

Chronological: White House Conference on Small Business, Honolulu

Senator Daniel K. Inouye Papers
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MEMORANDUM

TO: SENATOR

RE: WHITE HOUSE CONFERENCE ON SMALL BUSINESS OPEN FORUM MEETING IN
HONOLULU - ALA MOANA HOTEL - FRIDAY, JUNE 1, 1979

FROM: Kirk

May 29, 1979

104 / no prepared text
Take Home

The local White House Conference on Small Business open forum meeting, at which you will be giving the brief (five minutes) welcoming remarks, is one of fifty-seven meetings that are being held throughout the country in preparation for the White House Conference on Small Business to be held in Washington from January 14 to 17, 1980.

Please find enclosed a section of a speech you made before the National Association of Counties on Ksual earlier this year. It may be helpful in preparing your opening remarks.

The topics expected to be discussed at this meeting are:

- | | |
|------------------------|--|
| 1) inflation | 5) regulations and paperwork |
| 2) capital formation | 6) minority business development |
| 3) federal procurement | 7) international trade |
| 4) women in business | 8) economic policy planning and program development. |

Among the special topics to be discussed at Friday's meeting is the recent change in SBA rules that removes Asian-Americans from the list of minorities "prefered" for small business loans.

The luncheon speaker will be the President of the Export-Import Bank.

Each Senator, Congressman and Governor has been asked to appoint one delegate to attend the preliminary conference and the Washington Conference. You nominated Peter Baldwin of Haleakala Dairy. Eiler

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talked to him today and he has accepted your offer. Governor Ariyoshi has nominated Hideto Kono, Director of the Department of Planning and Economic Development. Cong. Heftel will not appoint his choice as a delegate until after Friday's meeting. It is unlikely that Sen. Matsunaga and Cong. Akaka will appoint their delegates before Friday's meeting.

Approximately 420 people have signed-up to attend the forum meeting this Friday, which is open to all small business people in addition to appointed delegates. The people attending the Friday meeting will also elect delegates to attend the January, White House Conference on Small Business.

The White House Conference on Small Business is expected to be the largest Presidentially-sponsored conference in the nation's history. By the conclusion of the national session, participants will have adopted recommendations to be sent to the President which will outline reforms in legislation, Executive Department regulations and practices in the private sector.

news from

Senator DANIEL K. INOUE

topic: National Association of Counties, Western Interstate
Regional Conference, Kauai Surf Hotel

date: February 6, 1979

release date: FEBRUARY 6, 1979

I have been asked to talk to you today about the major priorities of the 96th Congress. But, there are so many important foreign and domestic issues that I could do little more than to catalogue them for you if I tried to cover them all. So let me instead just organize my remarks around what I believe most would agree is the key domestic issue of our time: Inflation.

Many have singled out the Federal Government, and more specifically the U.S. Congress, as being the major culprit in the inflation problem. There is a tremendous push to cut Federal spending, and while I think this is desirable, I believe it is important to recognize that Federal spending is only a part of the problem, that cutbacks in Federal spending will not be an automatic panacea, and that we must actually spend more money in certain areas if various anti-inflation efforts are to have any chance of success.

As public officials, I am certain you are particularly sensitive to actions the 96th Congress may take. Federal policies may increase the prices State and local governments have to pay for goods and services. Federal law sets the minimum benefit level for many of our social welfare programs and penalizes State and local governments which fail to participate at a prescribed level. In addition some 16 percent of all Federal expenditures go as grants to State and local governments, giving you a big stake in where cuts in the overall budget are made.

Let's take a moment to put the inflation problem in perspective. To begin with, many prices go up as the result of events over which we have little or no control. I am sure you are aware that storms and freezing temperatures this winter have already done extensive damage. Thousands of boxes of fruit have been destroyed, thousands of heads of livestock have died, and I think the situation will worsen before the winter is over. Higher prices is one of the inevitable results. But believe me, Congress had nothing to do with this.

