

REMARKS OF SENATOR BOB DOLE
FINANCIAL ANALYSTS SPEECH

WASHINGTON, D.C.

JUNE 19, 1979

I'M VERY PLEASED TO HAVE THIS CHANCE TO SPEAK WITH YOU, AMERICA'S FINANCIAL EXPERTS. I NEEDN'T TELL YOU, WE COULD USE MORE OF YOUR EXPERTISE AT MONEY MANAGEMENT IN THE FEDERAL GOVERNMENT. OF COURSE, THE FEDERAL GOVERNMENT COULD USE MORE OF ANY EXPERTISE. THE FACT IS, AS I STAND BEFORE YOU AND ATTEMPT SOME CONCISE ANALYSIS OF AMERICA'S FINANCES, I'M CAUTIOUSLY HOPEFUL.

FOR WE LIVE AT A CROSSROADS WHEN THE FRUSTRATIONS OF OUR PEOPLE AT GOVERNMENT'S EXCESS, BOTH FINANCIAL AND BUREAUCRATIC, COULD YET TURN OUR COURSE AROUND, AND INSTILL A WHOLE NEW ATTITUDE TOWARD ECONOMIC INCENTIVE AND PRIVATE INITIATIVE.

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GOVERNMENT WON'T INSTILL SUCH AN ATTITUDE; IT HAS A VESTED INTEREST IN BLOATED BUDGETS AND ECONOMIC DICTATION. ONLY AN AROUSED POLITICAL COMMUNITY CAN RESTORE THE IDEAS OF PRODUCTION AND PROFIT WHICH MADE THIS COUNTRY'S ECONOMY THE ENVY OF THE WORLD.

BUT HOW DO WE APPROACH WHAT MOST PEOPLE, UNDERSTANDABLY, REFER TO AS "THE DISMAL SCIENCE?" HOW DO WE LINK A STRONGER PRIVATE SECTOR WITH A PUBLIC DESIRE FOR ECONOMIC SECURITY? HOW DO WE DEMONSTRATE THE DIRECT ROAD FROM MUSHROOMING GOVERNMENT TO SKYROCKETING INFLATION? AS RANKING REPUBLICAN ON THE SENATE FINANCE COMMITTEE, I BELIEVE I HAVE AN OBLIGATION TO TRY TO DO JUST THAT.

CARTER'S APPROACH TO INFLATION: SPEAK LOUDLY AND CARRY A TOOTHPICK

A FEW WEEKS AGO, A FEDERAL COURT INVALIDATED THE ADMINISTRATION'S WAGE-PRICE GUIDELINE PROGRAM. BESIDES PUTTING AN END TO A BLATANT ABUSE OF ECONOMIC POWER, THE COURT ONLY POINTED UP THE OBVIOUS: THAT THE GUIDELINES WERE NOT WORKING, AND THAT THE TIME HAS COME FOR SOMETHING, ANYTHING TO COME OUT OF THE WHITE HOUSE WHICH SUGGESTS AN AWARENESS OF WHAT TOUGH STEPS MUST BE TAKEN TO STEM THE CURRENT INFLATIONARY SPIRAL.

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TO DATE, JIMMY CARTER HAS NIBBLED THE BULLET ON INFLATION. TO GIVE YOU BUT ONE EXAMPLE; ANY ADMINISTRATION THAT REALLY WANTED TO WAGE ALL-OUT WAR ON INFLATION WOULD NOT OVERLOOK THE EXPENSIVE AND COUNTERPRODUCTIVE PROVISIONS OF THE DAVIS-BACON ACT, REQUIRING THE GOVERNMENT TO PAY AN AREA'S PREVAILING WAGE IN CONSTRUCTION PROJECTS, THE ACT NOT ONLY CONTRIBUTES TO INFLATIONARY PRESSURES IN THE CONSTRUCTION INDUSTRY, BUT ALSO WORKS AGAINST THE HIRING OF YOUNG AND MINORITY WORKERS.

I BELIEVE DAVIS-BACON SHOULD BE REPEALED. WE CAN NO LONGER AFFORD SUCH AN OUTDATED, INFLATIONARY LUXURY.

BEYOND THAT, THE AMERICAN PEOPLE ARE WONDERING PRECISELY WHAT IS THIS ADMINISTRATION'S ATTITUDE TO INFLATION. THE PRESIDENT SAYS HE'S AGAINST IT, BUT HE HAS THUS FAR FAILED TO ARTICULATE A COHERENT ECONOMY POLICY. HE MEANS WELL, BUT THAT'S NOT THE SAME THING AS LEADERSHIP.

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WHAT WE NEED NOW, MORE THAN EVER BEFORE, IS A SENSE OF DIRECTION, OF WHERE WE ARE AND WHERE WE WISH TO GO. THEN WE NEED CONSTRUCTIVE IDEAS TO LEAD US THERE.

