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NEWS from U.S. Senator Bob Dole

(R.-Kans.) New Senate Office Building, Washington, D.C. 20510 (202) 225-6521

REMARKS OF SENATOR BOB DOLE
MACHINERY DEALERS NATIONAL ASSOCIATION CONVENTION
12:30 P.M. SATURDAY, APRIL 19, 1975
DIPLOMAT HOTEL
HOLLYWOOD, FLORIDA

I appreciate the kind invitation from your Association for me to join you this afternoon. I fully understand and appreciate the importance of your industry to the economic growth and well-being of this country, and I'm pleased to be here with you to share some thoughts about the prospects for renewing the growth and continuing the well-being.

Certainly with respect to your industry we can take some satisfaction from the fact that the Congress included important investment tax credit adjustments in the Tax Reduction bill recently passed and signed by President Ford. Increase in the investment tax credit should be a significant stimulus.

As well, the expansion of the limitations for eligible used property under the investment tax credit from the previous \$50,000 to \$100,000 should be of direct significance to your industry and I was pleased we were successful in retaining that expansion in Conference.

As you know, perhaps better than I, however, the recession we currently find ourselves in is not going to be solved by one tax reduction bill. In my view it represents the combination of a succession of gathering economic forces which have been building in this country for a number of years.

NO QUICK CURES

This is the sharpest and the deepest recession we have experienced in a generation. Despite the fact that a scant six months ago the present recession remained unforeseen by most, if not all, of our most expert economic observers, it cannot be said that it came upon us over night. And it cannot be safely anticipated that it will disappear overnight.

The challenge to policy makers therefore is not an unmixed one. We have to find a way to eliminate the recession, that is true. But at the same time we have to take care that the methods we choose to accomplish that goal do not at the same time stimulate other and equally ominous economic problems. In other words, if we solve the short-term problems of recession with solutions that prove inflationary in the long term, we will really have accomplished nothing. We will have replaced one problem with another of at least equal significance, and since inflation was one major cause of this recession, any inflationary solution is likely to be no solution at all. Renewed inflation will probably bring with it--a renewed recession.

CRISIS POINT

Across the wide range of crucial American issues we seem to be at a point of crisis. Crisis not in a forbidding sense perhaps, but in the sense of a turning point. We seem quite clearly in my view to be at a point in our national history where the decisions we make now and in the near term future are liable to determine in a major way the shape of this country's future for decades to come.

OPTIMISM ASSERTED

Let me make it clear at this point that I start out an optimist. The problems are there are they are large; the dilemmas confusing.

If your response to our current predicament is uncertainty, then you're not alone.

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But let me say once again, I am an optimist. Our economy has a remarkable ability to recover, if allowed to recover; to expand if allowed to expand; to produce if allowed to produce. Because policy makers are human and therefore fallible, I can be cured of my optimism.

It's possible that the crucial choices we make in the coming months and years will be the wrong choices. It's possible that we could chart a course for this country that maximizes control and minimizes freedom. It's possible in short that we could make precisely the wrong decisions' chart precisely the wrong course; and set our sights on precisely the wrong goal.

But until now, we have never done that. We have made some mistakes in the past. But they have been mistakes of implementation, not of intentions. The goal we pursued has always been clear. Maximum freedom, maximum prosperity, and the sharing of both with all Americans to the maximum extent possible.

It's because I do not think we will waiver from these goals in the future that I remain an optimist in the present.

UPTURN PREDICTED

As if to support my optimism, there is a developing concensus that there will be an economic turn around which should begin to be evident in the third quarter of this year. At present there is little disagreement about the fact that a turn around will definitely come. The debate centers rather on the speed with which the economy will recover, and the speed with which it ought to recover. In other words, the debate centers on how to develop the most appropriate policy to insure an eventual return to full employment without at the same time prompting a return to double digit inflation.

In this context the size of the federal deficit in the current fiscal year and for the immediate next fiscal year or two is of key importance. Actually, it's a dual question -- how large will those deficits be and how can, and how will, they be financed.

There is, as yet, no definitive answer to those questions. If the size of the federal deficit were left up to the new House Budget Committee, it would be something on the order of \$72 and one-half billion. If that decision were left up to the Senate Budget Committee, the deficit would be smaller, but perhaps not significantly so. The Senate Budget Committee's recommendations call for a deficit of \$69 billion. President Ford, for his part, has drawn the line on a budget deficit of \$60 billion.

FINAL DECISION RESTS WITH CONGRESS

I view the formation of the House and Senate Budget Committees in their first year of operation under the Congressional Budget Act of 1974 as a positive step. Likewise, I view the fact that President Ford has drawn the line at what he considered to be the lowest possible budget deficit as a positive step. But the final decision as to how large the federal deficit will be in fiscal year 1976 and beyond does not rest with either the Budget Committees of the Congress or the President of the United States. That final decision rests solely and totally with the Congress as a whole.

Currently we are talking in terms of budget deficit range from \$60 to \$70 billion. And we are talking about that as the conservative side of the potential deficit range. As staggering as that total may be, the fact can't be ignored that the federal deficit for fiscal '76 could grow even larger. The Senate Budget Committee estimates that there is a possibility if significant new spending is added by Congress that the deficit could grow to over \$100 billion and even as high as \$120 billion. The consequences of such an exhorbitant deficit would in my view be nothing short of disastrous for you in your industry; for job producing industries generally in this country; and indeed for the whole economy. As it is there is legitimate question about how a budget deficit on the order of \$60 to \$70 billion can be financed. Is the American economy capable of financing such a debt without setting off a new spiral in interest rates; a renewed down turn in business activity; an unwelcomed return to unacceptable levels of inflation which we are only now beginning to put behind us.