Today, millions of Americans are fascinated by events in Iran. Will there be civil war? Who will be the strong man, Bakhtiar or Khomeini? What will happen in the Iranian Oil fields? What will be the fate of our defense installations in Iran? We don't have any sure answers yet, but one thing is clear: even under the best of circumstances, it will be some time before Iran reaches a level of oil production comparable to that of just one year ago. In fact, I suspect that Iran is going to have to struggle to meet its domestic needs. At this juncture, it should be noted that Iran provides over 5 percent of our energy needs, 17 percent of Japan's and a substantial percentage of Western Europe's. Sixty-five percent of Israel's oil supplies have been imported from Iran. A national news magazine says that Iran provides 20 percent of the petroleum imports of all countries, a remarkable figure if true.

If the reduction were only 5 percent, I am certain that with a little extra effort we could meet the crisis. One day a week we might use a car pool. One weekend a month we might stay home instead of taking a trip. Although it might be difficult, we could manage.

But we have agreements with our allies not to get involved in an energy consumption war. We have assured them we will share the burdens and sacrifices. What this means is that the shortage will be much greater than five percent, perhaps 10 percent or more. Added to this is the near certainty that the OPEC_nations will raise oil prices once again. In other words, events in Iran will have a significant effect on inflation.

We realize, however, that many factors affecting inflation can be controlled and here Congress does play an important role.

Together with the Executive Branch of government, we share in appropriating great amounts of money, much of which has to be borrowed in the private sector, thus raising interest rates. Congress, with the Executive Branch, also pumps into the economy vast amounts of money for purposes which do nothing to increase the supply of consumer goods and services. The inevitable result is higher prices as a larger supply of dollars competes for a supply of goods and services which is not expanding at the same pace. The temptation is to single out the Federal budget as a major contributor to inflation and to feel that the solution is to cut away and let the chips fall where they may.

But let's take a closer look at the FY 1980 budget President Carter submitted to the Congress recently. It totals nearly \$532 billion, an amount so large it is almost beyond comprehension. The natural reaction is to say that in a budget that large there must certainly be room for enormous cuts. But if you analyze it, you find the matter just isn't that simple.

For one thing, a large portion of the budget goes for relatively uncontrollable obligations. Outlays in any one year are considered to be relatively uncontrollable by administrative action when the program level is determined by existing statutes, by contract or by other obligations. If I may get slightly technical just for a moment, the so-called "uncontrollables" are divided into two broad categories. The first involves open-ended programs and fixed costs, examples being social security and railroad retirement, Medicare and Medicaid, other payments to individuals, and revenue sharing.

The second broad category, referred to in the budget as "outlays from prior year contracts and obligations," is self-explanatory. As recently as 1967, the uncontrollables in the first group amounted to only 36 percent of Federal expenditures. By 1973, they had risen to 50 percent and by 1980 they are estimated to be 59.5 percent. The second group accounts for some 15 to 20 percent of total expenditures, which means that about 75 percent of the entire 1980 budget is in the uncontrollable category.

Of course, it can be argued that there really are no "uncontrollables" and all that is needed is some changes in legislation. Fine, but where do you start? With Medicaid? With pensions? With veterans benefits? Local revenue sharing is a ripe target for some, and you may be interested to know if you have not already gotten the word that legislation was introduced in the Senate last week which takes a shot at revenue sharing and tries to abolish the portion which goes to the State governments. Is the portion which goes to the counties next in line?

We could try to tighten up on social programs or on law enforcement assistance, and in fact the budget does so. Most of you have already heard the cries of anguish which have issued from a number of organizations representing the groups affected. Prominent politicians have also let their unhappiness be known.

Well, what about the remaining 25% of the budget that falls into the relatively "controllable" category. Can't we make some cuts there? In dollar terms, we are talking about \$134.8 billion. The bulk of that, some \$77.8 billion, comes under the label "national defense" and the rest is categorized as "civilian". I suppose we could cut back on our active forces, close some bases and put less money into military hardware, but can we realistically expect the Russians and the Chinese to adopt similar measures? I doubt it.

In fact, last week Secretary Brown testified before the Senate Appropriations Subcommittee on Defense, of which I am a member, and pointed out that defense expenditures as a percentage of gross national product have declined from 8% in 1964 to 4.9% in fiscal year 1980. In 1964, the defense budget accounted for over 40% of Federal budget outlays, while in FY 1980 the figure is down to about 24%. By contrast, the Secretary testified, the Soviet defense effort has increased each year for at least the past 15 years. The Soviets' present effort exceeds our own by anywhere from 25% to 45%, depending upon how the estimates are done, and their research and development effort may be 75% greater than ours.

