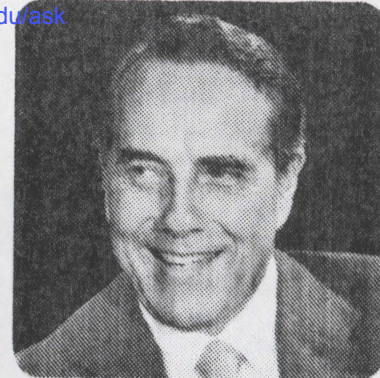


Mitch

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FOR IMMEDIATE RELEASE
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STATEMENT OF SENATE MAJORITY LEADER BOB DOLE

INTEREST RATES -- PART II

ON JUNE 12 I SHARED WITH MY COLLEAGUES SOME OBSERVATIONS ON THE COURSE OF THE AMERICAN ECONOMY AND THE NEED FOR FURTHER REDUCTIONS IN INTEREST RATES. SINCE THEN WE HAVE GOTTEN SOME MORE DATA ON THE STATE OF THE ECONOMY -- AND I THOUGHT IT WOULD BE APPROPRIATE AT THIS TIME TO EXPAND ON MY VIEW THAT INTEREST RATES NEED TO BE LOWER.

THE ECONOMY IS NOT GROWING AS FAST AS WE HAD HOPED. IN FACT, IT DID NOT GROW AS FAST AS WE HAD THOUGHT IN THE FIRST QUARTER OF THIS YEAR. THE GNP GROWTH RATE FOR THE JANUARY THROUGH MARCH PERIOD HAS BEEN REVISED DOWNWARD, FROM 3.7 PERCENT TO 2.9 PERCENT. MANY ECONOMISTS THINK THE ECONOMY IS GROWING AT AN EVEN SLOWER PACE IN THE CURRENT QUARTER. A WALL STREET JOURNAL SURVEY OF ECONOMISTS INDICATES GROWTH OF ONLY 2.3 PERCENT IN THIS QUARTER. THE REAL QUESTION IS WHAT HAPPENS IN THE SECOND HALF OF THE YEAR, AND THERE THE ECONOMISTS REMAIN SHARPLY DIVIDED. SOME SAY THE PACE WILL PICK UP SMARTLY FOR THE REST OF 1986, WHILE OTHERS SEE THE ECONOMY CHUGGING ALONG AT A 2-3 PERCENT GROWTH RATE.

I DO NOT PRETEND TO HAVE THE ABILITY TO OUTGUESS THE BEST ECONOMIC FORECASTERS IN THE COUNTRY. NO ONE CAN BE SURE WHAT PRESENT ECONOMIC TRENDS REALLY MEAN FOR THE REST OF THIS YEAR, OR FOR THE REST OF THE DECADE, FOR THAT MATTER. AND WHEREVER THERE IS A DEGREE OF UNCERTAINTY, SOME RISKS HAVE TO BE TAKEN IN SHAPING PUBLIC POLICY. LET ME EXPLAIN WHY I THINK ENCOURAGING THE MOVE TOWARD LOWER INTEREST RATES IS THE LESSER RISK AT THIS TIME -- FIRST, BY REFERENCE TO THE RECENT HISTORY OF AMERICAN ECONOMIC POLICY.

LOOKING BACK

WHEN PRESIDENT REAGAN TOOK OFFICE IN 1981, HE FACED THE EXTRAORDINARY CHALLENGE OF WRINGING INFLATION OUT OF THE ECONOMY,

BOOSTING REAL GROWTH, CUTTING TAXES AND REGULATION, AND GETTING SPENDING UNDER CONTROL. HE HAS SUCCEEDED ADMIRABLY ON ALL FRONTS, WITH SOME IMPORTANT ASSISTANCE FROM THIS BODY -- AND FROM THE ABLE CHAIRMAN OF THE FEDERAL RESERVE, PAUL VOLCKER. BUT, WITH THE BENEFIT OF HINDSIGHT, WE HAVE TO ACKNOWLEDGE THAT THERE HAVE BEEN DELAYED COSTS FOR BREAKING OUT OF THE STAGFLATION TRAP: COSTS WE ARE FEELING NOW.

TO PUT IT BRIEFLY, WE ARE STILL EXPERIENCING WHAT YOU MIGHT CALL A "DISINFLATION HANGOVER". THE FIRST, AND WIDELY-FELT, PRICE WE PAID FOR CUTTING INFLATION WAS THE 1982 RECESSION. WE RECOVERED STRONGLY FROM THAT RECESSION, AND MANAGED TO KEEP INFLATION DOWN: THE GREAT ECONOMIC TRIUMPH OF THIS DECADE, AND A STUNNING REVERSAL OF THE LOW-GROWTH, HIGH-INFLATION EXPERIENCE OF THE 1970'S. WHAT WE DIDN'T REALIZE SO CLEARLY AT THE TIME, WAS THE REVOLUTION IN INTERNATIONAL FINANCIAL AND TRADE RELATIONS THAT ACCOMPANIED OUR ECONOMIC SUCCESS.

