing time for Commerce to work with Treasury in an effort to further simplify the proposal.

Finally, let me express some symbolic concern about the so-called Industrial Revitalization Board. Even though the mandate for this Board is quite general, and has private participation, I fear that some critics will say it reflects unnecessary intervention in the economy. By simply renaming the proposed institution--The Industrial Productivity Board--we would effectively short-circuit such criticism.

(SIGNED) PHILIP M. KLUTZNICK

Secretary of Commerce

WHITE PAPER

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C

ECONOMIC GROWTH FOR THE 1980's

All Americans share a common commitment to achieve our Nation's economic goals of full employment, price stability and balanced growth.

Progress in achieving these goals has been impaired over the last decade by inflation, the energy crisis and declining productivity growth.

These economic difficulties did not develop overnight. Their roots go back a long time. Resolving these problems has and will continue to be the focus of economic policy.

Earlier this year, the President announced strong measures to quell inflationary expectations and suppress inflation. These measures have been effective: Inflationary expectations have been reduced, interest rates have fallen, and once again, we are beginning to make progress against inflation.

High inflation has inevitably led to some slowdown in the economy and increased unemployment. However, evidence has begun to accumulate that the economy is stabilizing and the base for recovery is being established. To enhance this recovery and insure long-term non-inflationary economic growth, the President is taking new steps to revitalize American industry, promote the full and productive use of our workers and cut taxes selectively to increase real incomes.

This is not the first strengthening of our economic policies, nor will it be the last. Economic policy must be dynamic and able to adjust to changing circumstances but always directed toward reducing inflation and stimulating private sector employment.

NOTE: Embargoed for release until 2:00 p.m., August 28, 1980

The program announced today will create about 500,000 more jobs by the end of 1981 and a total of 1,000,000 more jobs by the end of 1982, in addition to the gains in employment that will result from the economic recovery. Most importantly these employment gains will be generated without reigniting inflation. The great strength of the American economy is in its reliance on the free enterprise system. This program builds on that strength by encouraging productivity and efficiency.

ECONOMIC BACKGROUND

The Post War Era, 1945-1965

For twenty years after World War II, the United States economy was characterized by adequate industrial capacity, a relatively slow growth of the work force, steady increases in capital investment per worker, increasing productivity and low inflation rates.

Although the economy experienced four recessions during this twenty-year period, overall growth was healthy, and real incomes improved.

Transition Period, 1966-1976

By the mid-60's, post-war reconstruction had been completed and the world economy entered a new period. Other industrial nations emerged as economic powers and began to play a larger role in world commerce.

In the United States, there was a faster growth of the work force, lower rates of increase in capital investment per worker, lower productivity growth and higher inflation rates. Midway through this period, the United States trade surpluses turned into deficits, and shortly thereafter the dollar was devalued.

The adverse trends were exacerbated by the Viet Nam War and by the initial explosion of world oil prices.

ADMINISTRATION ECONOMIC POLICIES

New Directions, 1977-1980

When the Carter Administration came to office, America faced an agenda of unsolved economic problems. The Administration began to chart new directions for the economy to address the basic causes of our difficulties and to provide the base for a resurgence of economic vitality.

Overall Economic Policy

One of the first objectives was to provide employment for a growing work force. A policy of economic growth opened up new opportunities. In three and a half years, over eight million jobs were created -- more than in any similar period of time in our history. And a higher percentage of adult Americans were able to work than ever before.

Fiscal policy played an important role in promoting the expansion of output and employment from 1977 onward. Tax legislation enacted in the spring of 1977 served both to reduce tax burdens and to simplify tax laws. At the same time, the Carter Administration undertook to restore fiscal responsibility by restraining government spending while maintaining our historic human and social values.

There has been substantial progress, particularly if the Congress adopts the proposed Fiscal Year 1981 budget. Including the 1981 budget, real Federal expenditures for President Carter's term will have grown at an average rate of less than 2% a year, only about one-half as fast as the Gross National Product.

Disciplined fiscal and monetary policies are powerful weapons to attack the underlying causes of inflation. These policies operate with some lag, however, and it is clear that they need to be supplemented with other measures.

For this reason, the Administration established a voluntary program to moderate pay and price increases. The program has received widespread cooperation from both business and labor. As a consequence, inflation is estimated to be 1 to 1-1/2 percent lower than it would otherwise have been.

Considerable progress has also been made in the international economic area. A sound and stable dollar is essential to achieving price stability in our domestic economy. A declining dollar increases the prices Americans pay for necessary imports and otherwise contributes to higher prices here at home.

The value of the dollar is adversely affected by deficits in our balance of payments. Large deficits developed primarily because of the enormous increase in our Nation's oil import bill.

The Carter Administration has pursued policies to bring our international accounts into balance. Compared with 1976, the dollar value of exports this year are up 91%. Agricultural exports have increased by 66% and nonagricultural exports by 96%. Large balance of payments deficits in earlier years were brought into equilibrium in 1979, and the outlook continues favorable.

The Administration also dealt forcefully with unwarranted exchange markets pressures on the dollar. Strong measures were introduced on November 1, 1978 and have been maintained since that time. The value of the dollar in relation to other international currencies has been strengthened. On a trade weighted basis, the dollar is now 6% higher than it was when the November 1978 program was initiated.

The Administration is actively pursuing policies of structural improvements to make the economy more efficient. Regulations which serve only to reduce competition or to mandate arbitrary and costly practices are being eliminated. There has been significant deregulation or regulatory reform in transportation -- airlines, trucking, and rail -- in the banking and thrift industries and in communications. In addition, necessary health, safety and environmental regulations have been made more cost-effective in order to harmonize important social goals with economic growth, energy self-sufficiency and stable prices.

National Energy Policy

During its first hundred years, the United States built its economy using renewable sources of energy: Wood, wind and water. During its second century, there

was a shift to fossil fuels and increasingly to the use of oil.

Abundant and inexpensive sources of domestic oil and gas and coal made it possible for America to build the world's strongest economy and the world's highest standard of living. Inexpensive energy was often employed instead of additional capital or labor.

By the 1970's, however, the limitations of domestic supply at low prices and rising world energy demands set up conditions for a dramatic increase in energy prices.

The more than ten-fold increase in world oil prices since 1970 has come in two major waves: The first in 1973-74 following the oil embargo and the second in 1979-80 following the upheaval in Iran. Each time the oil price shock had a serious adverse impact on the world's economy -- accelerating inflation, reducing output and increasing unemployment.

U.S. demand for oil grew over the years while domestic supplies receded. Artificial control over domestic oil and gas prices discouraged production, encouraged consumption and resulted in increased imports at higher and higher costs. In 1970, the United States paid \$3 billion for imported oil. By 1979, the Nation's oil import bill had sky-rocketed to \$60 billion. This year Americans will pay \$85 billion for less oil. Our oil import bill has doubled in the last two years, increased five-fold over the last seven years and fifty-fold over the last twenty years.

One of the most demanding challenges President Carter faced on assuming office was to forge a national energy policy. It was exceptionally difficult to do so because of the divergent views and interests within the United States. Some regions are producers, others consumers. Some areas can be supplied with domestic energy, while others depend upon imports.

Working with the Congress and the public, the President was able to develop for the first time a comprehensive national energy policy to deal with the threat to our society from excessive dependence on foreign oil -- an accomplishment that had eluded previous administrations.

There are two basic and closely-related objectives of our national energy policy: First, through conserving

the use of energy, to adjust our economy efficiently and with the least possible disruption to a world of substantially higher energy prices; and second, to reduce our dangerous dependence on imported oil by increasing domestic oil production and shifting to other energy sources.

It was first necessary to accept the reality that inexpensive energy is no longer available. Moving toward the pricing of energy at its replacement value has helped establish conditions for both greater conservation and greater domestic production.

The priorities for our national energy policy are clear.

First, greater conservation, the surest, cheapest and cleanest way to reduce our dependence on imported oil.

Second, increasing the development and use of conventional domestic sources of energy.

Third, expedited development of unconventional domestic energy sources, such as synthetic fuels from coal and shale and unconventional natural gas to assure longer term supplies.

Fourth, increasing the use of renewable energy sources, such as solar, alcohol, biomass, wind and wood.

The United States has also exercised leadership among major oil importing industrial countries to coordinate policies for energy conservation, development of alternate sources and the fair sharing of limited supplies. Important commitments were made at the recent Summit Meeting in Venice to accomplish these purposes.

Already substantial progress has been realized. Oil imports in 1980 are running almost 20% below their peak in 1977. U.S. production of oil has increased, arresting the long-term decline in output. The energy required for economic growth has been substantially reduced, so that we can now plan for future growth with lower energy requirements.

The Congress now has before it legislation creating the Energy Mobilization Board and providing programs for shifting electric power generation from oil to coal or other energy sources. This crucial legislation will complete this stage of the Administration's program for national energy security.

The accomplishments in three years are encouraging. The task now is to implement the national energy policy during the 1980's.

RECENT DEVELOPMENTS

Until the recession, there was excellent progress in terms of jobs and output. Inflation remained too high, but the Nation had a program to reduce inflation while still maintaining a healthy pace of economic activity.

Progress was abruptly interrupted as the world experienced a new oil price shock of enormous magnitude. Oil prices more than doubled in 1979, and price increases continued into 1980.

The oil price shock both exacerbated inflation and reduced purchasing power, depressing economic activity.

In early 1980, there was a surge in inflation and inflationary expectations, aggravated by the uncertainty over the future level of defense spending resulting from the Soviet invasion of Afghanistan. There was a wave of anticipatory borrowing and spending which upset financial markets and drove U.S interest rates to historic highs. Speculation was excessive. There was a threat of serious economic damage.

