

REMARKS OF SENATOR BOB DOLE

RETAIL STORE'S ASSOCIATION

WASHINGTON, D.C.

JANUARY 31, 1979

Let me begin this afternoon by telling how honored I am by your invitation. I especially appreciate the chance to share some of my economic theories with you, the experts in free enterprise, as well as sketch briefly what we may look for in the current session of the Congress.

One fact stands out: We stand on the brink of an economic crisis.

Last week, we listened to the President proclaim the need for a new foundation for America. I thought at last he was realizing what federal deficits were doing to the economic structure of free enterprise. But as I listened closer, I caught a note--no, an entire symphony--of self-congratulations. President Carter stood before the American people and congratulated himself on turning in a budget \$29 billion in the red.

I needn't remind any of you what would happen to an executive in the private sector who took comfort in such boasts. The stockholders wouldn't stand for it. Neither, in my opinion, should the American people.

Surprise followed surprise in Washington last week. The budget, that poor undernourished creature described by the President as "lean and austere" was released for public scrutiny.

A BUDGET OUT OF CONTROL

We've all heard that defense spending is up 1.7 percent. Did you know that the Department of Health, Education and Welfare is up over 10 percent? That Housing and Urban Development is up 18 percent. That \$10 billion is still allocated to the CETA Program, despite widely reported abuses and financial mismanagement of that public employment scheme.

This year, the people of the United States will be taxed nearly \$60 billion just to pay interest on their nations' public debt. That's more than we spend on energy, foreign aid, revenue sharing, science and technology, aid to community and regional development, pollution control, agriculture and civil service retirement.

Since 1970 alone, we have run up more than a third of a billion dollars in such irresponsible debts. If a child was born this minute, he or she could not equal this years' federal spending spree by shelling out \$10,000 a minute for a hundred years.

The numbers take on a numbing sameness after a while, a remote horror that only recently has begun to enrage the people who pay the bills.

As if all this weren't bad enough, we have a President forecasting this \$29 billion deficit based upon economic assumptions that are, at best, rosy. The President promises us that inflation will decline from nearly 10 percent to just 7.5 percent. He predicts the economy will grow at an annual rate of at least 2.2 percent this year, and half again as high in 1980. Finally, he projects a rise in unemployment to a level no higher than 6.2 percent.

It's not enough to say that Administration forecasts have been grievously incorrect in the past, nor that most economists dispute these latest predictions as wildly optimistic. The debate over current economic policy must not be limited to mere statistics.

Of far more importance is the long-range trend toward a federal government that assumes for itself a divine right in allocating and adjusting national wealth. And this inexorable rise in government expectations can hardly be checked by a budget \$29 billion--and probably more--out of balance.

A BANKRUPT POLICY

Half a century has passed this October since the collapse of Wall Street ushered in the great depression. What we saw last week was the attempt by a well-meaning President to reconcile depression era political theory with the demands of the modern world. We heard the President doing his best to paper over cracks in his own party, promising a little more New Deal as a remedy for his failure to enlist the loyalties of the Democratic left wing. The President speaks of economy. But he practices spendthrift tactics. He urges a new foundation, but overlooks the reason why the house is falling down.

We Americans are witnessing a party and an economic philosophy coming apart at the seams. We are seeing first-hand what happens to a political organization grown flabby and intellectually barren.

But we are in no position to gloat over the downfall of government by charge card. For we must assume responsibility for replacing the old and exhausted formulas of the past with economic policies that reflect a maximum utilization of individual initiative.

A NEW ECONOMICS

The time has come for a new economics, more appealing than the old, based on more than a mere balanced budget.

To achieve such a goal, we must set out to educate and enlist the American people. What's wrong with a \$29 billion deficit? For one thing, such fiscal irresponsibility is the single largest cause of inflation. And inflation is far more than the pain attending a visit to the supermarket. Inflation discourages capital investment, which in turn discourages job formation. And we must continue to hit hard at the direct cause and effect relation between bloated government and a sluggish economy.

Beyond that, a balanced budget is absolutely vital to the psychological mood we create at home and abroad. Labor and management, whatever their other differences, are united in rejecting guidelines and other cost controls until they perceive as genuine the federal governments' commitment to a war on inflation. And it should come as no surprise that foreign bankers will continue dumping American dollars unless they, too, are persuaded that the dollar rests upon something more reliable than Mr. Carter's new foundation.

A POSITIVE ALTERNATIVE

But criticism comes cheap. It may be the only thing nowadays that does. If those of us who believe in free enterprise as a solution to economic problems are to earn the confidence of 220 million Americans, we must propose to them an agenda that is both creative and compassionate, fresh and forceful. They are waiting for us to do so. The very future of our political and economic systems hangs in the balance.

The year ahead holds special incentive for those of us who wish to institutionalize taxpayers' mistrust of big government. The American people are ripe for conversion to an economic theory that promises them a share in a healthy economy instead of a handout from a distant government. It's up to us to demonstrate the stake they have in reducing federal interference in the workings of free enterprise.

TAX INDEXING

For one thing, we can move now to enact a system of tax indexing. I have introduced legislation which would do just that, tying withholding rates to the Consumer Price Index and thereby removing the political incentive for Congressmen to pass so-called "tax cuts" which are not, in fact, tax cuts at all. Indexing is a fairer way of assessing the tax load. It reassures our people and our business sector that the federal government is at last willing to assume responsibility for the ravages of inflation, rather than turn those ravages to political benefit.

