

News from Senator

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OPENING STATEMENT OF SENATOR BOB DOLE ON THE NEED FOR A TAX CUT

WASHINGTON -- Senator Bob Dole (R.-Kansas) made the following opening statement today at the Senate Finance Committee hearings on tax cuts:

"Yesterday President Carter sent the Congress his "mid-session review" of the economy. The data contained in the report were worse than expected in every respect. The extent to which we are in the midst of a severe recession becomes quite clear. The budget deficit for F.Y. 1980, which we estimated last March at \$36 billion, has grown to \$61 billion. It is possible that by the time this fiscal year is over we will have the biggest deficit in our history. The 1981 budget, which we were told was balanced just a few weeks ago, is now estimated to be \$30 billion in deficit. Some have suggested that by this time next year that \$30 billion figure may have grown to over \$50 billion.

"As bad as these deficits are, they are not the worst news in the mid-year report. The Carter Administration predicts that the unemployment rate for the final quarter of this year will be 8.5 percent. To put this figure in real terms, we are talking about over eight million men and women out of work. On an annualized basis this is as high as any period since World War II.

"The bad news does not stop here. The Administration is currently fighting inflation with unemployment but it appears to be losing both ways. The President predicts that inflation in the last quarter of this year will be 12 percent higher than the last quarter of 1979. For next year he predicts 10 percent inflation. This is intolerable and twice what it was when Mr. Carter was elected.

"Last week there was more economic bad news that should receive major attention. The Commerce Department reported that the 'real' output in this country fell 9.1 percent during the second quarter of this year. This performance matched the worst performance during the last recession.

"Faced with this kind of economic situation, I find it hard to believe that there is any real resistance to enacting a carefully crafted productivity tax cut right now.

"The Republican tax cut proposal was drafted after numerous meetings among Senators and Representatives and relies on hearings before both the Finance Committee and the Joint Economic Committee. Our proposal has two parts:

"First, a permanent 10 percent across-the-board tax rate reduction for individuals. This is the first one-third of the Roth-Kemp Bill.

"Second, a phased-in acceleration and simplification of depreciation to encourage capital investment. This part of the proposal is the well-known 10-5-3 capital cost recovery schedule. It includes some liberalization of investment tax credits.

"The Senate has had two opportunities to vote on this package. Unfortunately it was defeated both times on an almost straight party line vote.

The Republican Proposal Is Not Inflationary

"Some have asserted that the Republican proposal is inflationary and designed to help the rich. Neither accusation is accurate. The 10-5-3 provision will directly increase investment in plant and equipment. Such investment will increase productivity. I seriously doubt that anyone believes that this part of the package is inflationary.

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"The 10 percent rate cut is also not inflationary. A one-shot tax cut may be. Carter's \$50 rebate, for example, would have induced taxpayers to increase demand for consumer goods. Such an increase in demand, with no increase in supply is inflationary. A rate reduction, by contrast, should increase the supply of labor and goods because all taxpayers will receive a higher return for their efforts. Increasing supply is anti-inflationary.

"The accusation that our proposal is designed for the rich is equally falacious. Once again 10-5 3 is not the target of this criticism.

"The 10 percent rate cut part of the package does not disproportionately favor the rich. It is a nearly perfectly progressive tax cut. For example, those who earn between \$10,000 and \$30,000 per year pay 48 percent of all individual income taxes. Under the 10 percent rate cut, they will receive 51 percent of the tax cut benefits. A family of four with \$17,500 in income would receive a \$190 tax reduction. Anyone who thinks such a family is rich has not been to the store during the Carter Administration.

"Further, the Republican tax cut will help to offset the large increase in Social Security taxes that is scheduled for next January. It does so without effecting the integrity of the Trust Fund or resorting to back-door general fund financing of Social Security.

A Tax Cut Is Needed Now

"If we do not pass a tax cut this year, taxes will increase next year by almost \$90 billion. The Republican proposal will not reduce revenues. It will merely slow the meteoric increase of revenues scheduled to begin in 1981.

"Some have said that we should wait until next year to enact a tax cut. We need more time to study the economy; don't consider a tax cut during an election year, they counsel. To the eight million men and women out of work in this country such advice must have a hollow ring. To those who are worried about the drop in our competitiveness, such advice must seem timid. Our economy is in desperate shape. We must act now to reverse it. We have already studied the recession too long. If we pass a tax cut now, even one with a January, 1981, effective date, the effect on our economy will be immediately felt. The orders for new capital goods would normally be placed now.

"To those who say, 'Wait until after the election,' I respond that Congress acts most responsibly before an election. Let us pass the law now and stand before the voters to explain our action. This type of accountability is the basis of our democratic process. Special interest groups are more likely to pervert a tax cut after the election than before it. I would like to remind everyone that we passed major tax bills in 1976 and 1978.

"Finally, I would like to note that we Republicans are not wedded to every detail of our proposal. We favor some kind of across-the-board tax rate reduction for individuals and a speed up in depreciation for business. The details are all subject to negotiation. What is important is that we pass a tax cut and that we do it now."