These are, of course, just estimates, but while the exact figures may not be certain, the trends are clear: our effort is going steadily down, theirs steadily up. We will be scrutinizing military expenditures very carefully in the coming months, but under the given circumstances, I cannot be optimistic about the possibilities for making major cuts that will have a significant impact on the Federal budget.

I won't belabor the point any further. Let me instead turn to some of the areas in which I believe the government can take effective action to curb rising costs and inflation. Some of these proposals may sound harsh, but if we are seriously interested in solutions, we are going to have to call a spade a spade and do what has to be done.

1. We must use every effort--including rationing, if necessary--to cut down on oil imports, the single largest contributor to the enormous \$28 billion trade deficit we experienced last year.

2. We must amend our tax laws to provide sufficient incentive for savings. In fact, I have directed my staff to prepare a bill which will provide the much-needed tax relief for interest earned on savings. It is my hope that this will down the cost of money which, as you know, has reached exorbitant levels--even the prime rate is well into the double digit area.

3. We must make major effort to eliminate the unnecessary burdens we place upon businesses in this country. [The estimated aggregate cost of Federal regulation was \$102.7 billion for the year 1978] according to the Center for the Study of American Business at Washington University in St. Louis. [That represents a 30% increase over the FY 1977 cost of \$79.1 billion]. [The government issues over 40,000 pages of rules a year. Some say that complying with the paperwork costs the public more than \$100 billion a year]. [As just one example, an employer may have to fill out up to 17 different forms of various kinds for each employee, each year]

The main complaint I hear from small businessmen relates to the unnecessary red tape they have to endure, both on the Federal and local levels. Large, established firms can handle the load and pass the costs on to the consumer, the ultimate loser, but for small businesses these requirements are a matter of life and death. Many potential entrepreneurs are discouraged from ever trying to go into business and many others are driven out very quickly by them. I believe we could get along quite nicely with a fraction of the presently required paperwork, and save substantial storage costs in the bargain. More and more files are being put on microfilm and microfiche, but our paperwork requirements are so great that it takes enormous storage areas just to store the microfilm!

4. We must establish an effective National Health Insurance system. The cost of health care in our nation has skyrocketed beyond belief and continues to escalate faster than any other segment of our economy. Before we can hope to enact a comprehensive National Health Insurance program, however, I believe we must first address the issue of medical malpractice. In 1975, there were 20,000 medical malpractice claims, three-quarters of which arose from incidents that occurred within our nation's hospitals. For the in-hospital claims that went the full route to a jury settlement, the average award was \$350,000. It is estimated that our nation's health care providers and especially our nation's hospitals presently pay out over \$1.25 billion a year in medical malpractice insurance premiums.

Further it is estimated that there are between \$2 billion and \$7 billion a year of needless testing and procedures being performed merely because our nation's health care providers feel that they must practice what is known as "Defensive Medicine". At the same time, we learn that less than 20¢ out of each dollar that is paid out in medical malpractice premiums ever gets into the hands of the patient who is injured. The rest is taken up in such administrative and bureaucratic expenses as advertising, attorney's fees, court costs, etc.

This is an expenditure that, in my judgment, we simply can no longer afford to make. Canadians, our neighbors to the north, do not have this problem. A physician in Canada pays no more than \$200 a year to a non-profit professional organization that handles virtually every medical malpractice suit that is filed. I am sure that you will agree that is far more reasonable than the \$40,000 a year premiums that some of our physicians must now pay.

With these concerns in mind, I am pleased to be able to report to you that Attorney General Griffin Bell has taken personal interest in this problem and is working closely with me to see if we cannot come up with a satisfactory resolution that will pass this Congress. There are many, many other complicated aspects of National Health Insurance; however, in my judgment, the medical malpractice issues must get first priority.

5. We must enact effective sunset laws. Once a bureaucracy is entrenched, it is very difficult to change it, but some sunset laws may be the answer. If we require every agency and program to come before the Congress, say every six years, to justify its existence, then we might see some much-needed changes.

