News from Senator

# BOB DOLE

(R - Kansas) 2213 Dirksen Building, Washington, D.C. 20510

FOR IMMEDIATE RELEASE:
THURSDAY, FEBRUARY 4, 1982

CONTACT: CATHY PILLION
(202) 224 6521

REMARKS OF SENATOR BOB DOLE

<u>MURFREESBORO-RUTHERFORD COUNTY CHAMBER OF COMMERCE DINNER</u>

MURFREESBORO, TENNESSEE

THURSDAY, FEBRUARY 4, 1982

I'm delighted to be your guest this evening - even if it's to talk about the state of the economy. There are other subjects easier to rhapsodize over but none so important or so central to one of the great social and political experiments of our history. For if this is, as I believe, a year filled with opportunity such as we have rarely seen, it is also a year of risk. The task for government in 1982 not to mention the challenge for the Republican party - is to seize the opportunity and minimize the risks. I would like to speak with you today about both.

Both the opportunity and the risk are rooted in the extraordinary achievements of the Reagan Administration's first year. So it seems only appropriate for us to review these achievements, and then put our current situation in perspective.

Much of the economic news is good especially when contrasted with the gloomy headlines of just one year ago.

Inflation is down significantly. What's really significant, however - it continues to head down. In 1980 the inflation rate topped 12 percent. In 1981 it fell below 9 percent, the smallest increase in four years. And before this year is out, we can expect still further progress - and an inflation rate perhaps as low as 7 percent. There is nothing accidental about that.

A year ago interest rates were peaking at 21 1/2 percent. Today the prime rate stands at 16-1/2 percent. That's too high - if you have any doubt on the subject, I assure you that one look at my mail would convince you otherwise - but it still represents improvement. And with a little luck and a lot of fiscal restraint, the prime will resume its interrupted slide within days. That, too, is no accident.

During the last three years of the Carter Administration, federal expenditures rose at an annual rate of 14 percent. That rate has been cut in half - and that, too, is no accident of good fortune.

Less dramatic but no less encouraging is the rate of personal savings - which is up by nearly a full percentage point over a year ago -- to about 6 percent. And that's before the full impact of the Reagan tax cuts, or other savings incentives, like the new IRAs or all-savers certificates. We must do better still to match other major industrial powers. But the trend itself is a heartening reversal. And as savings rise in the months ahead, we will gain a powerful weapon in the war against high interest rates and stubborn unemployment.

And there, you may say, lies the rub. If all these bright shiny omens of prosperity are not accidents, then is unemployment an accident? Can an Administration and a Congress wanting to take credit for positive developments in the economy escape blame for the bad news? I don't think they can - and even if they could, I doubt that Dan Rather would let us get away with it.

-over-

But while joblessness is no accident, neither does it follow that this Administration deserves blame for the policies that brought it about. On the contrary, Ronald Reagan is a little like the new homeowner who's just moved in, only to discover the roof leaks and the foundation is settling. We are indeed in the midst of a "Reagan revolution." But before a revolution can take hold, there must first be policies to revolt against. So let me backtrack a bit - and conduct a short history lesson.

In 1976 we were recovering from a steep recession, a recession following hard on the heels on inflation that exceeded 12 percent in 1974. President Ford responded to inflation with a call for fiscal restraint - backed up by a generous use of his veto - and it was through fiscal restraint that we began to beat back inflation. By the end of 1976, inflation was down to 4.8 percent. While the cost in unemployment was high, Americans went to the polls that fall against a backdrop of declining and unemployment.

Many of us felt then that the groundwork for a return to stable growth without inflation had been laid. It hadn't been easy. The political cost was high - believe me, I know. But at least we had the consolation of economic success. Unfortunately, it did not last. Expansionary policies, undertaken without regard to the deep-seated sources of inflation or the need to create jobs that would last, put us right back on the inflation - recession roller coaster. Late in his term President Carter tried to put on the brakes, with the result that the cart nearly went off the tracks. Now the jobs created during the Carter years are gone. Once again, we find ourselves mired in recession. The difference is that, after several years of double-digit inflation, we are fighting the price spiral from a much higher base. In short, the opportunity for sustained recovery in the late '70s was wasted. And it's hard to see how we are better off for the experience.

Except that, perhaps, we have learned something. The events and actions of the past year indicated that we have learned. We have learned that inflation does respond to changes in public policy, provided those changes are consistent and sustained. We have learned that healthy economic growth is incompatible with perpetually rising taxes. And we have learned that economic stability cannot be achieved without a clear demonstration of control over the federal budget. Of course, some of us have been preaching this gospel for years. Maybe it took the congregation a flirtation with heresy to find out just how much it needed the old-time religion.