To deal with this situation, President Carter announced intensified anti-inflation measures on March 14. Based on extensive consultations with Congressional leadership, the Fiscal Year 1981 budget was revised to reduce Government spending further. A program of selective credit restraints was introduced for a temporary period.

The President's firm actions met the challenge. There was a cooling of inflationary expectations. Interest rates fell steeply and inflation rates dropped. However, there was no way to avoid some period of recession. Output is now lower and unemployment higher than can be accepted.

The current recession is the seventh since World War II. It has resulted in automatic increases in Federal expenditures to compensate for unemployment and in lower Federal tax revenues because of lower incomes. This has cushioned the downturn.

The economy shows signs of stabilizing and there are prospects for an upturn within the next several months. Automobile sales and housing starts have begun to improve. Lower interest rates and lower inflation rates are helping form a base for recovery. Without further policy measures, however, recovery is likely to be too slow and unemployment remain too high. Moreover, a number of longer term problems -- inflation, energy security, and modernization and revitalization of American industry -- still need to be resolved.

AN ECONOMIC PROGRAM FOR THE 1980's

During its first years, the Carter Administration has addressed the fundamental economic issues and has built a solid base for long-term economic progress. The foundation has been established for revitalizing the American economy.

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.
- ° 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.

I. INDUSTRIAL REVITALIZATION

"We will encourage private investment and expand public investment to revitalize America's economy -- so we can produce more, export more, invent more, and employ more.

"We will create a forward-looking partnership among Government, the private sector and the public to deal with those national problems that only cooperation can solve."

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.

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 President's 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 Board's recommendations will include the authority's form of organization, responsibilities, activities and funding levels. The Board will also consider the extent to which relevant economic development activities now carried out within various government agencies should be encompassed within the new authority.

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 decades.

- 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.

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 charges a business may deduct from its income to recapture its capital investment costs -- will be proposed for enactment next year, effective January 1, 1981. The 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, which permits business to recapture investment costs more rapidly.
- To increase the allowable depreciation rate approximately 40 percent.
- To allow roughly equal liberalization of depreciation for all assets, thus minimizing the distortions.

- ° To take effect immediately upon the specified effective date, thus avoiding complicated transition rules that could actually delay some investments.

The first year effect of the proposed Constant Rate Depreciation System would be to reduce tax revenues by an estimated \$6.3 billion, increasing to \$24.2 billion in the fifth year.

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

Since this investment incentive is a tax credit, it offers no current benefit to industries with a limited tax liability or none at all. Thus, it is of little immediate value to firms suffering temporary losses or reduced profits. It 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 carryforward as under present law.

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

Reducing Employer Payroll Taxes

The change in depreciation allowances 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 maintain the system's financial integrity, but it adds to labor costs and thus to inflation. This increase will 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 starting in 1981, during which time the broader issues of Social Security financing will be considered. The first year revenue cost is estimated to be \$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 entrepreneurs. The White House Conference on Small Business supplied a number of suggestions for encouraging small business development, which are part of the President's program.

Liberalized 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, simplifies and reduces the recordkeeping requirements for accelerated depreciation. The refundable investment tax credit will be beneficial to companies when they are beginning and have not yet generated taxable earnings. Many small businesses rely heavily on labor rather than machinery thus the employer Social Security tax credit will be particularly beneficial to them.

The Administration will also propose changes in the tax cut which will allow small business to write-off startup costs.

The Administration will also recommend liberalizing Subchapter S requirements to enable more investors to participate in new ventures, providing easier access to capital. The President's support of the Regulatory Flexibility Act endeavors to reduce the burden of regulation on smaller companies.

Assistance to Distressed Areas

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

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. One billion dollars would be authorized for this incentive in 1981 and each subsequent year. The incentive would be apportioned by the Commerce Department to eligible projects through "certificates of necessity." The targeted investment tax credit will be refundable to assure immediate benefits for qualified projects.

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 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. We have reduced substantially the amount of energy required to produce a unit of national output.

The Administration has provided for vastly increased funding for energy conservation and production since taking office. 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 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 should 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.

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

In late 1979, the President announced a series of measures to stimulate industrial innovation. To strengthen the patent system, the President called for legislation to allow contractors to obtain exclusive rights to patents arising from Federal sponsorship, to permit voluntary reexamination of issued patents and to bring uniformity and predictability to patent law by establishing a single court for patent litigation.

The President also included initiatives for enhancing the transfer of technical information, increasing technical knowledge, clarifying antitrust policy, improving the regulatory system and encouraging the development of small innovative firms. The proposals were a first step in fostering the Nation's competitive capability and entrepreneurial spirit in the decades ahead.

As part of the economic revitalization, and beyond the fiscal proposals which are 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 and a range of new projects will promote Government-university-industry cooperation. These will:

- ° Add substantially to graduate research laboratories and instructional equipment in the research universities and increase investment in existing basic research programs.
- ° Attract and retain gifted researchers and instructors in critical fields.
- ° Conduct cooperative university-industry instruction and research on key industrial policy problems.

The Administration will seek advice from university and business leaders as it shapes these programs.

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, the 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 will:

- ° Support Export Trading Company legislation now in Congress that will encourage small and midsize business participation in export markets.
- ° Propose a specific amendment to the Internal Revenue Code to provide for an exclusion for income earned abroad in certain areas. This will improve the ability of U.S. firm 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 has increased by 96 percent. The Administration will continue to make substantial investments in all areas of transportation. For example, Congress 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 also 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 as well as 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, are, however, a serious impediment to using 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 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 costs influence investment decisions in two ways. First, investment required solely to achieve compliance decreases the amount available to invest in equipment that would improve efficiency and increase productivity. Second, imposing the strictest regulatory requirements on the newest plants increases the relative cost of new plants per unit of output. It, therefore, tends to discourage companies from building new plants in favor of getting along with their existing plants.

Regulatory reform is, therefore, 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 and for review of all basic regulatory statutes for possible amendments to improve the cost benefit relationships.

Over the past three years, the Carter Administration has taken major steps in regulatory reform:

- ° No Administration has done more to remove unneeded and counterproductive economic regulations. Farreaching deregulation is underway for airlines, trucking, financial institutions, and energy. Trucking and airline reform alone is estimated to save \$10 billion or more per year.
- ° The President by Executive Order has set up new mechanisms to improve regulatory efficiency. Costs and benefits of major rules are now analyzed to assure that the most cost-effective route to the regulatory goal is selected. Outmoded rules are phased out and rules must be written in plain English.
- ° The President also established a Regulatory Council, composed of all the regulatory agencies, to provide advance notice and a comprehensive calendar of upcoming important regulations and to minimize overlap, duplication and inconsistencies.

II. ASSISTANCE TO PEOPLE AND COMMUNITIES

"We will help people and communities affected by industrial dislocation to make positive economic change."

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 will propose a temporary unemployment compensation program so that workers suffering long-term unemployment in this recession will be eligible for benefit payments for an additional 13 week period.

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. The Administration expanded Federal funding for employment and training from \$6.3 billion when it 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 devising better means of retraining and relocating workers displaced by industrial changes. The Administration has proposed broadening its 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 employment and training system developed over the last fifteen years relies on a local labor market delivery system, planned and operated by elected officials through more than 450 prime sponsorships. The programs offer counselling, training, work experience and placement to the economically disadvantaged and unemployed. The services are delivered by local governments, community based organizations, schools, unions and other organizations.

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 jobs 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 jobs opportunities for the disadvantaged and the unemployed. The program would 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 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 should 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.

III. REDUCING INDIVIDUAL TAX BURDENS

"We will help offset rising individual tax burdens in ways that do not rekindle inflation."

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 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 should be 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. This would be available to all individual taxpayers and would 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 starting in 1981, during which time the broader issues of Social Security financing will be considered. The first year revenue cost is estimated to be \$6.2 billion.

Earned Income Tax Credit

The President will also propose liberalization of the present earned income credit in order also to provide

tax relief for nontaxable people with dependent children. Under current law, taxpayers with dependent children may claim a refundable earned income tax 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 increasing the credit from 10 percent to 12 percent, with phase out as income increases from \$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. The first year revenue cost is estimated at \$4.7 billion, 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 steadily lowering the inflation rate.

Budget Policy: Measures to increase supply, raise productivity and improve our energy security must be undertaken in 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 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 would 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 Federal expenditures would be increased about \$2 billion in fiscal 1981 and 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 program will increase the 1981 budget deficit by less than \$6 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 other groups to explore ways of achieving moderation in wage and price increases in 1981 and subsequent years.

Over the years ahead, even with lower inflation, the growth of money income will continue to push taxpayers into higher brackets and thereby raise average tax burdens. By strictly limiting the growth of Federal spending -- a policy to which the President remains committed -- further opportunities will be created for judicious tax reductions. Because the reduction of inflation is a critical, but also a difficult goal to achieve, those tax reductions should be designed in ways that contribute directly toward moderation in wage and price increases.

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 program will benefit all Americans by increasing the productivity of our workers and industries and expanding economic output. Tax cuts for individuals will increase real incomes of most taxpayers. The Administration's proposed liberalization and simplification of investment incentives and the reduction of employer Social Security taxes will be valuable to all businesses, but particularly to small and minority firms.

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 should be considered carefully 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.

The task ahead is to build a better America. As we do so, all Americans will be able to enjoy the greater bounty of our national labor.

