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REMARKS OF SENATOR BOB DOLE

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I'm delighted to be your guest this morning - even if it's to talk about the state of the economy. There are other subjects easier to rhapsodize over - but none so important or so central to one of the great social and political experiments of our history. For if this is, as I believe, a year filled with opportunity such as we have rarely seen, it is also a year of risk. Both are rooted in the extraordinary achievements of the Reagan Administration's first year.

Even before the most recent unemployment figures were released last week, much of the economic news was encouraging - especially when contrasted with the gloomy headlines of just one year ago.

Inflation is down significantly; even more significant, however - it continues to head down. Before this year is out, we can expect an inflation rate around 7%. There is nothing accidental about that.

A year ago interest rates were peaking at 21½%. Today, the prime rate stands at 16½%. That's too high - but it still represents improvement. And with a little luck and a lot of fiscal restraint, the prime will resume its interrupted slide within days. That, too, is no accident.

During the last three years of the Carter Administration, Federal expenditures rose at an annual rate of 14%. That rate has been cut in half - and that, too, is no accident of good fortune.

Less dramatic but no less encouraging is the rate of personal savings - which is up by nearly a full percentage point over a year ago -- to about 6%. And as savings rise in the months ahead, we will gain a powerful weapon in the war against high interest rates and stubborn unemployment.

And there, you may say, lies the rub. If all these bright shiny omens of prosperity are not accidents, then is unemployment an accident? Can an administration and a congress wanting to take credit for positive developments in the economy escape blame for the bad news? I don't think they can - I don't think they've tried.

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THE ECONOMY THAT MIGHT HAVE BEEN

But while joblessness is no accident, neither does it follow that this administration deserves blame for the policies that brought it about. On the contrary, Ronald Reagan is a little like the new homeowner who's just moved in, only to discover the roof leaks and the foundation is settling. So let me backtrack a bit - and conduct a short history lesson.

In 1976, we were recovering from a steep recession, a recession following hard on the heels of the inflation that exceeded 12% in 1974. President Ford responded to inflation with a call for fiscal restraint - backed up by a generous use of his veto - and it was through fiscal restraint that we began to beat back inflation. By the end of 1976, inflation was down to 4.8%. While the cost in unemployment was high, Americans went to the polls that fall against a backdrop of declining inflation and unemployment.

Many of us felt then that the groundwork for a return to stable growth without inflation had been laid. It hadn't been easy. The political cost was high - believe me, I know. But at least we had the consolation of economic success. Unfortunately, it didn't last. Expansionary policies, undertaken without regard to the deep-seated sources of inflation or the need to create jobs that would last, put us right back on the inflation recession roller coaster. Late in his term, President Carter tried to put on the brakes, with the result that the cart nearly went off the tracks. Now, once again, we find ourselves mired in recession. The difference is that, after several years of double-digit inflation, we are fighting the price spiral from a much higher base. In short, the opportunity for sustained recovery in the late '70's was wasted. And it's hard to see how we are better off for the experience.

SOME PAINFUL LESSONS

Expect that, perhaps, we have learned something. The events of the past year indicate that we have learned: that inflation does respond to changes in public policy, provided those changes are consistent and sustained: that healthy economic growth is incompatible with perpetually rising taxes: and that economic stability cannot be achieved without a clear demonstration of control over the Federal budget. Of course, some of us have been preaching this gospel for years.

There's nothing very radical about the dilemma faced by President Reagan. It is much the same challenge that confronted Gerald Ford: Namely, how to return to the path of steady growth while simultaneously cooling inflation. The difference is that in the intervening years, the spending problem has become so much more urgent that only dramatic action - such as last year's budget and tax cuts - can make a real dent in the Federal appetite.

There is another difference between now and 6 or 7 years ago. President Reagan has been able, early in his term, to make long-term plans for economic growth. What's more, he's achieved a series of policy changes to implement those plans. What's important now is to remember why these policy changes make a difference.

A PROGRAM FOR PROSPERITY

First, there is tax relief - to stabilize income tax rates, to enhance the economic incentive for saving and investing, and in general to lighten the tax burden so that we can generate the capital for economic expansion. Despite rhetoric about the magnitude of the revenue loss - \$750 billion over five years - few would dispute the fact that this shift in our tax burden is essential if we are to keep inflation at bay and finance the growth our economy needs.

Next, there is monetary restraint -- to bring inflation down and keep it down, without throttling the economy. There are bound to be fluctuations from week to week - and genuine concern when the money supply shows any sign of runaway expansion. Yet the record of the last several months shows the Federal reserve is at least on the right track.

Thirdly, there is regulatory reform - to cut unnecessary costs to business that are a general drag on the economy, and to encourage a shift from what has been our biggest growth industry -- paper shuffling -- into more productive activities. In 1981, the Reagan Administration slashed the growth in the Federal Register by one-third and saved business and consumers nearly six billion dollars in enforcement costs alone.

Finally, and forgive me if I seem to list these in descending order of popularity within Congress - there is spending restraint -- not just to keep the costs of government down, but to give freer rein to market forces in allocating our national resources. That means greater efficiency and more jobs, both of which are anti-inflationary.

HEADLINES - AND HISTORY

But what really made 1981 a year of new beginnings was not the highly publicized actions of President and Congress: The tax cuts, the budget reductions, the confrontation that shut down the marbled corridors of Washington for one day in November. All that was the stuff of headlines. But we made history as well as headlines in 1981. We reduced the overall number of those employed by government at all levels for the first time since World War II. Despite all the talk of deficits, we actually reduced the share of credit market funds consumed by Federal borrowing. We saved two billion dollars in waste, fraud and abuse -- turned in more than a thousand indictments for food stamp fraud - and directed agencies and departments to begin collecting back debts owed to Uncle Sam, on which you and I pay \$10 million in interest every single day.