There's nothing very radical about the dilemma faced by President Reagan. It is much the same challenge that confronted Gerald Ford: namely, how to return to the path of steady growth while simultaneously cooling inflation. And he has responded much as President Ford did, by emphasizing spending restraint and a firm hand on the public sector. The difference is that in the intervening years, the spending problem has become so much more urgent that only dramatic action -- such as last year's budget and tax cuts -- can make a real dent in the federal appetite. You needn't worry about the federal animal - he may have gone on a diet, but it's only to hold down the rate at which his waistline expands. And the alternative is to allow Washington to eat us all out of house and home.

There is another difference between now and 6 or 7 years ago. President Reagan has been able, early in his term, to make long-term plans for economic growth. What's more, he's achieved a series of policy changes to implement those plans. It is important to remember why these policy changes make a difference.

First, there is tax relief - to stabilize income tax rates, to enhance the economic incentive for saving and investing, and in general to lighten the tax burden so that we can generate the capital for economic expansion. Despite rhetoric about the magnitude of the revenue loss $750 billion over 5 years -- few would dispute the fact that this shift in our tax burden is essential if we are to keep inflation at bay and finance the growth our economy needs. The alternative is starvation wages for the private sector - and permanent sluggishness in our job - creating capacity.

Next, there is monetary restraint -- to bring inflation down and keep it down, without throttling the economy. There are bound to be fluctuations from week to week - and genuine concern when the money supply shows any sign of runaway expansion. Yet the record of the last several months shows the federal reserve is at least on the right track. If you want proof that drastic shifts in policy are unwarranted, you need look no further than our success to date in reducing inflation.

-more-

Thirdly, there is regulatory reform - to cut unnecessary costs to business that are a general drag on the economy, and to encourage a shift from what has been our biggest growth industry -- paper shuffling -- into more productive activities. In 1981, the Reagan Administration slashed the growth in the federal register by one-third and saved business and consumers nearly $6 billion dollars in enforcement costs alone. That means major progress for the economy, now and over the long haul.

Finally, and forgive me if I seem to list these in descending order of popularity within Congress - there is spending restraint -- not just to keep the costs of government down, but to giver freer rein to market forces in allocating our national resources. That means greater efficiency and more jobs, both of which are anti-inflationary.

What really made 1981 a year of new beginnings was not the highly-publicized actions of President and Congress: the tax cuts, the budget reductions, the confrontation that shut down the marbled corridors of Washington for one day in November. All that was the stuff of headlines. But we made history as well as headlines in 1981. We reduced the overall number of those employed by government at all levels for the first time since World War II. Despite all the talk of deficits, we actually reduced the share of credit market funds consumed by federal borrowing. We saved $2 billion in waste, fraud and abuse - turned in more than a thousand indictments for food stamp fraud -- and directed agencies and departments to begin collecting back debts owed to Uncle Sam, on which you and I pay $10 million in interest every single day.

We've shown that government can function with its head as well as it feels with its heart. And yet we've actually allotted a far higher percentage of the federal budget to non-military "people programs" than during the heyday of the New Frontier and Great Society. There's been a lot of talk about a defense build-up - and God knows, the time was overdue for this nation to pay attention to its military posture. But for all the money now being invested in our security, as a percentage of federal spending, defense in 1982 is one-third smaller than in 1965. By the same token, for all the controversy over cuts in human services spending, we have a way of forgetting that the cuts, so-called, were nothing more than reductions in planned increases - and that overall social welfare expenditures will in fact consume a larger share of the federal pie than they did in 1981.

The changes that have been made were needed. Make no doubt about that. But they are not an end in themselves. Together they form an economic framework, a foundation for a stronger, better built economic house. Now we must complete the job of construction. We must address the missing piece within the puzzle: The deficits that threaten to capsize economy recovery before it can be fairly launched.

This is no time to equivocate. The deficits <u>are</u> a problem. If left alone, they will become a deadly menace. But if we want to deal with them, while preserving the gains already won, we have to understand them.

I'm convinced that most people already understand the 1982 deficit. It is the result of recession: A by-product of our success last year in re-establishing a revenue base that no longer relies on bracket - creep and inflation itself for most of its expansion. While the 1982 deficit is cause for concern, few would argue that we should sacrifice our other economic goals in order to moderate it.

1983 and 1984 are another story. In those years we anticipate strong growth as the incentives built into the President's program swell and magnify our recovery from the current recession. Now we could argue for days about what size deficit is acceptable. But this much at least is clear: triple-digit deficits are not tolerable. Such a surrender to our own worst impulses would bring about new inflationary pressures - or divert credit to pay for government's spending spree. But let's not blame the deficit on tax cuts that just about offset the natural effects of inflation. And let's not make national defense a scapegoat either. Even with all the increases called for by the President, defense will demand only 1% more of the GNP by 1985.