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Constant Rate Depreciation

Under present law, depreciation is computed either under the asset depreciation range system ("ADR") or based upon facts and circumstances established by each taxpayer. ADR provides guideline lives and allows a taxpayer to use any life varying no more than 20 percent from the guideline life. Under the facts and circumstances approach, taxpayers must establish the useful life of assets in the taxpayer's business. Taxpayers must decide whether to use the ADR system, the appropriate life to use, and the method of depreciation, such as straight-line or an accelerated method.

The Administration will propose to provide a new liberalized and simplified depreciation system -- constant rate depreciation ("CRD") -- and a more generous investment tax credit.

Accelerated depreciation, by increasing the rate of return on new investment and substantially increasing cash flow for firms investing in new plant and equipment, is the most efficient way to encourage a substantial increase in private capital investment. Constant Rate Depreciation provides a substantial simplification of the depreciation rules, thereby making accelerated depreciation readily available to all business, both large and small. The benefits of accelerated depreciation will be distributed nearly equally to all assets and industries, thus minimizing distortions. CRD would be effective immediately, avoiding complicated phase-in and adverse incentive effects.

Depreciation and the investment tax credit will be substantially liberalized over current rules.

- o Generally the rate of depreciation for equipment will be up to 40 percent greater than the most favorable depreciation permitted under ADR under present law. Such rate will be adjusted to ensure that the allowable depreciation plus the investment credit will not provide benefits that are greater than immediate expensing. To ensure that the rates continue to reflect changes in the economic utilization of assets, the Secretary will be given authority to adjust the rates periodically.
- o The investment credit will be 10 percent for all new equipment with a life of more than one year.

Depreciation will be vastly simpler than the present ADR system.

- o The number of asset classes will be reduced to 30. Most taxpayers will use only two accounts for machinery and equipment, one for common assets (vehicles and office furniture), and the other for equipment classified by industry, such as agriculture, construction, utilities and various categories of manufacturing.
- o A single depreciation rate for each class will replace the need to choose useful life and method.
- o Taxpayers will not need to establish separate accounts for each year. Instead, all assets purchased -- new or used -- will be added to one open-ended account for each class.

CRD will apply to industrial and commercial real estate. A separate account will be established for each building.

The CRD system will be fully effective and required for all assets placed in service after December 31, 1980. To allow flexibility in use of deductions, for taxable years beginning after December 31, 1980, the net operating loss carryover period will be increased from 7 to 10 years.

This will cost \$6.3 billion in CY '81 (\$2.8 billion in FY '81)

8/27/80

Refundable Investment Tax Credit

Under present law the 10% investment tax credit is limited by the firm's tax liability. The investment tax credit can be used to offset 100 percent of the first \$25,000 of tax liability plus 90 percent of the remainder (70 percent in 1980 and 80 percent in 1981). Thus, those firms who cannot use all their credits must carry the unused credits back 3 years or forward 7 years.

The Administration will make refundable thirty percent of unused investment tax credits for investments placed in service after December 31, 1980. The portion of the investment credit which is not refundable will be added to the investment credit carryover and will be available for use under the provisions of current law.

This change will boost the incentive for investment in new equipment by reducing the uncertainty about the utilization of the credit. Immediate tax relief will be provided to those industries unable to use the investment credits they will generate in 1981. Rapidly growing firms, firms experiencing cyclical downturns, and newly organized firms with start-up losses typically are not able to use all of their credits. The major beneficiaries of refundability will be primary metal manufacturers (e.g. steel), electric utilities, railroad transportation, and automobile manufacturers.

This will cost \$2.4 billion in CY 1981 (\$200 million in FY 1981).

8/27/80

Exclusion for Americans Working Abroad

The U. S. export community considers that more generous and less complex tax treatment for Americans working abroad is essential to U. S. competitiveness abroad.

Therefore the Administration proposes to make Americans employed abroad in areas exempt from tax on the first \$25,000 of foreign earned income plus 60 percent of the next \$60,000 (a total exemption of \$61,000 for persons earning \$85,000 or more). No credit or deduction will be allowed for foreign taxes on the exempt income. The exemption will be provided for places where the State Department authorizes a hardship allowance for U. S. Government employees of 10 percent or more. All of the Middle East will qualify, and all OECD countries, Bermuda, the Bahamas, Hong Kong, Rio and South Africa will not qualify. The special deductions of present law will continue for Americans working abroad in areas where the new exclusion does not apply.

The proposal is targeted to places where a financial incentive is needed to get Americans to work, typically places where the level of public services is low. At the same time the proposal will preserve the principle of taxation on a citizenship basis. The ceiling will prevent abuse by those with very high incomes.

The proposal costs \$200 million in CY 1981 (\$100 million in FY 1981).

Change in Regulations for Subchapter S Corporations

Under current law subchapter S corporations, which are treated like partnerships, now are limited to 15 shareholders. Audit changes at the corporate level may be challenged separately by shareholders.

The Administration will propose an increase in the permissible number of subchapter S shareholders from 15 to 25. Audits of subchapter S corporations with more than 15 shareholders will be binding on the shareholders.

This increase in the permissible number of shareholders will encourage the formation of small corporations. In order to minimize litigation involving the larger number of shareholders, one audit will bind all taxpayers involved.

This will cost less than \$50 million in lost revenues.

Amortization of New Business Startup Costs

Under current law expenses incurred prior to establishing a new business are not deductible since they are not incurred in carrying on a trade or business or while engaging in a profit-seeking activity. Further, these costs can be recovered only when the business is sold or terminated.

The Administration will propose to make new business startup costs deductible over a period of not less than 60 months, beginning when the new business starts. Eligible expenditures must be incurred in creating or acquiring a trade or business. The expenditure must be one which would be deductible if incurred in the expansion of an existing business.

This will encourage formation of new businesses and decrease controversy and litigation under present law for many such businesses.

This will cost \$100 million in CY 1981.

Regulation Reform

Regulation reform is an important element in supply and structural policies to promote healthy economic growth with less inflationary strains and pressures and to improve our productivity performance.

There are two parts to this effort. First is reducing or eliminating unneeded economic regulations that serve only to restrict competition and/or that mandate arbitrary and productivity-lowering practices. The second is making necessary health, safety and environmental regulations more efficient and cost-effective. Over the past three and one-half years the Carter Administration has taken major steps in both these areas.

- o Far-reaching deregulation or regulation reform is underway for airlines, trucking, railroads, the banking and thrift industries, energy, and communications. Transportation, communications, and finance industries encompasses the connections -- physical, informational, and financial -- that link the various strands of our economy together. The effects of deregulation in these industries will spread far beyond their own boundaries. Trucking reform alone is estimated to save \$8 billion per year. Energy deregulation has helped reduce our dependence on foreign oil.
- o The Administration has set up a new management system to improve regulatory practices. Under E.O. 12044 agencies take cost considerations into account when regulations are designed. Costs and benefits of major rules are analyzed, along with alternative approaches to encourage selection of the most cost-effective route to the regulatory goal; outmoded rules must face "sunset" and rules must be written in plain English.
- o The President established a Regulatory Council, composed of all the regulatory agencies, to provide advance notice and a comprehensive calendar of upcoming important regulation and to minimize overlap, duplication, and inconsistencies among regulations.

These actions have built a solid base of regulatory reform. Continuation and expansion of these efforts will allow our economy to grow without the shortages and bottlenecks that create inflationary pressure.

The Administration is committed to making this program permanent and expanding it to the independent regulatory agencies. We will continue to push for passage of bills to reduce the regulatory burden on small businesses, cut the Government paperwork imposed on the private sector, and put the overall regulatory management program into law. In addition, we will increase the use of innovative, market-oriented techniques to cut the cost of achieving regulatory goals.

Investment in Scientific Research and Technological Development

Technological advance and innovation have accounted for much of the economic growth of the United States in this century. The fostering of technology and innovation is an essential element in maintaining the international competitiveness of this country.

In late 1979, the Administration sent the Congress a number of measures to encourage industrial innovation. These actions, dealing with institutional barriers such as patent, procurement, antitrust, and regulatory problems, were proposed as an important first step in fostering the nation's competitive capability and entrepreneurial spirit in the decades ahead.

The tax measures announced today are an additional step to achieve the same end in the near term. However, the Administration recognizes that, in addition to tax measures, further budget increases in support of science and technology are essential to long-term economic growth. The Administration is therefore affirming its commitment to maintaining 3% real growth in support of basic research. In the current (1980) fiscal year, this totals \$4.5 billion across all major agencies.

The Administration will recommend a total of \$600 million in additional budget authority for FY 1981 and 1982 to assure 3% growth in Federal spending for basic research and to support the other measures proposed. The programmatic details will be announced as part of the President's 1982 Budget. In the interim, the Administration will consult with scientists and engineers in universities and elsewhere to refine the details of these programs.

A number of specific initiatives will be undertaken to stimulate research and to improve its vitality. These include efforts to enhance collaborative research among universities, industry and government; and to foster generic research affecting several industries.

As a complementary effort, the Administration is also proposing to initiate a program to upgrade university science and engineering facilities.

Finally, in recognition of the importance of small high-technology firms as the source of innovative processes and products to advance the productivity of U.S. industry, the Administration plans to develop and expand programs to assist this sector of the economy. These will include expanding the National Science Foundation small business innovation research grant program that provides seed money for research on concepts not yet ready to compete for venture capital.

Strengthening the National Transportation System

The transportation of goods and people, efficiently and at low cost, is essential to renewed industrial development and a continuing strong economy. Since the beginning of this Administration we have expanded Federal funding for transportation by almost 100 percent, to \$23 billion in the President's FY 1981 budget. Administration proposals providing for major funding increases for Federal mass transit, air transportation and railroad assistance programs are currently pending before Congress.