In a larger sense, we must recognize that inflation is not our only economic adversary. An administration with broader vision than the current one would link the fight against inflation to the challenge of stimulating productivity. It would coordinate policies to attack the root causes of low productivity, namely, high energy costs and excessive regulation of the economy. An imaginative administration would recognize that much of the current regulatory tangle has little or no social value. Instead, such regulation protects monopolistic interests at the expense of true free enterprise.

An administration that cared about individual initiative would consider incentives, such as tax credits, to replace the top heavy federal structure of over 80 agencies and bureaus that soak up a \$100 billion a year that might otherwise stimulate economic growth.

THE HOAX OF WAGE INSURANCE

Such an administration could not, however, propose as inflationary a scheme as the President's so-called real wage insurance program. The only thing that idea would insure would be even larger federal deficits, even more borrowing by the U.S. Treasury, and an even greater burden of debt to be borne by our children and grandchildren.

If real wage insurance is the most innovative economic idea that this Administration can come up with, then it needs help from outside sources. That's where the Congress, working in tandem with leaders of the private sector, can help redirect this directionless Administration. It is not enough to reject real wage insurance, which we almost certainly will do. We must press forward with our own ideas, to address the cries of confidence in America's economy.

SOCIAL SECURITY AND MINIMUM WAGE

The continuing drain on the nation's social security system and the taxes enacted by the Congress to alleviate that drain, will again come under consideration in the 96th Congress. Even the Democratic caucus has urged members of the House Ways and Means Committee to examine a possible rollback of such taxes. The 1979 tax increases should be forestalled, if only in hopes of crimping the current inflationary surge and signaling to the nation's private sector a faith in its ability to produce us out of any possible recession.

Recently, Federal Reserve Chairman Miller indicated that such a one year postponement would result in at least a half percent reduction in the overall rate of inflation. I believe that is an acceptable risk; one that I will continue to urge upon my Congressional colleagues.

Another possible revision in economic statutes already passed comes in the new Minimum Wage Law. The reasons why a youth differential should be created are hard to overlook. For one thing, such a differential would ease the financial strain on thousands of smaller businesses. But the other side of that coin is the unemployment, particularly among minority and other urban youth, that government has created, ironically enough, in its intention to promote social and economic justice. I believe that a fair chance for such a differential exists in this Congress, but it will come about only through great pressure upon the leftwing of the Democratic Party, which is once more at war with its President over the issue. I hope you will join with me in exerting such pressure. It is a test of our determination to make free enterprise more humane, a system that cares about people as well as profits.

THE OUTLOOK ON TAXES

Let me conclude with a brief look at some tax questions before the 96th Congress. I hope it's not too discouraging a note on which to end. As you know, the Revenue Act of 1978 extended and made permanent the investment tax credit for rehabilitation of buildings. It's one of the best tools at our command to encourage business expansion and increased productivity. So why not extend such a credit to commercial buildings and parking lots?

The idea may yet be adopted, but I don't foresee it this year. For one thing, there is the overwhelming reality of fiscal stability staring us in the face. The Carter budget, unbalanced as it is and crying out for reduction, is not likely to permit any major new cuts in federal tax revenue. Beyond the political realities, there are questions of capital flow from urban cities to suburban parking lots to be considered.

Don't get me wrong; expansion of the ITC is not dead. But it does require careful examination before a politically sensitive Congress can justify such a step. Once again, I anticipate that you and your colleagues will undertake to educate those of us who serve on the Finance Committee.

By the same token, only a longrange forecast of American tax policy would include Senator Russell Long's proposal for a value added tax. The VAT is extensively used in Europe, and no one doubts its ability to raise money hand over fist. For each percentage of such a tax, the government could expect to raise about \$8 billion. Thus, an 8 percent value added tax, applied at each stage of production, could be expected to raise the \$96 billion currently raised by social security taxes. Moreover, VAT does have a clear virtue in promoting exports.

Yet a number of questions persist. For one thing, such a tax tends to be regressive in nature. It is a hidden tax, and would certainly be harder to administer and enforce than payroll taxes.

The best that can be said of VAT for now is that little immediate action can be expected one way or another. Some preliminary Congressional hearings may take place this year, but so radical an alteration in the way America collects its revenue can hardly be expected to win quick approval.

AN ECONOMIC PARTNERSHIP

On the VAT, as on the other issues I have mentioned this afternoon, the Congress, like the Administration, cannot hope to guide future policy without the constructive input of you, the experts in financial planning. You are the ultimate practitioners of free enterprise, and you, far better than government, can create the jobs that will fuel economic expansion if only we give you the incentive and the tools to do so.

But if I leave you with a single message, let it be this: No amount of talk about a balanced budget or economic incentive will succeed unless we persuade the American people that it is in their best interest to support the new economics. For in the end, however slowly the glacier of official Washington may move, it does respond to their appeals. They do call the shots, however sluggish we may be in responding. Right now, they are willing to accept a rebirth of free enterprise and a corresponding reduction in intrusive government.

To capitalize on that still vague feeling, to harden it into conviction, is the task we face before us. The stakes are high, the potential is enormous. We cannot afford to sit back in comfortable apathy. Our children and grandchildren will not permit it.