If we have to reduce the deficit -- and I believe we do -- then we have to cut the budget further, raise revenues, or project faster growth or higher inflation. I'll leave projections to the statisticians with their computers and their models. I prefer to deal in the realm of dollars and cents.

First of all, let no one believe that after last year's efforts the federal budget has become neat and trim. It has not. Remember that in 1960 nondefense federal spending took 9 percent of the Gross National Product. By 1970 the figure was 13 percent, and by 1980, 17 percent. Clearly there is room for further reductions in domestic spending without shredding the safety net a compassionate society holds out for the disadvantaged, the elderly, and the disabled.

And when I suggest that no corner of the federal establishment is immune to scrutiny in the interest of greater efficiency and savings, then I include the Pentagon in my suggestion. It should not be a scapegoat, as I've said - but neither should it be a pig. President Reagan disagrees with some in the Congress over the precise size of the defense budget. But there is room for dialogue, and there may yet be some accommodation with Congress if only to maintain the momentum of economic recovery.

Finally, there is the revenue side. The President has made crystal clear his opposition to any tax increases at this time. I applaud his commitment and his consistency. Nevertheless he knows, as we all do, that the revenue question will not go away. He has acknowledged as much by proposing loophole closings and management reforms that could raise about $32 billion over the next two years. That would include the imposition of a corporate minimum tax, the details of which are still being worked out.

So the revenue door is not closed. What <u>is</u> closed is any tinkering with the personal and business tax cuts enacted last summer as an antidote to Jimmy Carter's malaise. We have also agreed that penalizing saving and investment make no sense. So if we need additional revenues, we will have to look elsewhere. That means, tightening loopholes and making sure that everyone pays a fair share of tax. It also means levies that relate more to consumption than to income-producing and capital-accumulating activities. But whatever we do in the end, there is one thing we positively <u>cannot</u> do.

We cannot and will not allow the option of raising revenues to remove pressure on federal spending. That, I am convinced, is a major reason why the President has ruled out any significant revenue increases for now.

Even this course is not without its hazards. To cut spending further, we have to justify the action to the people in terms they can understand and support. A balanced budget is one such goal. With that goal temporarily put off, we must persuade people that moderating the deficit is the key to fulfilling the economic recovery plan. I believe we can do that -- but not unless everyone pulls his own weight.

The American people understand a common effort for the common good, and they want to give the President every opportunity to fulfill his dream of creating more jobs without inflation. After all, it's their dream as well. They believe, by and large, that the Reagan view of our federal system makes sense, and that more power and responsibility should be returned to the local level. But many of these same people are not yet convinced the entire program will work - or even pass muster with the Congress. Some are suffering themselves. Others are fearful or confused. To earn their active support, we have to demonstrate that ours is a program for the good of all, that no one gets special privilege, and that each and every American is vital to its success. That is why no part of the budget can be free from scrutiny -- why everyone must pay a fair share of tax -- and why we must make 1982 a year when individual initiative and not social privilege forms the obvious center of our program to rebuild America's productive machinery.

-more-

At the outset, I gave you a little history lesson that illustrates, I think, why the last Administration missed a golden opportunity. This President, I assure you, will not. Neither will this Congress.

Much has been said, in this Centennial Year, about the leadership of Franklin Roosevelt and the stylish similarities between that President and Ronald Reagan. I submit that the comparison goes deeper. Franklin Roosevelt gave the people a sense they were a part of a community, that they shared common concerns and a common destiny. President R eagan adds to all that a conviction that each and every individual in our society is important -- that it is as a community of individuals, each working to shape his or her own future, but with regard to his fellows, that we became and remain a great nation.

That is why our economic program offers such hope: it is grounded in a firm faith that the people share with their leaders. We cannot afford to undermine that faith. So long as we balance our campaign to restore individual initiative with a sense of equity and a passion for economic justice, then the prospects are bright.

Far more is at stake here than a set of numbers or the fortunes of a President and his party. If the Reagan economic program works - and I am convinced it will - then this country will be, not only more prosperous, but more unified.

120 years have passed since a hundred thousand soldiers in butternut and blue massed a few miles from Murfreesboro, around military targets with names like Round Forest and Hell's Half-acre. On the eve of battle, as troops took their positions under cover of darkness, the military bands opposed one another in a musical preview of the terrible fight to come.

A southern bugler struck up "Dixie," to be answered by a northern rendition of "Yankee Doodle." "Hail Columbia" brought forth "The Bonnie Blue Flag." And then, out of the stillness, another band took up another song: "Home Sweet Home." The soldiers began to sing, a swelling chorus of men whose allegiances might be temporarily divided - but whose lasting loyalty to the land of their birth was not in doubt.

It is that larger loyalty and that permanent patriotism that we must call on now - to heal this nation, and make her socially as well as economically whole. I can't think of a better place to begin than here, in the heart of Tennessee.

-30-