Action on this legislation for expanded transportation infrastructure investment is an essential element of the Administration's overall economic revitalization program. We urge the Congress to approve the necessary authorizations and the related funding requests. While the mass transit and air transportation authorizing legislation are proceeding toward enactment, rail legislation is moving very slowly.

Present Federal railroad assistance has financed rehabilitation on critical track facilities where maintenance had been too long deferred. Under the Administration's proposed \$1.5 billion Railroad Restructuring Assistance Act, financing for rail improvements and rehabilitation on Class I railroads (except Conrail) in the Midwest and elsewhere would be targeted to achieve a more efficient and viable rail system, through rail restructuring (acquisition, consolidation, mergers) and associated labor protection aid.

We are currently seeking \$250 million of the funds for this new program for urgently needed projects in FY 1981. When the Congress acts on this critical legislation, to allow investment in railroads where it is most needed, the President will seek additional 1981 funding of up to \$200 million.

Today, the President is proposing additional steps. Our aging national highway system--a critical component of the distribution network of our economy--requires increased investment in restoration, repair and rehabilitation projects. Preserving this system must be a high priority of any program designed to strengthen our nation's infrastructure. Funding increases targeted on those elements most important to supporting renewed industrial development will be a central feature of the Administration's 1982 highway bill. In the meantime, we will propose some increase in the 1981 Federal-aid highway obligation level.

In a related action, we will also recommend an increase in the Interstate transfer grant program for 1981. This program funds highway and mass transit projects that are substituted for interstate highways at local option. We expect demand for these funds to continue to be strong as statutory deadlines approach for completing Interstate segments or transferring the funds to other projects. We intend that a significant portion of these additional funds be used for mass transit-substitute projects.

The Administration will propose 1981 transportation program increases totaling \$600 million. Further transportation funding increases for future years will be recommended as a result of a comprehensive review of our nation's transportation system now in progress in the Department of Transportation.

Investment in Energy Security

Energy conservation is a keystone of the Administration's energy policy and a critical element in assuring the continued growth of the economy. Both the private and national benefits of increased conservation investments are large in view of rapidly rising energy prices. Investment in energy conservation today provides for a growing and more flexible economy.

During the past three years, the Federal Government has committed more than \$150 billion to energy and related investments over the next decade to help ensure stable sources of supply. Through phased decontrol of oil and new natural gas prices, the Administration has stimulated substantial new investment in exploration and production of conventional energy sources. The newly enacted Synthetic Fuels Corporation provides the means to assist American industry in the development of domestic fuels for the future. Tax credits, direct assistance and loan subsidies are now available to homeowners, farmers and businesses of all sizes for conservation and solar energy investments. The energy conservation measures outlined below will accelerate the attainment of our national energy goals, provide economic growth and provide critically needed jobs.

- Solar Energy and Conservation Bank. The Bank, just signed into law, will provide significant subsidies to moderate and low-income homeowners and renters and to commercial firms. Additional funding will permit the Bank to assist without delay those who seek its help in making energy saving investments.
- Public Housing Weatherization. The Federal Government, through the Department of Housing and Urban Development, owns some 1.2 million public housing units. Additional conservation investment benefits those who live in these units and reduces the long-term Federal cost of maintaining them.
- Federal Building Weatherization. The Federal Government owns and operates large numbers of buildings. We propose to increase investments in these facilities, thereby helping to ensure that these buildings meet high standards of energy efficiency.

- Schools and Hospitals Weatherization. We propose to increase Federal support for the weatherization of schools and hospitals. U.S. schools and hospitals are now facing sharply rising energy costs, which translate into higher medical and education bills. By making these facilities more energy efficient, the nation can increase energy efficiency and reduce inflation.
- Low-income Weatherization. The final element of this program is to further expand DOE's low-income weatherization program, which can provide for weatherization of thousands more homes over the next two years.

We will recommend funding increases for these programs totaling \$975 million in 1981.

President's Economic Revitalization Board

Although the strength of the American economy derives primarily from private industry, the economic world of the 1980's is vastly more complex than that of earlier times. To respond effectively to the economic challenges we face, it is increasingly important for government and industry to join forces and cooperate in ventures that require the skills and resources of both.

Repeatedly, the Administration has relied upon close consultation with labor and management to resolve difficult and controversial economic problems. In the coal, steel, and automobile industries, government-industry cooperation has provided solutions to otherwise insurmountable difficulties.

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, President's 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. It will be requested to make specific recommendations to the President on the establishment of an industrial development authority. Such an authority would provide financial assistance for industrial development and economic revitalization in areas in transition, affected by industrial dislocation or high unemployment, or, if needed, to remove industrial bottlenecks.

The Board will recommend the form of organization for the authority, its responsibilities, activities, and funding levels. In so doing, it will consider the extent to which existing economic development activities throughout the government should be encompassed by the new authority.

To perform its functions, the authority would mobilize both public and private resources, including federal, state, and local monies, private capital and resources of pension funds. Its programs would be coordinated with state and local development functions. The authority would be subject to annual budget control.

Other matters on which the Board will advise the President include:

- o ways to improve the skills of American workers to meet the needs of the coming decades;
- o ways in which to comply with the social goals of regulations while minimizing compliance costs and maximizing industry productivity.

Countercyclical Revenue Sharing

An expanded industrial development program and the targeted investment tax credit will stimulate private sector economic development in communities undergoing economic difficulties. In addition, we must increase Federal fiscal assistance to those areas. Such funding enables these communities to maintain the services needed to promote local economic development.

Therefore, the Administration will propose a \$1 billion Countercyclical Revenue Sharing program in FY 1981, to assure that harmful temporary reductions in service levels do not take place.

The Administration currently has pending a \$500 million budget request for 1981, for Transitional Assistance Payments. This new proposal is a substitute for that request.

Targeted Investment Tax Credit

In order to attract new investment to areas suffering a declining industrial base and high unemployment the Administration will propose to allow an additional 10 percent investment credit for qualifying investments in these areas. The Commerce Department will be authorized to issue certificates of necessity for up to \$1 billion of additional investment credit each year (up to \$10 billion of investment). In certifying investments entitled to the bonus credit, the Commerce Department will be required to consider the extent to which the investment will provide job opportunities and contribute to the economic base of areas suffering from economic decline.

The bonus credit will be refundable. The tax basis of the certified equipment for purposes of computing depreciation will be reduced by the additional investment credit. Certificates of necessity will expire if after five years from the date of issue the plant or equipment has not been placed in service. Areas will be designated for the additional investment credit for a period of five years.

The targeted investment tax credit will assist declining areas to attract the new investment necessary to revitalize the economic base and provide employment opportunities. Limiting the credit to investments certified by the Commerce Department will ensure that the subsidy only goes to projects most likely to contribute to the development of the distressed areas and that budget costs are kept under control.

This will cost \$200 million in CY 1981.

Unemployment Compensation - Federal Supplemental Benefits

The unemployment compensation system currently provides assistance to unemployed workers throughout the country -- in a program designed to offset automatically the effects of recession on those who have lost their jobs.

However, the effects of unemployment are often felt unevenly, concentrated in certain industries and regions. Workers unemployed under these circumstances may face a prolonged need for assistance, beyond the period in which they receive regular (26 weeks) or extended (up to 39 weeks) of unemployment benefits.

Therefore, the Administration is proposing a temporary Federal Supplemental Benefits (FSB) program. This new program will provide an additional 13 weeks of unemployment compensation payments to workers in high unemployment states who use up their entitlement to regular and extended unemployment compensation benefits. We will request \$744 million funding in the 1981 budget for this purpose. FSB benefits will be financed with General Fund revenues rather than with dedicated unemployment insurances taxes.

Industrial Development Assistance

The Carter Administration's emphasis on stimulating economic development has already resulted in an increase of \$2 billion in funding for economic development programs--nearly a 40 percent increase since the beginning of this Administration. This includes a new \$675 million Urban Development Action Grant program to stimulate private investment in distressed areas. In addition, we have more than doubled funding for programs to promote small business, to nearly \$800 million. To expand upon these efforts, and to promote additional employment and investment in regions facing dislocations of industrial change, the President's 1981 budget already proposes restructuring and redirecting the Economic Development Administration: A new development financing program will help stimulate industrial adjustment, through an increase in the EDA program level from \$0.6 billion in 1980 to \$1.7 billion in 1981. The Administration urges prompt enactment of this proposed EDA development financing initiative.

Building on this record, the President is today recommending a further expansion of Federal economic and industrial assistance to create productive job opportunities in industries and regions hard hit by industrial change. The Administration proposes additional program increases of \$1 billion in 1981 and \$2 billion in 1982 to provide additional loan guarantees, development grants, direct loans and interest subsidies, to attract private development investment funds to distressed areas.

Further, the President will propose formation of an Industrial Development Authority to help mobilize public and private resources to restoring industrial development in areas affected by industrial dislocation. Projects funded by the Authority would be required to meet a private market test and stringent standards of economic viability. The Authority would be subject to annual budget control.

The Administration will announce future details of this proposal after considering the recommendations of the National Industrial Revitalization Board.

Investment in Human Resources

More than 8 million jobs have been created during this Administration. We have targeted direct Federal resources upon the most disadvantaged, providing expanded training and work experience. Federally-supported private industry councils have become partners of CETA prime sponsors in building fruitful work experiences and developing private sector jobs. A \$2 billion Youth Initiative, combining programs of the Department of Labor and the Department of Education to assist disadvantaged youth to break free from the unemployment and hopelessness that too many experience, is nearing enactment by the Congress.