A COMMON SENSE ATTACK ON INFLATION

MY ECONOMIC THINKING IS FOUNDED ON SEVERAL BASIC TENETS. FIRST, A STRONG, GROWING ECONOMY IS ESSENTIAL TO A FREE NATION. IT ASSURES A CONSTANTLY HIGHER STANDARD OF LIVING AND UPWARD SOCIAL MOBILITY FOR ITS CITIZENS. SECOND, THE BEST ECONOMIC POLICY IS ONE THAT ALLOWS FREE MARKET FORCES TO ALLOCATE GOODS AND SERVICES. FINALLY, PROFITS, FAR FROM BEING THE ORIGINAL SIN SOME WOULD HAVE US BELIEVE, ARE THE CEMENT THAT HOLDS OUR FREE MARKET SYSTEM TOGETHER.

THESE PRINCIPLES MAY SEEM SELF-EVIDENT TO YOU--THEY SURELY DO TO ME-- BUT THEY ARE NOT ACCEPTED IN MANY PARTS OF OUR GOVERNMENT. THERE ARE MANY IN WASHINGTON WHO BELIEVE THAT ECONOMIC PROGRESS IS UNDESIRABLE, THAT PERVASIVE GOVERNMENT REGULATION IS ESSENTIAL, AND THAT PROFITS ARE NECESSARILY A SIGN OF EXPLOITATION. INFLATION IS, IN NO SMALL MEASURE, THE RESULT OF SUCH THINKING.

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I PROPOSE TO ATTACK INFLATION AT ITS ROOTS, IN THREE BROAD WAYS: FISCAL RESPONSIBILITY, TAX REFORM AND DEREGULATION. I DON'T PROPOSE ANY SLIGHT OF HAND: SIMPLE COMMON SENSE AND BASIC ECONOMICS ARE WHAT WE NEED NOW.

THE FIRST, AND I BELIEVE MOST IMPORTANT, STEP THAT CONGRESS CAN TAKE IN ITS FIGHT AGAINST INFLATION, IS A REFORM OF FISCAL POLICY. EXCESSIVE GOVERNMENT SPENDING CONTRIBUTES TO INFLATION MORE THAN ANY OTHER SINGLE FACTOR. FOR 19 OF THE LAST 20 YEARS, THE FEDERAL BUDGET HAS BEEN IN A DEFICIT SITUATION. THERE HASN'T BEEN A BALANCED BUDGET IN THE LAST DECADE. AND INTEREST ALONE ON THE NATIONAL DEBT WILL HIT \$60 BILLION THIS YEAR.

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THE NEED FOR A CONSTITUTIONAL AMENDMENT

I AM SURE MANY OF YOU KNOW THAT I AM A SUPPORTER OF A CONSTITUTIONAL AMENDMENT TO REQUIRE A BALANCED FEDERAL BUDGET. IN 1978, I INTRODUCED A RESOLUTION TO REQUIRE A BALANCED BUDGET UNLESS TWO-THIRDS OF THE CONGRESS SUPPORTS A DEFICIT AND I INTRODUCED IT AGAIN THIS YEAR. SUCH A PROPOSAL IS NOT A "QUICK FIX" AS SOME HAVE ALLEGED. RATHER, IT REPRESENTS A FUNDAMENTAL CHANGE IN OUR ECONOMIC POLICY NECESSITATED BY WHAT I CONSIDER TO BE AN EQUALLY FUNDAMENTAL CHANGE IN OUR POLITICAL SYSTEM. STATED FRANKLY, THE INFLUENCE OF SPECIAL INTEREST GROUPS IN WASHINGTON IN RECENT YEARS HAS SHIFTED THE BALANCE OF POWER IN FAVOR OF SPENDING AND AWAY FROM FISCAL RESTRAINT. I USE THE TERM "SPECIAL INTEREST GROUPS" TO REFER TO THE CONGLOMERATION OF GROUPS REPRESENTING BOTH INCREASED SOCIAL PROGRAMS AND INCREASED BUSINESS SUBSIDIES. A CONSTITUTIONAL AMENDMENT WILL HELP TO RIGHT THE CURRENT IMBALANCE. IT WILL HELP CONGRESSMEN SAY NO TO THOSE WHO WANT FEDERAL PROGRAMS INCREASED. IT IS THE SINGLE MOST IMPORTANT STEP WE CAN TAKE IN REVERSING THE HISTORIC TREND TOWARD OMNIPOTENT-- OR IS IT IMPOTENT?--GOVERNMENT.