6. We must recognize how important tourism is and can be for our economy and take effective actions to nurture it. While the United States is the best tourism buy under almost any test you can name, the regrettable fact is that the number of people from this country who choose to travel abroad greatly exceeds the number coming to this country from overseas. This disparity was an important contribution to last year's enormous trade deficit. Other governments recognize the importance of tourism, according ministerial rank to the heads of the appropriate government offices and providing them with sufficient resources to advertise around the world. As an example, the tiny country of Denmark has a tourism budget more than 4 1/2 times as large as our own. Last year, tourism accounted for \$115 billion of income in this country and provided 5 million jobs. It is the least polluting of all industries. And what is our government's response? Well, the fact that the FY 1980 budget calls for wiping out our only travel office, the United States Travel Service, tells the story.

We have somehow convinced ourselves that tourism, travel, rest and recreation are sinful words. The Europeans don't think so and neither do the Japanese. In fact, they require their people to take time off. We, by contrast, put on pedestals those people who work endless hours, never take any time off and never leave their desks: the so-called "work-aholics". Maybe that is why antacids, sleeping aids, aspirin and the like are such big advertising spenders. We are becoming a nation of nervous wrecks without recognizing it.

As county officials this is an issue which affects you directly, and I hope we can look forward in this Congress to your support of our efforts to increase tourism in this country.

Many of the initiatives I have mentioned are going to place great additional burdens on the Congress, and this is going to require both that some of the committee staffs be greatly enlarged and that Members of Congress make an even greater effort than at present to take a first-hand look at the programs for which they are responsible. I regret to say that many in Congress have become gun-shy because of the constant barrage of criticism which has been directed toward Capitol Hill. The result has been a lot of false economies which have ended up being very expensive to the taxpayers.

When I chaired the Appropriations Subcommittee on the District of Columbia, I was responsible for a budget of roughly \$1 billion, an amount larger than the budget for the entire State of Hawaii at the time. I had to do this with a staff person who could devote only one-half of his time to this assignment. As Chairman of the Foreign Operations Subcommittee, I am responsible for oversight of a foreign assistance budget which is in the neighborhood of \$10 billion. I started with one staff person, and I now have two.

The situation on the Defense and Military Construction Appropriations Subcommittees, of which I am also a member, is even worse. There, a professional staff of five is responsible for passing on a budget which this year comes to \$135 billion. In the course of our annual review of the foreign assistance and defense budgets, we hear from the Secretary of State, numerous assistant and deputy Secretaries of State, the Secretary of Defense, the Secretary of the Treasury and a parade of generals, admirals and experts of various sorts. All of these witnesses have enormous staffs and computers available to back them up. Because of the great imbalance between the resources available to the Executive Branch and to those of us in Congress, we are having to rely more and more on the very agencies that we are supposed to be overseeing to tell us what is going on. As you can imagine, most of the time they tell us everything is just fine, and if we would just ante up a little more money they would be even better.

Turning to the travel situation, congressional travel has become synonymous with junkets. I am embarrassed to say that although I am responsible for reviewing a large percentage of this country's foreign assistance efforts, I spent only four days outside of the country last year.

One very senior U.S. Senator has not made an official trip outside the borders of this country during the whole time he has been in the Senate. I would point out, however, that one committee trip I undertook in 1973 saved this government over \$200 million. By being overly austere, we are finding that we cannot perform our functions adequately.

The lesson and it is one which applies with equal force at the national and local levels, is that we must not be stampeded into making budget cuts or denying to ourselves the very resources we need to operate effectively. This would be false economy of the worst kind, and I am confident that if the Legislative Branch continues to hamstring itself and place itself ever more at the mercy of the Executive Branch agencies, the inevitable result will be a rising chorus crying out against agency waste, mismanagement and disregard for the public welfare.

You requested that I address some comments to the subject of sugar which is of such great importance to us here in Hawaii where we produce one-fifth of all the sugar grown in our nation. To do justice to that subject would require much more time than I have been allotted here today. Let me just say that the situation for our domestic sugar industry is critical and we are most appreciative of the strong support which has come from the National Association of Counties on this issue. We are pressing the Administration for a new sugar bill which will be acceptable to the Administration and to the various segments of the industry and labor and consumer groups. I hope you will continue to provide your strong support.