We believe that such targeted steps are important to improving the functioning of our labor market. During the next decade both the structure of the labor force and the kind of labor demanded will change. We need to embark on a cooperative effort by government, labor and industry to retrain workers whose skills have become obsolete and to open up well-paying jobs to thousands of workers who would otherwise be consigned to work well below their productive potential.

Therefore, we are recommending an additional Federal investment of \$660 million over the next two years, in the following human resources programs:

- Positive Assistance Demonstration Program: The Department of Labor will undertake about one dozen pilot projects across the country to devise incentives for retraining or relocating workers making the transition from declining to growing industrial sectors. These demonstration projects will begin in 1981 and continue through 1982. If these demonstration programs are successful, as we expect, the President will propose a full-scale program that offers dislocated workers throughout the Nation similar training and assistance.
- Expanded Training Opportunities: Under Titles IIB and IIC of the CETA program, a broad range of employability-development and skill-training services are currently provided to economically disadvantaged, unemployed workers. We recommend expanding these services in 1981 to focus on persistent skills shortages and areas of expected long-term job expansion. On-the-job training in expanding industries will be emphasized wherever possible.

Credit for Social Security Taxes Paid

In January 1981 the social security tax rate is scheduled to increase from 6.13 to 6.65 percent for employees and for employers.

To offset this increase individuals and businesses will be permitted an income tax credit equal to 8 percent of social security taxes paid.

The credit will be nonrefundable to individuals, although a liberalization of the earned income tax credit is proposed to compensate the lower income parents covered by social security.

The credit will be refundable to employers, including State and local governments and nonprofit institutions. Businesses will be required to reduce the deduction for social security taxes by the amount of the credit.

The credit for social security taxes paid will be in effect for the years 1981 and 1982 during which time the broader issues of social security financing will be addressed.

The proposed credit will reduce labor costs. This should have a modest anti-inflationary effect, roughly an 0.2 percent reduction in the rate of inflation by the fourth quarter of 1981.

This will cost \$12.8 billion in CY 1981 (\$3.8 billion in FY 1981).

8/27/80

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Earned Income Tax Credit

Under present law taxpayers with dependent children may claim an earned income credit equal to 10 percent of the first \$5,000 of earnings. As income increases between \$6,000 and \$10,000, the credit is phased out at a 12.5 percent rate. The earned income credit is refundable.

The Administration propose to increase the rate of the earned income credit to 12 percent of the first \$5,000 of earnings. The credit will be phased out as income increases from \$7,000 to \$11,000.

The increase in the earned income credit will more than compensate for the social security tax increase for low-income taxpayers with dependent children. A liberalized earned income credit is an important element of the President's welfare reform bill.

This will cost \$900 million in CY 1981. (0 in FY '81)

8/27/80

"Marriage Penalty" Reduction

Under present law, married couples are treated as one tax unit and are subject to the joint rate schedule. Single individuals and heads of households are subject to different rate schedules. As a result, where both husband and wife have income they may pay higher taxes than if they were single. This higher tax is known as the "marriage penalty." There is no marriage penalty if only one spouse has income or if they earn widely differing amounts.

To reduce the marriage penalty, the Administration will propose to provide a special deduction for a working spouse. It will be 10 percent of the first \$30,000 of earnings of the spouse with the lower earnings. The maximum deduction will be \$3,000.

Providing a special deduction for two-earner families will reduce the marriage penalty without at the same time increasing the penalty against single persons (that is, without increasing the amount of additional taxes a single person pays compared to the taxes paid by a one-earner family with the same income).

The deduction for two-earner families will maintain joint filing and is thus far simpler (and less costly) than the proposal for optional separate returns. The number of returns experiencing a marriage penalty and the penalty amount will decline at each income level under this approach.

This will cost \$4.7 billion in CY 1981 (\$300 million in FY 1981).

THE WHITE HOUSE

WASHINGTON

August 23, 1980

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MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT

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SUBJECT: Economic Program

It is important as you review the EPG Memorandum to also have in mind the likely reaction of the general public and our key constituencies.

The heart of the EPG program being recommended to you is basically a sound and sensible policy, and it will enable us to have a significant industrial and tax program on which to campaign. However, the program does have gaps which I believe will create serious problems with your basic constituencies. Let me briefly summarize why that is likely to be so, and how I would remedy the problem.

Seen from the priorities of many of our constituents, essentially we have:

- o A major tax cut that is more prudent, more carefully targeted and fairer to low and moderate income taxpayers, in proportion to the total size of the tax package, than the Reagan cut. While our package is proportionately fairer to moderate-income taxpayers, Reagan's because of its larger size, will provide many with larger dollar amounts.

The amount provided to individuals is very small compared to the amount provided to business. Fifty-six percent of the tax reductions will benefit business in the first year, rising to 65% in the out years. This could be rectified by scaling back the very large depreciation aid.

- o A fairly vague commitment to tripartite cooperation through an Industrial Revitalization Board.
- o Agreement among the EPG principals to recommend spending (budget authority) amounting to a total of \$2.9 billion over fiscal years 1981 and 1982, while tax cuts over that period will reach an annual level of nearly \$40 billion. If the "high" spending options are adopted, on-budget initiatives would rise to a two-year total of \$8 billion -- or about \$4 billion per year.

A bullet comparison of the tax and spending initiatives contained in the EPG memorandum is attached at TAB A.

I am concerned that adoption of the "low option" spending package would lead to the following problems:

- o Our program will be seen by many as a general tax cut -- and not as an "industrial policy". Most advocates of industrial policy, while they disagree on what should be done, do agree that there should be some substantial degree of active government involvement in producing revitalization.
- o Organized labor and the Kennedy wing of the Party will have little to claim as their own. Criticism may be muted by the overriding desire to win the election. But there is very little here for labor leaders or civil rights leaders to use to energize their constituencies.
- o On the merits, I believe we would be doing too little to improve the public capital stock (particularly our rail, highway and port system) in ways that are important to productivity and energy conservation.

I believe this option falls far short of the rhetoric in the Urban League speech and thereafter regarding the creation of millions of jobs and the development of a "major" training program. I know that it will be very disappointing to Lane Kirkland, Doug Fraser and other Labor and civil rights leaders.

Adoption of the "high option" recommendations will help in important ways:

- o Inclusion of extended unemployment insurance benefits does give the AFL-CIO and UAW something they want and need. It was the item most persistently mentioned by the House Caucus leadership with whom we met this week. It is also important to avoid benefits lapsing between now and the election in key industrial states. DOL has designed a targeted proposal which will reach only those states and individuals in greatest need. But to be effective we must (a) press for immediate enactment (an exception to our general strategy of waiting for the next Congressional session) and (b) make sure that we do not target the program so sharply that we lose the labor constituency.
- o Expansion of EDA Economic development funding from \$600 million over two years to \$3 billion over 2 years would provide some real hope to communities and workers affected by industrial dislocation. The low option discussed in the EPG memorandum would rely largely on loan guarantees to reach the program level of \$3 billion in FY81-82; as a result the actual budget authority is quite small, only \$198 million in FY81. It is important that our description permit the full \$3 billion in budget authority, thereby leaving a good deal of room in our program description to work with labor and other affected groups between now and January on details of the program. Lane Kirkland and Senator Kennedy have some very specific ideas resembling the

Rohatyn industrial bank. While we probably cannot accept their ideas, we must leave some room for discussion. This is the only direct private sector recovery measure contained in the EPG memo and it is very important that it be funded at a level which gives hope to the people we must mobilize over the next three months.

- o The \$300 million contained in the "high option" for job training initiatives is important. Training initiatives were specifically promised in the Urban League speech. Although focused on low income people, these initiatives also would provide some very limited help to displaced blue-collar workers. But because there is not much we can do under existing programs for dislocated industrial employees, it is also important that we commit (with no specific budget figure) to follow on the DOL demonstrations you announced in the auto policy, if they work, with a significant training/relocation/adjustment program for displaced industrial workers in 1982.
- o Finally, expansion of countercyclical aid to the \$1 billion level is critical to the Mayors and industrial states. Although no OMB position is stated in the EPG memo, Jim McIntyre told me that he supports this measure. The authorization is contained in Jack Brooks' revenue sharing bill. We lobbied hard with Secretary Miller and Treasury to get Members to drop their support for the State share in return for our support for \$1 billion in countercyclical assistance. While it clearly was only an authorization, it will be hard to avoid support for funding after asking people to eliminate the authorization for the State share. Our budget contains \$500 million for the Targeted Fiscal Assistance proposal that will not be enacted. By reallocating these funds the \$1 billion can be funded at a cost to our budget of only \$500 million.

Even if all of the spending initiatives are included, our package will not be easy to sell to blue-collar and liberal groups. I am told that the reaction at Anne's briefing for business lobbyists who are our friends was that the package is too heavily weighted to business. In addition, as I mentioned earlier, we are substantively weak in lacking a real initiative to improve the national transportation system.

In the memorandum attached at TAB B, DOT recommends a package of short-term investments in the transportation system costing \$2.6 billion and producing over 76,000 jobs, as well as energy savings. I recommend that you include \$1.0 billion in your program, and instruct OMB to work with DOT to produce the most effective program mix. These would be true investments in the infrastructure of America, and also address our immediate concerns.

In the memorandum attached at TAB C, DOT recommends a major study to develop a National Transportation Investment Strategy for the 1980's. Neil points out that Federal investments in transportation will total \$235 billion over the next 10 years, that State and local governments will invest \$348 billion, and that including private investment the total will exceed \$1.2 trillion. Neil wants to develop a comprehensive investment plan which would (a) project the current general aid programs (highway, transit, rail and ports) in an improved manner and (b) focus on specific problems and bottlenecks in the system (e.g., need for bridge repair) which retard industrial development. While this effort might lead to recommendations for increased investment in the outyears, it requires nothing now -- and I think if made a major part of your announcement it would strengthen public support.