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HOW TO FINANCE DEFICIT

While there is no unanimity on the subject, there seems to be a general feeling that it's at least conceivable for the economy adequately to finance a debt in the \$60 to \$70 billion range without prompting the kinds of problems I just listed. I know of no reasonable economic forecaster who thinks we can finance a \$100 billion deficit without encountering at least those problems and probably more. In my own view a budget deficit of even \$80 or \$90 billion, much less one that goes over \$100 billion, would not only prompt a return to double digit inflation but a general down turn in the economy that could make our current recession look mild in comparison. And a budget deficit much greater than that which the Budget Committees have recommended would put us in a fiscal hole that we would be unable to dig out of for years.

Senate Budget Committee staff tells me that a \$70 billion deficit for fiscal year '76 will lead inevitably to at least a \$35 billion deficit in '77. This is true even assuming the unlikely eventuality that during those two years there would be no new spending programs passed by the Congress. An increase in our budget deficit for '76 would necessitate a roughly proportionate increase in the deficit for '77. And the fiscal hole we'd find ourselves in would only get deeper and deeper.

Whatever temporary recovery we might buy now or with massive spending by the federal government would quickly fade, under the pressures of such an enormous deficit.

CAN'T BURY RECESSION IN MONEY

This underscores the truth of a basic and rather general proposition about public policy, in my view. It is true of the problems of recession, as it is true of most of our problems, that they can't be solved by the simple expedient of throwing dollars at them. Massive federal spending may provide a temporary stimulus, but if it leads to a succession of monstrous budget deficits, it is bound to be counter-productive.

Let me quote at length from Federal Reserve Chairman Arthur Burns' testimony before the Budget Committee:

"I cannot stress too strongly," he said, "the dangers inherent in a deficit of anything like that magnitude. Much of the financing of the deficit will occur at a time when private credit demands will probably be strengthening. Enormous strains may therefore be placed on the money and capital markets. This means that interest rates may begin to shoot up, that many private borrowers may be crowded out of the market, that savings funds may once more be diverted from mortgage lenders, and that the stock market may turn weak again."

In other words, if we merely try to spend our way out of recession, it won't be long before we find ourselves right back in a recession.

He went on to promise that even in this eventuality -- a \$100 billion dollar or more deficit -- the Fed will pursue "a moderate path of monetary expansion" to avoid a new and even more virulent round of inflation.

TIME IS NOW

Though the precise amount hasn't yet been fixed, an enormous deficit for fiscal year 1976 is already an unavoidable reality. The time for bringing the federal budget under control -- and for regaining a degree of control over our own fiscal future-- is running short.

If, as I said earlier, the ultimate responsibility rests with the Congress for controlling spending and keeping the size of the deficit as low as possible, then let me state a corollary to that.

I am still a believer in our system. So, if the responsibility rests with the Congress, then it follows that the responsibility really rests with you. The Congress will respond to your pleas for budgetary restraint, if you make them vocally and persuasively enough.

CHANGING CURCUMSTANCE

Only a decade or so ago, public debate centered on the question of whether we could afford to live with inflation of 3 or 4 percent a year in order to enjoy full employment. Now, we are trying to find ways to get back to the relative bliss of 3 or 4 percent inflation and we are even further from full employment than before.

HOW TO FINANCE DEFICIT

So long as we are bedeviled by the twin economic irritants of inflation and recession, our concern about unemployment will prevent us from exercising the severe restraint that would otherwise be indicated as a solution for inflation.

The only alternative left to us then is moderate restraint over the long haul.

SEVERE PRESSURES

This Congress, like Congresses before it will be under severe pressure to pass new spending programs. It must resist that pressure. You must exercise a counter-pressure toward spending restraint, in your interest and in the interest of your country.

Let me quote from another optimist, if I may, Mr. Ben Wattenberg whose observations about America have been enlightening us about ourselves for the last few years. He says that "Democracies work slowly, only after politicians complain and moan, after pundits and the public denounce leadership, after legislatures pick nits. But they do work... While our government is not always terribly smart or innovative or efficient, it is almost always quite responsive."

Government's response to your stimulus for spending restraint will be as quick and as effective as your call for restraint is persuasive. And the facts are all on your side. The need for restraint in the short term, so that we might have prosperity and growth in the long term, is compelling.

I repeat, if the responsibility belongs to the Congress, the people's representatives, then the responsibility really belongs to you, the people.

And, in the final analysis, it is that fact about the popular nature of our democratic system that supports and sustains my optimism.

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He went on to promise that even in this emergency -- a \$100 billion dollar or more deficit -- the Fed will pursue "a moderate path of monetary expansion" to avoid a now and even more violent round of inflation.

TIME IS UP

Though the precise amount hasn't yet been fixed, an enormous deficit for fiscal year 1975 is already an unavoidable reality. The time for bridging the federal budget under control -- and for retaining a degree of control over our own fiscal future -- is running short.

If, as I said earlier, the ultimate responsibility rests with the Congress for controlling spending and keeping the size of the deficit as low as possible, then let me state a corollary to this:

I am still a believer in our system. So, if the responsibility rests with the Congress, then I believe that the responsibility really rests with you. The Congress will respond to your plea for budgetary restraint, if you make their vocal, and persuasively enough.

CHANGING CIRCUMSTANCES

Only a decade or so ago, public debate centered on the question of whether we could afford to live with inflation of 2 or 4 percent a year in order to enjoy full employment. The answer then lay in the relative price of government securities and we are even further from full employment than before.