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REFORMING THE TAX SYSTEM

THE SECOND ELEMENT OF MY FISCAL POLICY CONCERNS FEDERAL TAXATION. TAX POLICY IN THIS COUNTRY HAS TENDED, IN RECENT YEARS, TO ENCOURAGE CONSUMPTION AND DISCOURAGE INVESTMENT, SAVINGS, AND CAPITAL FORMATION. AMONG MAJOR INDUSTRIALIZED NATIONS, THE UNITED STATES RANKS LAST IN SAVINGS AS A PERCENT OF INCOME, LAST IN FIXED INVESTMENT AS A PERCENT OF GNP AND LAST IN PRODUCTIVITY GROWTH. THIS IS NO ACCIDENT AND IT IS NOT CAUSED BY THE PROFLIGACY OF OUR CITIZENS. IT IS LARGELY A RESULT OF TAX POLICY, POLICY WHICH SHOULD BE CHANGED TO PUT MORE MONEY INTO THE BOARD OF INVESTORS. ONE REASON WE CURRENTLY SUFFER FROM A CAPITAL SHORTAGE IS BECAUSE OUR TAX SYSTEM DOES NOT RECOGNIZE THE DRAMATIC EFFECTS INFLATION HAS ON THE DEPRECIATION OF ASSETS. HISTORICAL COST DEPRECIATION IS OUTDATED AND A MAJOR IMPEDIMENT IN THE WAY OF ECONOMIC GROWTH.

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I'M WORKING ON THE FINANCE COMMITTEE TO ENACT A TAX INDEXING SYSTEM, REPLACING THE INEQUITIES OF THE PRESENT APPROACH WITH ONE IN WHICH, IF YOU EARN A RAISE, YOU KEEP A RAISE. NOW I LIKE TO VOTE FOR TAX CUTS AS MUCH AS ANYONE--BUT A TAX CUT THAT MERELY KEEPS PACE WITH INFLATION IS NO TAX CUT AT ALL. INDEXING OUR SYSTEM TO THE CONSUMER PRICE INDEX WILL PROVIDE A MAJOR BOOST TO MIDDLE CLASS AMERICANS WHO ARE REELING UNDER THE COMBINED EFFECTS OF INFLATION AND HIGH TAXES. THIS IS JUST ONE OF THE TAX REFORMS I WANT TO SEE THE FINANCE COMMITTEE EMBRACE.

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REGULATING REGULATION

WE MUST ALSO GREATLY LESSEN THE RAPIDLY GROWING INVOLVEMENT OF THE FEDERAL GOVERNMENT IN THE AFFAIRS OF BUSINESS. FROM 1974 TO 1977, AMERICA'S POPULATION GREW BY LESS THAN 3%. YET THE GOVERNMENT'S OWN EXPENDITURES FOR REGULATION INCREASED SOME 55%. ECONOMISTS HAVE ESTIMATED THAT BUSINESS WILL SPEND \$98 BILLION ON COMPLIANCE WITH FEDERAL REGULATION IN 1979. THIS EXCESSIVE PRICE TAG IS MORE THAN ANNOYING. IT IS INFLATIONARY. IT REMOVES NEEDED INVESTMENT AND SUPPLANTS IT WITH LARGELY NON-PRODUCTIVE ACTIVITY.

I AM NOT, OF COURSE, SUGGESTING THAT ALL FEDERAL REGULATION MUST BE ELIMINATED. MUCH--I AM CAREFUL NOT TO SAY MOST--FEDERAL REGULATION SERVES A NECESSARY AND VALUABLE SERVICE. A LARGE PORTION, HOWEVER, IS UNNECESSARY AND SERVES NO USEFUL PURPOSE. SOME EVEN HAVE A DIRECTLY ANTICOMPETITIVE EFFECT. I BELIEVE THAT CONGRESS SHOULD REQUIRE ALL FEDERAL AGENCIES TO CONSIDER THE COST EFFECTIVENESS OF EVERY NEW AND EXISTING REGULATION. THOSE THAT DO NOT MEASURE UP MUST BE ELIMINATED. WE MIGHT ALSO CONSIDER RECREATING THE OLD HOOVER COMMISSION, PERHAPS WITH FORMER PRESIDENT FORD AS CHAIRMAN, TO SURVEY THE REGULATORY MAZE AND MAKE RECOMMENDATIONS AS TO REDUCING GOVERNMENT'S INCESSANT RUSH TO OVERSEE WHAT IS SUPPOSED TO BE A FREE ECONOMY.