A major concern of the EPG regarding the size of the spending component is presumably the reaction of the bond markets. The financial community would clearly prefer that any increased expenditures be avoided or held as low as possible. While no one can be certain, the investment bankers with whom we consulted - Don Marron (president of Blyth, Eastman), John Whitehead (managing partner of Goldman, Sachs)---did not believe that a significant adverse reaction to a spending package of the magnitude I've recommended was likely. Indeed, several weeks ago the market assumed that a Reagan-level tax cut was inevitable. Since interest rates already reflect the impact of Governor Reagan's proposals, which are far more stimulative than anything we are considering, further adverse reaction is unlikely.

In your Urban League Speech you said of our program:

"It will put American people to work, not in make-work jobs, but in modernizing our American industries, improving their ability to compete, and expanding our exports. ...It'll put people to work building the facilities that we need to conserve more energy, change the way we use energy, and produce more energy. ...It will put millions and millions and millions of people back to work in new jobs, exciting jobs, stimulating jobs, to make our Nation greater, stronger, and more secure. ...It'll put people back to work, also, with special programs of distressed areas, to focus attention on those communities in America where the unemployed workers are there and have marketable skills. And if they don't have marketable skills, a major part of our program to revitalize America will be to give them those skills. ...We'll weatherize our buildings, private homes and public buildings, improve our facilities for exporting coal. We'll expand mass transit and many other things that I don't have time enough to enunciate to you now..."

I do not believe that the current consensus EPG recommendations will be seen as consistent with that pledge. With the additional recommendations I have made, I believe they will be. If you are concerned that the package overall would be too large to accommodate these additions, the tax side could be scaled back (e.g., reducing depreciation from 40% to 30% and the refundable tax credit from 30% to 20%), which would also come close to making the program a 50%/50% split between business and individuals.

(NOTE: I also believe it is important that you name two individuals of national stature from the business and labor communities to serve as the Chairman and Co-chairman of the Industrial Revitalization Board as part of your announcement. Governor Carey of New York has expressed a strong interest in serving on the Board as public member, and from that position has offered to lead a nationwide campaign in support of your program.)

ECONOMIC PROGRAM

<u>Budgetary</u>	81	82
	BA	BA
Low Option		
R&D	0.3	0.3
EDA	0.2	0.4*
Highways	0.5	?
Energy Weatherization	0.7**	0.4**
Solar/Cons. Bank		
Public Housing		
Federal Building		
Schools & Hospitals		
Low Income		
Job Training/Voc. Ed.	<u>0.002</u>	<u>0.1</u>
Subtotal	1.7	1.2
High Option (includes Low Option and the following)		
EDA (National Indus. Develop Admin)	0.8*	1.6*
UI Extension	0.7***	0.6***
Job Training****	0.6	0.4
Title II (B/C)		
Title VII (Private Sector)		
Title IV (Youth		
Countercyclical	<u>0.5</u>	<u>?</u>
Subtotal	2.6	2.6
Transportation	<u>0.5</u>	<u>0.5</u>
<u>TOTAL</u>	4.8	4.3

* Loan guarantees expand "program level". High option would leave portion for guarantees unspecified.

** Includes appropriations for some program within current BA.

*** Net costs are somewhat lower.

**** Does not show budget implications of a major expansion.

<u>Tax</u>	<u>FY81</u>	<u>FY82</u>
Constant rate depreciation -- 40 percent (January 1, 1981).....	-2.8	-9.0
Refundable investment tax credit at 30 percent	-0.2	-2.4
(50 percent	-0.2	-4.0)
Section 911/913 hardship relief	-0.1	-0.3
8 percent Gephardt nonrefundable social security credit	-3.8	-19.3
Targeted investment tax credit		-0.7
Marriage penalty relief (10 percent exclusion up to \$25,000)	-0.3	-5.2
Earned income tax credit -- House Welfare bill*	-	-0.9
	<u>-7.3</u>	<u>-37.9</u>
 Percent of tax reduction for business	 56%	 63%

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U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

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for Preservation Purposes

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August 21, 1980

MEMORANDUM FOR: THE PRESIDENT

FROM: SECRETARY OF LABOR

Ray Marshall

SUBJECT: Employment and Training Programs
as a Part of the Economic
Renewal Policy

I wish to recommend a significant expansion of employment and training programs as a part of the economic renewal policy. This expansion would involve prudent enrollment increases for existing employment and training programs, acceleration of two previously planned administration initiatives and one new program. I believe that such an effort would have the following advantages:

- . The proposed expansion would specifically address the structural nature of our current unemployment problem. Thus the program would fit easily into the context of your economic renewal policy. My proposal is fashioned to improve productivity, anticipate emerging skill shortages and set the stage for economic recovery by developing, maintaining, and upgrading worker skills.
- . The proposed expansion of employment and training programs suggested below represents our judgment of the most cost-effective method of quickly reducing unemployment. Furthermore multiple national objectives can be served by such activities as weatherization and energy related training.

- The proposed expansion, which is almost entirely targeted on the disadvantaged, would be popular politically, especially with the unions and disadvantaged/minority groups. It would reach those people who would benefit little if at all from tax reductions and directly stimulate employment and maintain incomes among those first and hardest hit by recession.

The following suggested program was developed by the Department of Labor after informal consultation with a sample of Employment and Training Administration (ETA) regional staff and Comprehensive Employment and Training Act (CETA) prime sponsors. The program levels suggested represent ETA's best estimate of what the system can achieve at tolerable levels of stress during the time period under consideration.

1. Training (CETA Title II-B/C)

The funding of training opportunities under CETA Title II-B would be increased by about \$500 million in FY 1981 and the increased program levels would be sustained in FY 1982. Title II-B produces a broad range of employability development and skill training services to economically disadvantaged, unemployed workers. This would provide for an additional 90,000 service years of training, which is about a 25 percent increase over current levels, an increase felt to be readily sustainable by program operators. Expanded training and employability development activities would focus on persistent skill shortages and anticipated areas of long term job expansion. Maximum emphasis would be placed on the use of on-the-job training in expanding industries. Program operators would also be encouraged to make maximum use of the Title II-C authority which allows up to 6 percent of II-B funds to be used for retraining or upgrading dislocated skill workers.

2. Structural Public Service Employment and Training (CETA Title II-D)

Employment and Training opportunities for the structurally unemployed under CETA Title II-D would be expanded by 100,000 slots above the planned end of FY 1980 level of 240,000 slots. Expansion would begin at the start of FY 1981 and proceed at a rate of only 10,000 slots per month in recognition of the difficulties imposed by the tight wage restrictions and eligibility criteria as well as the training requirements imposed on CETA Title II-D. Peak expansion will then be reached by the end of July 1981 and would be sustained throughout the remainder of FY 1981 and FY 1982.

Expansion of Title II-D will serve the important purpose of providing a tangible down payment on the creation of jobs for welfare-eligible families, a major emphasis of this Administration which commands wide popular support. Expansion would build upon the successful features of the ongoing welfare reform pilot projects and inter-agency coordination projects. These include innovative private sector job search assistance programs for the target population and development of "double duty" job and training positions. This approach develops marketable skills for participants and promotes other important objectives such as weatherization and other forms of energy conservation, low income housing rehabilitation, day care services for children and low income working parents and in-home care for the elderly.

The estimated cost of the Title II-D expansion is \$585 million in FY 1981 and about \$1.1 billion in FY 1982.

3. Special Initiatives (CETA Title III)

Title III budget authority would be expanded by \$30 million in FY 1981 and \$52 million in FY 1982. This would allow expansion of the successful apprenticeship initiatives programs focusing on emerging skill shortage areas.

4. Youth Programs (CETA Title IV)

The currently planned FY 1981 budget provides \$300 million in Budget Authority and an estimated \$100 million in outlays for special youth programs under CETA Title IV. The proposal would increase BA and outlays in FY 1980 by an additional \$300 million. In FY 1982 the BA and outlay increases would be about double that amount. One hundred million dollars in outlays in FY 1981 would continue to be reserved for planning and phase-in of the Administration's new youth initiative planned for full implementation in FY 1982. The additional \$300 million would be outlayed in FY 1981 under the existing youth programs. Prime sponsors would be encouraged to focus additional resources on out-of-school youth who will be most affected by the economic downturn.

5. Private Sector Initiatives (CETA Title VII)

The FY 1981 budget for the private sector initiative program calls for \$150 million in BA and outlays of \$360 million in anticipation of a \$210 million carryover from FY 1980. This will allow for an aggregate expansion in the program over the anticipated FY 1980 outlay level of \$115 million. However, prime sponsors who initiated their PSIP program aggressively in FY 1980 and expended their full share of the authorized FY 1980 level of \$325 million may now face a substantial program reduction. Under this proposal an additional \$75 million in BA in FY 1981 and \$250 million in FY 1982 would be made available to permit maintenance and expansion of all private

sector programs and to insure the momentum of this major initiative with its important potential payoff for increasing the relevance and quality of all CETA programs.

6. Federal Supplemental Benefits

By the end of August, the Administration will face substantial pressure to enact an emergency extension of the UI system similar to the Federal Supplemental Benefit (FSB) program of the 1974-75 recession. This pressure is likely to stem from (1) higher unemployment rates and sharply increasing exhaustions from the regular UI program; and (2) the triggering on of the Extended Benefits program.

