

News from Senator

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REMARKS OF SENATOR BOB DOLE

NEW HAMPSHIRE ASSOCIATION OF COMMERCE AND INDUSTRY

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SHERATON TARA -- NASHUA, NEW HAMPSHIRE

THANK YOU, WARREN. NEW HAMPSHIRE IS FORTUNATE TO HAVE YOU IN THE SENATE. SENATOR RUDMAN HAS BEEN OF IMMENSE HELP TO ME AS WE WORKED TO PUT TOGETHER THE SENATE BUDGET PACKAGE. RECENTLY HE PLAYED A MAJOR ROLE IN THE \$300 BILLION DEFENSE AUTHORIZATION BILL AND THE SENATE RESOLUTION ON SALT II THAT SET THE STAGE FOR PRESIDENT REAGAN'S DECISION TO GENERALLY ADHERE TO THE SALT II LIMITS. NO DOUBT ABOUT IT, WARREN IS AN OUTSTANDING MEMBER OF THE U.S. SENATE -- IN FACT, HE HAS VOTED WITH THE SENATE LEADERSHIP NEARLY EVERY TIME.

I AM ADVISED THAT THIS IS A VERY DIVERSE GROUP: YOU REPRESENT THE DIVERSITY OF THE ECONOMY HERE IN SOUTHERN NEW HAMPSHIRE, FROM HIGH-TECH GROWTH INDUSTRIES TO MORE TRADITIONAL MANUFACTURING AND RETAIL ENTERPRISES. WHAT BINDS YOU TOGETHER IS YOUR COMMON INTEREST IN A STRONG, HEALTHY AMERICAN ECONOMY. THE SUPPORT OF CITIZENS LIKE YOURSELVES WAS CRITICAL TO THE SUCCESS OF THE REAGAN ADMINISTRATION IN TURNING OUR ECONOMY AROUND. NOW YOUR INVOLVEMENT IS NEEDED AGAIN -- TO HELP US IN WASHINGTON MAINTAIN THE LONGEST SUSTAINED RECOVERY SINCE THE END OF WORLD WAR II.

## RECORD OF PROGRESS

TO UNDERSTAND WHAT IS AT STAKE, CONSIDER THE PROGRESS WE'VE MADE IN THE LAST FOUR YEARS. SINCE 1981 WE HAVE CREATED 8 MILLION NEW JOBS. INFLATION HAS COME DOWN FROM OVER 13 PERCENT TO JUST AROUND 4 PERCENT. INTEREST RATES, WHICH PEAKED AT A RECORD 21 PERCENT, ARE DOWN TO ABOUT 10 PERCENT. TAX CUTS, GROWTH, AND



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LOW INFLATION HAVE BOOSTED REAL PERSONAL INCOME AND CONSUMER CONFIDENCE.

BUSINESS HAS BENEFITED FROM ECONOMIC EXPANSION AT A 6 PERCENT ANNUAL RATE IN THE LAST TWO YEARS. SINCE 1982 REAL INVESTMENT IN NEW PLANT AND EQUIPMENT HAS GROWN 15.4 PERCENT A YEAR -- THE FASTEST OF ANY POSTWAR RECOVERY. REAL INVESTMENT IS AT ITS HIGHEST POSTWAR LEVEL, AND INDUSTRIAL PRODUCTION IS UP 23 PERCENT SINCE THE BOTTOM OF THE RECESSION. AND CORPORATE PROFITS HAVE GROWN NEARLY 90 PERCENT SINCE 1982.

SO THAT'S THE GOOD NEWS. BUT PROGRESS HAS NOT COME EASY, AND IT WON'T CONTINUE UNLESS WE STICK TO OUR COURSE AND FACE UP TO THE CHALLENGES CONFRONTING OUR ECONOMY. FIRST AND FOREMOST: THE FEDERAL DEFICIT.

#### TOP PRIORITY

I HAVE MADE DEFICIT REDUCTION MY TOP PRIORITY AS SENATE MAJORITY LEADER BECAUSE IT IS THE KEY TO ECONOMIC GROWTH -- AND TO PREVENTING ECONOMIC DISASTER. WE MUST MAKE CERTAIN WE ACT THIS YEAR TO GUARANTEE LONG-TERM ECONOMIC PROSPERITY.

WHEN THE SENATE APPROVED A DEFICIT-REDUCTION PLAN CUTTING NEARLY \$300 BILLION OVER THE NEXT THREE YEARS, I WAS PRETTY OPTIMISTIC. BUT THEN THE HOUSE BUDGET, WHICH APPROACHES OUR SENATE CUTS ON PAPER BUT AVOIDS THE REAL STRUCTURAL CHANGES AND PROGRAM TERMINATIONS THAT SAVE MONEY IN THE LONG TERM, DAMPENED MY ENTHUSIASM A BIT.