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A VIABLE ENERGY PROPOSAL

FINALLY, THIS COUNTRY IS IN DESPERATE NEED OF AN ENERGY POLICY. WE CAN NO LONGER AFFORD TO SEND BILLIONS OF DOLLARS OVERSEAS TO PAY FOR PETROLEUM PRODUCTS. AMERICA MUST FIND MORE OIL AND GAS WITHIN ITS BORDERS AND IT MUST SHIFT ITS ENERGY NEEDS TO COAL AND OTHER ALTERNATIVE SOURCES. IF SHIFTING TO COAL REQUIRES SOME SHORT-TERM RELAXATION OF OUR ENVIRONMENTAL RULES THEN WE MUST PAY THAT PRICE. COAL GASSIFICATION, OIL SHALE, AND SOLAR ENERGY MUST BE MADE ECONOMICALLY AND TECHNOLOGICALLY ACCEPTABLE ALTERNATIVES TO CRUDE OIL. GASOHOL, A BLEND OF AGRICULTURAL PRODUCTS WITH CONVENTIONAL GASOLINE IS ANOTHER PROMISING ENERGY SOURCE. AS A LONGTIME GASOHOL ADVOCATE, I'M ENCOURAGED TO NOTE THAT BOTH GM AND CHRYSLER HAVE EXTENDED WARRANTY COVERAGE TO INCLUDE THE USE OF GASOHOL FUELS IN ALL OF THEIR CARS AND TRUCKS.

OTHER STEPS HAVE BEEN TAKEN, EVEN IF LATER THAN ONE WOULD WISH. FOR EXAMPLE, I FAVOR THE DECONTROL OF CRUDE OIL. ITS SHORT-TERM INFLATIONARY IMPACT WILL BE FAR OUTWEIGHED IN THE LONG RUN BY THE ADDED CONSERVATION AND DOMESTIC PRODUCTION IT WILL PROMOTE. DECONTROL WILL HAVE ANOTHER BENEFICIAL EFFECT, LARGELY OVERLOOKED IN DEBATE THUS FAR. IT WILL MAKE ALTERNATIVE SOURCES OF ENERGY MORE COMPETITIVE. I SHOULD ADD THAT IN ADDITION TO DECONTROL WE NEED A FAIR PROFITS TAX DESIGNED TO REQUIRE THE ENERGY COMPANIES TO PUT THEIR NEW INCOME TO WORK SOLVING OUR ENERGY PROBLEMS.

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A MONTH AGO, I CALLED FOR A NORTH AMERICAN ENERGY SUMMIT, TO PROMOTE AN INTERNATIONAL PROBLEM. FOR INSTANCE, SUCH A CONFERENCE COULD PROMOTE EXCHANGES OF AMERICAN TECHNOLOGY FOR MEXICAN OIL AND GAS. UNTIL WE ADOPT SUCH AN APPROACH, WE ARE DOOMED TO CONTINUE OUR DEPENDENCE UPON OPEC SUPPLIES.

REFORMING CARRYOVER BASIS

FINALLY, LET ME BRIEFLY DISCUSS ONE REFORM I'M CURRENTLY PROMOTING WHICH MAY BE OF SPECIAL INTEREST TO YOU. I SPEAK OF THE CARRYOVER BASIS PROVISIONS ADOPTED AS PART OF THE 1976 TAX REFORM ACT. UNTIL 1976, THE BASIS OF INHERITED PROPERTY WAS GENERALLY STEPPED UP OR DOWN TO ITS VALUE ON THE DATE OF THE DECEDENT'S DEATH. UNDER CARRYOVER BASIS, BENEFICIARIES OF AN ESTATE TAKE THE BASIS IN THE PROPERTY THAT WAS IDENTICAL TO THAT HELD BY THE DECEDENT. CARRYOVER HAS SEVERELY COMPLICATED TAX CALCULATIONS AND, IN MANY CASES, MADE FOR ECONOMIC HARDSHIP.

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LAST MONTH, I WAS JOINED BY 22 OF MY SENATE COLLEAGUES, FROM BOTH PARTIES, IN INTRODUCING A MEASURE TO REPEAL CARRYOVER BASIS. THE CURRENT LAW IS RIDDLED WITH COMPLEXITIES THAT BAFFLE EVEN THE MOST SOPHISTICATED TAX TECHNICIAN. BEYOND MERE COMPLEXITY, HOWEVER, THERE IS THE QUESTION OF ESTABLISHING BASIS, DIFFICULT AT BEST.

CARRYOVER BASIS ALSO INCREASES THE RELATIVE TAX BURDEN. ALL IN ALL, ITS ENACTMENT WAS A MISTAKE, ACCEPTED HURRIEDLY IN A JOINT CONFERENCE COMMITTEE AND WITH LITTLE REALIZATION OF ITS POTENTIALLY HARMFUL EFFECTS.

I'M HOPEFUL THAT THE FINANCE COMMITTEE WILL MOVE QUICKLY ON MY PROPOSAL, FOLLOWED BY THE CONGRESS ITSELF.