I recommend that a new FSB program be proposed which would include a State trigger, a weeks of work requirement and a pension off-set requirement. The specific features would be:

- State trigger set at an insured unemployment rate (IUR) of 6.0 percent and with EB recipients not included in the trigger rate. Moreover, no FSB benefits would be paid until the national IUR exceeded a threshold of 5.0 percent in order to limit FSB benefits to a national recession.
- Weeks of work requirement set at 32 weeks, so that only workers with 32 or more weeks in the base period would be allowed to receive FSB benefits.
- Duration limited to an additional 13 weeks beyond Extended Benefits in order to reduce the work disincentive effects.
- A dollar-for-dollar pension offset in order to limit the provision of FSB benefits to retirees.

- A work test similar to the work test contained in the 1977 amendments, requiring that FSB recipients take any available job.
- Financing by general revenues, because the trust fund balances are not adequate to fund even a modest FSB program. In fact, advances from general revenues will be required to fund the EB program.

The outlay costs of the recommended program would be about \$744 million in FY 1981 and \$617 million in FY 1982. As shown in the following calculation the net costs, after allowing for savings in the TAA program, would be about \$526 million and \$435 million in FY 1981 and 1982 respectively.

	\$ million	
	<u>FY81</u>	<u>FY82</u>
State Trigger of 6.0 percent exclude EB from IUR	1,094	913
Minus weeks of Work Requirement (22%)	-241	-205
Minus Pension Requirement (10%)	-109	- 91
Minus TAA Offset (20%)	<u>-218</u>	<u>-182</u>
Net Program Costs	\$526	\$435

7. Worker Dislocation Assistance Demonstrations

The Department of Labor is committed to spend \$10 million in scarce discretionary money in FY 1981 on Worker Dislocation Assistance Demonstrations. We, of course, would prefer a regular allocation for this effort. For FY 1982 \$50 million will be

required to expand and continue the projects in anticipation of the introduction of a national program in FY 1983. The projects are intended to test various approaches (e.g., training, relocation) of assisting workers who are permanently dislocated from employment because of factors such as international trade or structural economic changes.

A budget summary of my proposal is attached.

Attachment

BUDGET SUMMARY
(Billions of \$s)

<u>Program</u>	<u>Pending Budget Request</u>	<u>FY 1981</u>		<u>OMB Mark</u>	<u>FY 1982</u>	
		<u>Change</u>	<u>Revised Budget Request</u>		<u>Change</u>	<u>Revised Budget Request</u>
Title II-B/C-BA	2.117	.500	2.617	2.134	.684	2.818
Outlays	2.011	.250	2.261	2.027	.650	2.677
Title II D-BA	2.406	.695	3.101	2.597	1.246	3.843
Outlays	2.312	.613	2.925	2.503	1.147	3.650
Title III - BA	.159	.039	.197	.164	.054	.218
Outlays	.160	.030	.190	.156	.052	.207
Title IV - BA	1.125	.300	1.425	1.184	.641	1.825
Outlays	.717	.300	1.017	1.065	.760	1.825
Title VII - BA	.150	.075	.225	.150	.250	.400
Outlays	.288	.060	.348	.150	.200	.350
FSB - BA	.000	.744	.744	.000	.617	.617
Outlays	.000	.744	.744	.000	.617	.617
Dislocation - BA	.000	.010	.010	.000	.050	.050
Assistance Demos-	.000	.010	.010	.000	.050	.050
Outlays						
Total-BA	5.957	2.363	8.320	6.229	3.542	9.771
Outlays	5.488	2.007	7.495	5.901	3.476	9.377

(11)

B



THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

August 20, 1980

MEMORANDUM TO: Stuart Eizenstat
Domestic Policy Advisor

SUBJECT: Short Term Economic Stimulus

As you are well aware, there is considerable pressure for the Administration to propose some form of economic stimulus to generate near term employment. If such a proposal is under consideration, I believe that several existing programs in the Department of Transportation offer excellent potential and should be included. In addition to their near term employment effects, these programs would also contribute directly to the Administration's overall urban, energy and reindustrialization goals and policies.

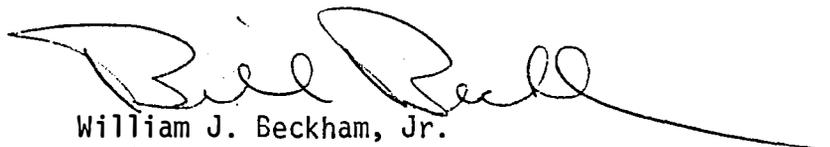
In assembling this package of transportation actions which could serve as part of a major job creation proposal, I have emphasized three criteria. First, requirements for additional legislation must be minimal. While most of these projects are dependent on appropriation increases, I believe prospects for passage would be favorable. Second, project initiation must be accomplished within 90 days to deliver near term employment benefits. Finally, project funds should be targeted to areas of highest unemployment to the extent possible.

The enclosed map displays unemployment figures, with shading indicating states whose levels exceed the national average. The bulk of program funding proposed lends itself to targeting to areas of concern, especially in the Northeast and Midwest. An added benefit is that these proposed investments will improve the transportation infrastructure, thereby supporting longer term strategies for economic development and recovery.

The package of transportation programs that I propose as part of a job creation initiative is presented below, along with estimates of their near term employment effects. More detailed descriptions and additional information are provided in the enclosure. Less than half of the total, only \$1.26 billion, would be required as new funding. This is true since \$370 million has already been requested by the President for FY 81 but is now unlikely to be appropriated by Congress, and since \$1.0 billion would be provided by an increase in the highway obligation ceiling (restoration of the \$350 million March reduction plus an additional \$650 million).

<u>Program Element</u>	<u>Proposed Funding Level</u>	<u>Estimated Jobs Created</u>
Federal Highway Administration		
-Raise Obligation Ceiling	\$1.000 B	30,600
-Interstate Transfer	200 M	6,100
Urban Mass Transportation Administration		
-Discretionary Capital Grants	220 M	6,200
-Interstate Transfer (including METRO)	400 M	10,600
Coast Guard		
-Accelerate Purchase of three 270' Cutters	110 M	2,400
Federal Rail Administration		
-Conrail	400 M	11,500
-Rail Restructuring	150 M	4,300
-Amtrak	100 M	2,500
-Northeast Corridor	<u>50 M</u>	<u>2,100</u>
Total	\$2.630 B	76,300

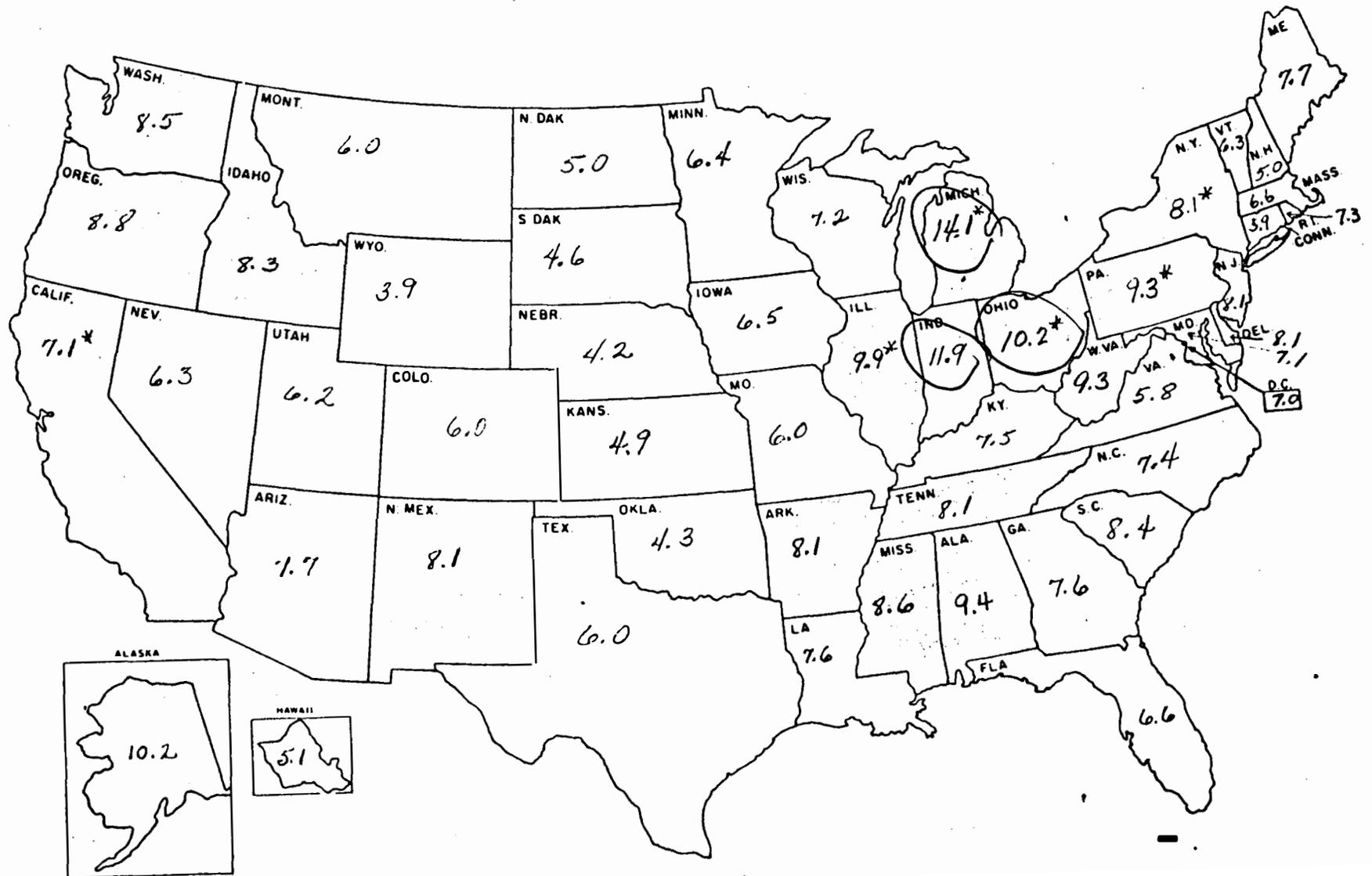
These funds could be sought as part of a larger government-wide economic stimulus effort or they could be made available separately. In any event, I believe that the accelerated funding proposed for these programs could provide the flexibility to target substantial new near term jobs to high unemployment areas, while simultaneously advancing other important national goals.