THEN LAST WEEK, DAVID STOCKMAN AT OMB PUT OUT A 'BLUE CHIP' CONSENSUS OF PRIVATE ECONOMIC FORECASTS THAT WAS NOT NEARLY AS ROSY AS THE ADMINISTRATION HAD PREDICTED. THAT CONSENSUS SHOWS A 1988 DEFICIT OF BETWEEN \$160 AND \$175 BILLION, EVEN WITH ALL OF THE SENATE'S BUDGET CUTS. BY CONTRAST, WE HAD ESTIMATED A \$104 BILLION DEFICIT IN 1988 WITH THOSE CUTS IN PLACE.



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IN SHORT, WE WOULD NEED ANOTHER \$54 TO \$71 BILLION IN SPENDING CUTS IN 1988 TO MEET OUR GOAL OF SLASHING THE DEFICIT IN HALF BY THAT YEAR -- WITHOUT RAISING TAXES.

ON TOP OF THAT, THE HOUSE-SENATE BUDGET CONFERENCE GOT OFF TO A ROCKY START. FOR THOSE OF YOU UNFAMILIAR WITH OUR PROCEDURES, THIS IS WHERE MEMBERS OF THE HOUSE AND SENATE BUDGET COMMITTEES SIT DOWN TOGETHER TO WORK OUT DIFFERENCES BETWEEN THE HOUSE AND SENATE VERSIONS. SO FAR, THERE IS LITTLE SIGN THE HOUSE CONFEREES WANT TO BREAK THE SPENDING HABIT -- EVEN FOR PROGRAMS THAT HAVE NOTHING TO DO WITH NEED.

#### TAX REFORM

WHILE DEFICIT REDUCTION HEADS OUR ECONOMIC AND LEGISLATIVE AGENDA, THERE ARE OTHER VITAL DECISIONS TO BE MADE THAT WILL SHAPE OUR ECONOMY FOR THE REST OF THE DECADE. NUMBER ONE ON THAT LIST IS TAX REFORM, WHICH MAY LOSE MOMENTUM UNLESS WE DEAL WITH THE DEFICIT NOW.

SIMPLY PUT, THE URGENT NEED TO REDUCE THE DEFICIT PUSHES OTHER IMPORTANT MATTERS OFF THE LEGISLATIVE CALENDAR. I KNOW THE PUBLIC IS SKEPTICAL CONGRESS DOES ANY WORK AT ALL -- BUT WE DO TRY, AND THE SLOW PACE ON THE BUDGET DIMINISHES OUR CHANCES FOR TAKING UP OTHER IMPORTANT LEGISLATION. WE HAVE JUST 70 OR 80 WORKING DAYS LEFT BEFORE THE PROJECTED END OF THIS SESSION OF CONGRESS ON NOVEMBER 15.

IN THAT SHORT TIME WE HAVE TO PASS APPROPRIATIONS BILLS, SO THE GOVERNMENT CAN PAY FOR THE PROGRAMS WE AUTHORIZE. WE WILL HAVE TO RAISE THE DEBT CEILING, SO THE GOVERNMENT CAN BORROW TO FINANCE THE DEFICITS WE HAVE ALREADY INCURRED. AND EVEN IF WE GET A BUDGET AGREEMENT, IT IS NOT SELF-ENFORCING: WE HAVE TO FOLLOW THROUGH WITH THE PROGRAM CHANGES THAT REALLY SAVE THE MONEY. ALL OF THAT TAKES TIME BECAUSE SOME OF OUR COLLEAGUES LIKE TO TALK AND BECAUSE IT INVOLVES HUNDREDS OF LEGISLATIVE CHANGES.



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BASED ON MY OWN EXPERIENCE AS CHAIRMAN OF THE FINANCE COMMITTEE, I ESTIMATE THAT A TAX BILL WITH THE SCOPE OF THE PRESIDENT'S REFORM PLAN WILL TAKE A MINIMUM OF FOUR WEEKS ON THE SENATE FLOOR. THAT'S A MINIMUM. THEN WE WOULD HAVE TO REACH AGREEMENT WITH THE HOUSE, AND GET THAT AGREEMENT APPROVED IN THE SENATE.

THE POINT IS, THE LONGER THE BUDGET IS DELAYED, THE LESS CHANCE THERE WILL BE TO ACCOMPLISH TAX REFORM OR MUCH ELSE THIS YEAR.

#### REAGAN PLAN

IF WE SUCCEED IN DEALING WITH THE DEFICIT, THE REAGAN TAX PLAN WILL MOVE TO CENTER STAGE. THE PRESIDENT'S PROPOSAL IS A COURAGEOUS AND HISTORIC INITIATIVE. THERE IS MUCH IN THIS PLAN THAT HAS LONG NEEDED DOING: MOST IMPORTANTLY, REDUCING TAX RATES.