BREAKING NEW GROUND

BY NOW CLEARLY EVERYONE UNDERSTANDS THAT AMERICA'S DOMESTIC ECONOMIC LEADERSHIP CANNOT REALLY BE ISOLATED FROM ITS ROLE IN THE WORLD ECONOMY. WHEN REAL INTEREST RATES RISE IN THE U.S., OUR TRADING PARTNERS MUST EITHER MATCH THE RETURN INVESTORS GET IN AMERICA, OR INCREASE EXPORTS TO MATCH CAPITAL OUTFLOWS, OR ARTIFICIALLY RESTRAIN BOTH TRADE AND FINANCIAL FLOWS. SO WHEN OUR DEFICITS AND INTEREST RATES WENT UP, AND WHEN WE RECOVERED FROM RECESSION MUCH FASTER THAN OUR MAIN TRADING PARTNERS, THERE WAS ANOTHER IMPACT: THE BALANCE OF TRADE SHIFTED DRAMATICALLY, AS AMERICAN CONSUMERS FOUND IMPORTED GOODS AN ATTRACTIVE OPTION, WHILE AMERICAN EXPORTERS FOUND THEIR EFFORTS HAMPERED BY AN EXCEPTIONALLY HIGH VALUE FOR THE DOLLAR IN FOREIGN EXCHANGE MARKETS.

MOVING FORWARD

ECONOMISTS WILL BE ANALYZING THE TRADE AND FINANCE REVOLUTION OF THE 1980'S FOR MANY YEARS TO COME: BUT WE HAVE TO MOVE AHEAD NOW, AND WE CANNOT WAIT FOR THE FINAL, DEFINITIVE WORD ON WHY THE REVOLUTION TOOK PLACE. BUT SOME THINGS ARE CLEAR ENOUGH RIGHT NOW TO SERVE AS USEFUL GUIDES TO ACTION.

FIRST, U.S. RECOVERY ALONE CAN'T SUSTAIN THE WORLD ECONOMY. HEALTHIER GROWTH IS NEEDED NOT ONLY IN THE DEVELOPED NATIONS, BUT EVEN MORE IMPORTANTLY, IN THE DEVELOPING WORLD OF ASIA, AFRICA, AND LATIN AMERICA.

SECOND, A BREAKDOWN IN THE SYSTEM OF FREE AND OPEN TRADE AND FINANCE WOULD BE FATAL TO ALL OUR HOPES FOR THE WORLD ECONOMY. SHUTTING THE DOORS FROM NATION TO NATION IS THE RECIPE FOR ECONOMIC CATASTROPHE ON A SCALE WE CAN SCARCELY IMAGINE.

THIRD, SUPPORT FOR ANTI-INFLATIONARY POLICIES MUST BE RALLIED BY RESORT TO MICROECONOMIC CHANGES -- DOMESTIC ADJUSTMENTS IN ALL THE FREE MARKET ECONOMIES -- GEARED TO IMPROVING PRODUCTIVITY, MAXIMIZING COMPARATIVE ADVANTAGE, AND HARNESSING THE FORCES OF THE FREE MARKET TO MAKE THE BEST USE OF THE NATURAL RESOURCES, TALENTS, AND SKILLS EVERY NATION AND EVERY PEOPLE POSSESS.

IN MANY WAYS, LOWER INTEREST RATES ARE THE KEY TO ACHIEVING ALL OF THESE GOALS. LOWER RATES CAN PROVIDE A HEALTHY ECONOMIC BOOST TO BOTH THE DEVELOPED AND THE DEVELOPING WORLD. AS THE DOLLAR MODERATES AND STABILIZES, THEY CAN ALSO DAMPEN THE DEMAND FOR KNEE-JERK PROTECTIONIST BACKSLIDING. AND A LOWER INTEREST RATE ENVIRONMENT GIVES A BOOST TO PRODUCTIVITY-ENHANCING INITIATIVES LIKE TAX CUTS AND TAX REFORM, DEREGULATION, PRIVATIZATION, RESTRAINT ON PUBLIC-SECTOR SPENDING, AND ROLLING BACK UNFAIR TRADE BARRIERS AND WASTEFUL SUBSIDIES.

I KNOW CHAIRMAN VOLCKER SHARES THESE GOALS, AND UNDERSTANDS THE RISKS. WE ALL KNOW THAT INFLATION IS NEVER PUT TO REST FOR GOOD, AND THAT WE MUST BE EVER-VIGILANT AGAINST A RECURRENCE OF THE SCOURGE AND DECEPTION OF INFLATION. BUT WE NO LONGER HAVE THE OPTION OF NOT TAKING ANY RISKS -- WE MUST BE SURE THE RISKS WE DO TAKE ARE CAREFULLY CALCULATED, AND GROUNDED IN COMMON SENSE. TO THIS SENATOR, AT THIS TIME, THAT MEANS TAKING STEPS TO MOVE TO THE LOWER-INTEREST RATE ENVIRONMENT THE WORLD ECONOMY SEEMS TO DEMAND. IN THE WEEKS AND MONTHS AHEAD, I WILL BE SPEAKING OUT CONCERNING THE EXTRAORDINARY OPPORTUNITY WE HAVE TO LAUNCH AN ECONOMIC REVOLUTION -- AND THE RISKS IF WE FAIL.