William J. Beckham, Jr.
Acting Secretary

Enclosures

Unemployment Figures by State, June 1980

(Shaded States Exceed the 7.8% National Average)



* indicates July 1980 figure, seasonally adjusted

TRANSPORTATION ACTIONS PROPOSED FOR
SHORT TERM ECONOMIC STIMULUS

FEDERAL HIGHWAY PROGRAM

- Increase the obligation ceiling by \$1.0 billion for the Federal Aid Highway Account for FY 1981 to a \$9.4 billion level. This would restore the \$350 million reduction made last March to our budget request and add a \$650 million increment. Because of the formula apportionment nature of the program, it is impossible to target funds to specific geographic areas so employment impacts would be widely dispersed. However, funds could be directed to specific categories of desirable projects if appropriation language can be obtained to earmark funds. The type of projects that are most labor intensive and require the shortest start-up time, such as highway resurfacing, restoration, and rehabilitation projects (3R) and certain types of transportation systems management (TSM) projects, are also those which produce the greatest energy savings.

- Increase appropriations by \$200 million for Interstate Highway substitute highway projects. These funds could be used to advance ready-to-go highway projects in cities with current entitlements. Funds could be targeted to a major extent to areas of high unemployment, including New York City, Hartford, Chicago, Cleveland and Portland.

MASS TRANSIT

- Increase appropriations for Section 3 capital grants for FY 81. Assuming an even compromise between the House and Senate authorization levels, room will exist for an additional \$220 million to meet the Administration's budget request. Funds could be targeted to those larger metropolitan areas with rail transit systems and could be used to expand bus production by manufacturers in Michigan and Ohio.

- Increase appropriations by \$400 million for Interstate Highway substitute transit projects. All or most of these funds could be directed to cities in areas of high unemployment primarily for modernization, rehabilitation and expansion of rail transit systems. Specific areas could include New York and Northern New Jersey, Boston, Philadelphia, Chicago, and Washington, D.C.

COAST GUARD

- \$110 million would be used to accelerate procurement of three 270' cutters, to complete the package of nine ships for which bids were recently received from Rhode Island, Alabama, Washington and a few others. Those bids are currently being evaluated and it is anticipated that an award will be made by early September.

RAILROADS

- Increase Conrail funding by \$400 million to reinstitute deferred maintenance and rehabilitate port facilities. Employment effects would be felt throughout the Midwestern and Northeastern states with high unemployment levels.

- Obtain \$150 million for rail restructuring above levels currently expected from Congress to meet the Administration's full budget request. Funds would be used for deferred maintenance and other system improvements. Consolidation of facilities will increase mainline freight densities and improve efficiency. Employment impacts will be focused on Midwest, benefiting states such as Illinois and Arkansas.

- Accelerate AMTRAK station improvements and equipment overhaul by \$100 million in FY 81. This labor intensive work associated with passenger station upgrading and refurbishing and rolling stock overhaul could be directed almost exclusively to the high unemployment states in the Midwest and Northeast.

- Increase Northeast Corridor funding by \$50 million to accelerate scheduled deferred maintenance and other corridor improvements and finance highly labor intensive right of way clean up.

C



THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

AUG 5 1980

MEMORANDUM FOR: Bertram W. Carp
Domestic Policy Staff
The White House

FROM : Neil Goldschmidt 

SUBJECT : National Transportation Investment Strategy

During the past eight months I have had the opportunity to review the status of the national transportation system. The basic infrastructure is in place and programs exist which will, with modifications which embrace changing conditions and priorities within the Federal government, the States and cities, continue to keep our basic system working well. I am concerned, however, that major needs and opportunities are being overlooked by our traditional programs.

For the period 1981-1990, the Federal government will spend approximately \$235 billion on domestic transportation, excluding new programs and needs which arise during that period which are currently unknown or poorly understood. During this same period the nation will be required — as the President's address on reindustrialization and economic policy will point out — to address productivity, a continued decrease in petroleum imports, an increase in U.S. exports, the more efficient movement of goods, and the stabilization of our industrial base, particularly the auto industry and the industries touched by that industry. I wholeheartedly support this action by the President.

In order for us to accomplish these things over the next months, particularly in the national transportation system, I would like to request your concurrence in an effort lead by the Department of Transportation, to identify a program of national transportation investments which need to be made in this decade to accomplish the immediate and long-range transportation-related elements contained within the President's economic message.

Such an effort would require the joint efforts of this Department, the Economic Development Administration, MarAd and the Corps of Engineers. We would, working together, develop a national transportation program of investments which would effect significant efficiencies in all types of surface freight movement in the United States, e.g., highway bottlenecks, connections at port facilities with highway and rail, locks and dams, dredging needs to expedite opening of coal and other commodity movements, bridges to essential locations or resources, and institutional bottlenecks and alternatives available to resolve such difficulties. I propose that a working group composed of

those agencies be established by the President or an appropriate member of the Executive Office, with the Department of Transportation as the lead agency.

I am well aware that the institutional setting in which the Department of Transportation now operates does not favor this kind of problem-specific approach. Nonetheless, I feel that it is imperative that we start to develop our plans and policies along these lines. My specific suggestion is that the Administration develop a transportation investment strategy for the next ten years.

This would be in the form of a comprehensive transportation investment plan covering all areas of infrastructure spending. It would consist of two major parts. One would be a forward projection of the general aid program (highway, transit, rail and airports) in something resembling their current forms. The other part would focus on specific problems and bottlenecks that the Federal government must deal with directly. These projects would be related to national goals for economic revival.

The methodology for development of such a strategy would be worked out with the Office of Management and Budget in advance of beginning formulation of a strategy and would integrate the Federal program with private sector investments and long-term economic projections. This approach would allow planned Federal procurement decisions to be matched with private sector investments and would be the basis of a direct and on-going relationship between the private sector and the Executive Branch.

Once endorsed by the President, such a plan would be presented to the Congress and the public as a major part of the Administration's overall strategy for national recovery. Publication of the ten-year strategy would serve at least two useful purposes. One would be to give the public a clear sense of the Administration's second-term goals both for transportation and for industrial policy. The second would be to demonstrate to Congress the value of transportation planning on the basis of pinpointed problems and solutions as well as on general programs. This could pave the way for eventual legislation that would establish a discretionary program that would allow the Federal government to deal with specific transportation problems of high national priority.

I would expect this work to conclude sometime in early January and ultimately be used to present a proposal to the President, including appropriate actions, for the implementation of a national transportation investment strategy in the second term.

Such an effort, to be effective, would require my direct participation and the commitment of substantial time and personnel resources within participating agencies for the development of such a program. I am convinced of the need and I am willing to direct efforts in the development of such a program.

I look forward to discussing this proposal with you at an early time.

U.S. TRANSPORTATION INVESTMENTS, 1981-90

(In billions of 1979 dollars)

<u>Purpose or Program</u>	<u>Federal</u>	<u>State and Local</u>	<u>Private</u>	<u>Total</u>
Highway	\$135	\$319	--	\$454
Aviation	18	5	\$ 94	117
Railroads	4	--	114	118
Maritime	10	5	50	62
Public Transit	69	19	2	90
Autos	--	--	933	933
Trucks	--	--	336	336
Pipelines	--	--	36	36
Intercity Bus	--	--	1	1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$235	\$348	\$1,565	\$2,146
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(less autos)	(\$235)	(\$348)	(\$633)	(\$1,213)

U.S. TRANSPORTATION INVESTMENTS, 1981-90

(In billions of 1979 dollars)

<u>Purpose or Program</u>	<u>Total (\$ billions)</u>
Highway	\$454
Aviation	117
Railroads	118
Maritime	62
Public Transit	90
Autos	933
Trucks	336
Pipelines	36
Intercity Bus	<u>1</u>
TOTAL	<u><u>\$2,146</u></u>
(less autos)	(\$1,213)

U.S. TRANSPORTATION INVESTMENTS, 1981-90

(In billions of 1979 dollars)

<u>Public</u>	<u>(\$ billions)</u>
Federal	\$235
State & Local	582
<u>Private</u>	1,565
(less autos)	<u>(632)</u>
Total	<u>\$2,146</u>
(less autos)	<u>(\$1,213)</u>

FEDERAL TRANSPORTATION INVESTMENT PROGRAM

Department of Transportation

- o Highways: construction grants to states
- o Aviation: construction grants for airports
- o Railroads: Conrail, NEC, Amtrak, construction loans
- o Mass Transit: construction grants, equipment grants
- o Airways: facility construction and equipment acquisition

Maritime Administration (Department of Commerce)

- o Ships: construction subsidies, capital construction fund; mortgage guarantee program
- o Ports: planning studies

Corps of Engineers (Department of the Army)

- o Ports: channel dredging
- o Inland/intercoastal waterways: construction of locks, dams, levees, etc., dredging of channels

Economic Development Administration (Dept. of Commerce)

- o Ports: shoreside facility construction grants
- o Terminals: construction grants