ON THE BUSINESS SIDE, THE TAX SYSTEM WOULD BE REVISED TO FIT A NEW INDUSTRIAL ERA. RATHER THAN COUNTING WINNERS AND LOSERS, IT MIGHT BE BETTER TO EVALUATE THE PRESIDENT'S PLAN IN TERMS OF THE GOALS HE HAS SET: THAT IS, ITS SUCCESS IN ESTABLISHING A 'LEVEL PLAYING FIELD' FOR DIFFERENT TYPES OF BUSINESSES, AND IN ELIMINATING TAX CONSIDERATIONS AS A PRIME MOTIVATION FOR MAKING ECONOMIC DECISIONS. THAT IS A JUDGMENT THE TAX-WRITING COMMITTEES WILL HAVE TO MAKE.

#### NOT A NEW ISSUE

THE PRESIDENT'S PLAN WOULD BE A GREAT STEP FORWARD IN TAX POLICY. BUT NOT THE FIRST STEP. WHEN I CHAIRED THE SENATE FINANCE COMMITTEE, WE BEGAN THE TAX REVOLUTION THE PRESIDENT NOW WANTS TO CONSOLIDATE.

IN 1981 WE FOLLOWED THE PRESIDENT'S LEAD, LOWERING TAX RATES AND OVERHAULING DEPRECIATION SCHEDULES TO BOOST WORK, SAVINGS AND INVESTMENT. IN THE SENATE, WE REINFORCED THE COMMITMENT TO LOWER RATES BY INDEXING



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THEM, AT THE INITIATIVE OF SENATOR ARMSTRONG AND MYSELF.

IN MANY WAYS THAT 1981 BILL SET THE STAGE FOR SUBSEQUENT TAX REFORM EFFORTS. BY BRINGING DOWN RATES AND STABILIZING THEM, WE FORCED ATTENTION ON THE INDIVIDUAL TAX BASE. WITH ACCELERATED DEPRECIATION, WE HAD A SIMILAR IMPACT ON THE CORPORATE SIDE BY SLASHING THE CORPORATE TAX BURDEN EVEN THOUGH WE DIDN'T REDUCE CORPORATE RATES.

THE PROOF OF THAT IS THE 1982 TAX BILL WE INITIATED IN THE SENATE -- THE LARGEST TAX REFORM BILL EVER. THAT BILL JOINED SPENDING CUTS TO REVENUE-RAISERS IN THE FORM OF CLOSING LOOPHOLES AND IMPROVING TAX COMPLIANCE. AT THE TIME, I WROTE IN THE WALL STREET JOURNAL THAT "WE MAY BE WITNESSING THE BEGINNING OF A PROCESS THAT, OVER THE NEXT FEW YEARS, WILL LEAD TO A SIMPLER, FAIRER, AND ECONOMICALLY MORE PRODUCTIVE SYSTEM ... IF WE CALCULATE THE STEPS CAREFULLY, THE WAY IS OPEN TO A MAJOR REFORM OF OUR TAX SYSTEM, IN THE INTEREST OF ECONOMIC EFFICIENCY AS WELL AS FAIRER TREATMENT OF THE AVERAGE TAXPAYER."

SO THE 1981 TAX CUTS AND THE 1982 AND 1984 TAX REFORMS HAVE SET THE STAGE FOR A MAJOR REVISION OF THE TAX SYSTEM. I INTEND TO BE A MAJOR PLAYER WHEN CONGRESS MOVES TO DRAFT A TAX BILL. BUT FOR NOW, WE HAVE TO CONVINCE THE PLAYERS IN THE BUDGET DRAMA TO GET OFF THE STAGE AND MAKE ROOM FOR THE NEXT PERFORMANCE.

#### TAKING THE LONG VIEW

A GREAT SON OF NEW HAMPSHIRE, DANIEL WEBSTER, SAID THIS ABOUT ALEXANDER HAMILTON: "HE SMOTE THE ROCK OF THE NATIONAL RESOURCES, AND ABUNDANT STREAMS OF REVENUE GUSHED FORTH. HE TOUCHED THE DEAD CORPSE OF PUBLIC DEBT, AND IT SPRUNG TO ITS FEET."

HAMILTON, AS OUR FIRST TREASURY SECRETARY, WAS A GENIUS OF PUBLIC FINANCE WHO UNDERSTOOD THE PROPER



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ROLES OF ECONOMIC EXPANSION, TAXATION, AND DEBT IN MAINTAINING A SOUND ECONOMY. BUT TODAY THAT 'DEAD CORPSE' OF DEBT IS RUNNING WILD. IN THE LAST FIVE YEARS WE HAVE DOUBLED THE NATIONAL DEBT. THIS YEAR WE WILL PAY \$130 BILLION JUST FOR INTEREST ON THE DEBT, MORE THAN THE ENTIRE FEDERAL BUDGET AS RECENTLY AS 1965. THAT IS HOW BAD THE DEFICIT SITUATION IS.