We've shown that government can function with its head as well as it feels with its heart. And yet we've actually allotted a far higher percentage of the Federal budget to non-military "people programs" than during the heyday of the new frontier and great society. For all the controversy over cuts in human services spending, we have a way of forgetting that the cuts, so-called, were nothing more than reductions in planned increases - and that overall social welfare expenditures will in fact consume a larger share of the Federal pie this year than they did in 1981.

The changes that have been made were needed. Make no doubt about that. But they are not an end in themselves. Together they form an economic framework, a foundation for a stronger, better built economic house. Now we must complete the job of construction. We must address the missing piece within the puzzle: the deficits that threaten to capsize economic recovery before it can be fairly launched.

DEALING WITH THE DEFICIT

This is no time to equivocate. The deficits are a problem. If left alone, they will become a deadly menace. But to deal with them, while preserving the gains already won, we have to understand them.

I'm convinced that most people already understand the 1982 deficit. It is the result of recession: a by-product of our success last year in re-establishing a revenue base that no longer relies on bracket - creep and inflation itself for most of its expansion. While the 1982 deficit is cause for concern, few would argue that we should sacrifice our other economic goals in order to moderate it.

1983 and 1984 are another story. In those years we anticipate strong growth as the incentives built into the president's program swell and magnify our recovery from the current recession. Now we could argue for days about what size deficit is acceptable. But this much at least is clear: Triple-digit deficits are not tolerable. Such a surrender to our own worst impulses would bring about new inflationary pressures - or divert credit to pay for government's spending spree.

If we have to reduce the deficit further - and I believe we do - then we have to cut the budget further, raise revenues, or project faster growth or higher inflation. I'll leave projections to the statisticians with their computers and their models. I prefer to deal in the realm of dollars and cents.

First of all, let no one believe that after last year's efforts the Federal budget has become neat and trim. It has not. Remember that in 1960 nondefense Federal spending took 9 percent of the gross national product. By 1970, the figure was 13 percent, and by 1980, 17 percent. Clearly there is room for further reductions in domestic spending without shredding the safety net a compassionate society holds out for the disadvantaged, the elderly, and the disabled.

And when I suggest that no corner of the Federal establishment is immune to scrutiny in the interest of greater efficiency and savings, then I include the Pentagon in my suggestion. It should not be a scapegoat, but neither should it be a hog. President Reagan disagrees with some in the Congress over the precise size of the defense budget. But there is room for dialogue, and there may yet be some accommodation with Congress if only to maintain the momentum of economic recovery.

Finally, there is the revenue side. The President has made crystal clear his opposition to any tax increases at this time. I applaud his commitment and his consistency. Nevertheless he knows, as we all do, that the revenue question will not go away. He has acknowledged as much by proposing loophole closings and management reforms that could raise about \$32 billion over the next two years. That would include the imposition of a corporate minimum tax, the details of which are still being worked out.

So the revenue door is not closed. What is closed is any tinkering with the personal tax cuts or major changes in business cuts, enacted last summer as an antidote to Jimmy Carter's malaise. We have also agreed that penalizing saving and investment make no sense. So if we need additional revenues, we will have to look elsewhere. That means, tightening loopholes and making sure that everyone pays a fair share of tax. It also means levies that relate more to con-

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sumption than to income-producing and capital-accumulating activities. But whatever we do in the end, there is one thing we positively cannot do.

We cannot and will not allow the option of raising revenues, to reduce pressure to cut Federal spending. That, I am convinced, is a major reason why the President has ruled out any significant revenue increases for now.

A PUBLIC APPEAL

Even this course is not without its hazards. To cut spending further, we have to justify the action to the people in terms they can understand and support. A balanced budget is one such goal. With that goal temporarily put off, we must persuade people that moderating the deficit is the key to fulfilling the economic recovery plan. I believe we can do that - but not unless everyone pulls his own weight.

The American people understand a common effort for the common good, and they want to give the President every opportunity to fulfill his dream of creating more jobs without inflation. After all, it's their dream as well. They believe, by and large, that the Reagan view of our Federal system makes sense, and that more power and responsibility should be returned to the local level. But many of these same people are not yet convinced the entire program will work - or even pass muster with the Congress. Some are suffering themselves. Others are fearful or confused. To earn their active support, we have to demonstrate that ours is a program for the good of all, that no one gets special privilege, and that each and every American is vital to its success.

Much has been said, in this centennial year, about the leadership of Franklin Roosevelt and the stylish similarities between that President and Ronald Reagan. I submit that the comparison goes deeper. Franklin Roosevelt gave the people a sense they were part of a community, that they shared common concerns and common destiny. President Reagan adds to all a conviction that each and every individual in our society is important - that it is as a community of individuals, each working to shape his or her own future, but with regard to his fellows, that we became and remain a great nation.

That is why our economic program offers such hope: it is grounded in a firm faith that the people share with their leaders. We cannot afford to undermine that faith. So long as we balance our campaign to restore individual initiative with a sense of equity and a passion for economic justice, then the prospects are bright.

It is a great and worthy goals we have set for ourselves. It will be reached only with the support and co-operation of millions of Americans like yourselves. A democracy can withstand political differences. The only thing it cannot survive would be political indifference. So I hope that each of you will make your voice heard. I guarantee that I'm not the only man in Washington who will listen.