BUT THE SHEER SIZE OF THE DEBT IS ONLY PART OF THE PROBLEM. FOR INVESTORS, CONSUMERS, AND BUSINESSMEN IN THE REAL WORLD THE REAL DANGER IS THE HIGH RISK OF RENEWED INFLATION OR ECONOMIC COLLAPSE. IF WE INCUR DEBTS BEYOND OUR MEANS, WE UNDERMINE INVESTMENT, SAVINGS, AND BUSINESS EXPANSION. IF WE PUMP UP THE ECONOMY TO FINANCE OUR DEBT, THE FIRES OF INFLATION WILL RISE ONCE MORE.

WE CANNOT LEAVE THE FEDERAL RESERVE A CHOICE BETWEEN REINFLATING THE ECONOMY AND WATCHING THE HIGH DOLLAR DESTROY OUR EXPORT MARKETS. REDUCING GOVERNMENT BORROWING BY CUTTING SPENDING IS THE WAY OUT -- THE ONLY WAY OUT -- OF THAT DILEMMA.

THE WARNING SIGNS ARE THERE FOR ANYONE TO SEE. IN THE FIRST QUARTER OF THIS YEAR, GROWTH WAS ONLY .7 PERCENT. THE SECOND QUARTER IS EXPECTED TO COME IN AROUND 2 PERCENT. TOGETHER, THOSE FIGURES MAKE IT NEARLY IMPOSSIBLE TO MEET THE ADMINISTRATION'S GROWTH TARGET AT 3.9 PERCENT IN 1985. THAT, IN TURN, MEANS LOWER REVENUES AND HIGHER DEFICITS.

THAT'S NOT GOOD FOR AMERICA. IT'S NOT GOOD FOR NEW HAMPSHIRE, AND IT'S NOT GOOD FOR OUR FRIENDS AND ALLIES ABROAD.

IT MAY BE APPROPRIATE TO ACT AS ROBERT FROST SUGGESTED IN HIS MOST FAMOUS POEM, WHICH CLOSES: "TWO ROADS DIVERGED IN A WOOD, AND I -- I TOOK THE ONE LESS TRAVELED BY, AND THAT HAS MADE ALL THE DIFFERENCE."



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POLITICIANS SELDOM TAKE THE ROAD LESS TRAVELED -- THEY FIND FEW OF THEIR CONSTITUENTS THERE. BUT IN CONGRESS WE ARE ELECTED TO TAKE THE RIGHT ROAD, EVEN IF IT IS THE LESS POPULAR ONE. AND WE CAN MAKE A DIFFERENCE BY DOING SO.

FOR MY FARMERS IN KANSAS; FOR AMERICAN MANUFACTURERS; FOR YOUNG FAMILIES JUST STARTING OUT; FOR SMALL BUSINESSMEN WHO NEED CAPITAL; FOR GRADUATES JUST ENTERING THE WORK FORCE; WE CAN HELP. ECONOMISTS TELL US WE CAN CREATE 7 MILLION JOBS BY 1988 JUST BY CUTTING THE DEFICIT BY \$300 BILLION AS IN THE SENATE PLAN.

BY REINING IN DEFICITS NOW -- AND PREVENTING THEM IN THE FUTURE, WITH INSTITUTIONAL REFORMS LIKE THE BALANCED BUDGET AMENDMENT AND THE LINE-ITEM VETO -- WE CAN ENSURE A NEW ERA OF PRODUCTIVITY AND PROSPERITY. I AM COMMITTED TO ATTENDING TO BOTH THE NEAR-TERM AND THE LONG-TERM REFORMS WE NEED IN THIS SESSION OF CONGRESS.

BOTH THE BALANCED BUDGET AMENDMENT AND THE ITEM VETO WILL BE ON THE SENATE FLOOR IN JULY, OR SEPTEMBER AT THE LATEST. WE NEED THIS INSTITUTIONAL DISCIPLINE: FOR CONGRESS, TO CONSTRAIN OUR SPENDING HABITS--FOR THE PRESIDENT, TO GIVE HIM THE FLEXIBILITY NEEDED TO CONTROL SPECIFIC SPENDING THAT IS UNWARRANTED OR WASTEFUL. TOGETHER, THESE INITIATIVES FORM A SOUND FISCAL AGENDA FOR THE FUTURE.

WE CAN DO NO LESS IF WE ARE COMMITTED TO THE GOAL OF ECONOMIC SECURITY NOT JUST IN OUR LIVES, BUT FOR OUR CHILDREN AND THEIR CHILDREN. WE MUST ACT NOW, BUT THE CONSEQUENCES OF OUR ACTIONS WILL REVERBERATE FOR MANY YEARS TO COME.

THANK YOU.