

BOB DOLE



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

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CONTACT: WALT RIKER
(202) 224-6521

REMARKS OF SENATOR BOB DOLE
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CHANGE BY CONSENSUS: THE FIRST TWENTY MONTHS

YOU DON'T HAVE TO HAVE SPENT YEARS IN POLITICS, AS I HAVE, TO GRASP A CERTAIN OBSESSION ON THE PART OF THE PRESS WITH THE WORD "NEW." WITHIN MEMORY, THIS TOWN HAS EMBRACED THE NEW DEAL, THE NEW FRONTIER, THE NEW BEGINNING, A HALF A DOZEN OR SO NEW NIXONS, AND SOME ARE EVEN SUGGESTING THERE IS A NEW BOB DOLE.

TODAY, I PROPOSE A MUCH RARER VINTAGE OF THAT FAMILIAR WINE. I HOPE TO GIVE A NEW PERSPECTIVE ON SOME OLD VALUES AND SOME MILESTONES IN THEIR REDISCOVERY. EVERY GENERATION LIKES TO DISCOVER FOR ITSELF THAT THE STOVE IS HOT TO ITS TOUCH, AND WE HAVE BEEN BURNED OFTEN IN THE LAST GENERATION. WE HAVE ALL TOO OFTEN EQUATED NEWS WITH DISASTER, SCANDAL OR DISILLUSIONMENT WITH MEN AND PROGRAMS.

TODAY, I BRING YOU VERY DIFFERENT NEWS -- THE NEWS IS THIS: AMERICAN GOVERNMENT IS BEGINNING TO WORK AGAIN. NOW, THAT MAY NOT SEEM LIKE AN EARTHSHAKING REVELATION. BUT RECALL THE ATTITUDES OF VOTERS GOING INTO THE 1980 ELECTIONS, AND YOU'LL FIND IT IS VERY BIG NEWS INDEED. TWO YEARS AGO, THE PEOPLE MADE CLEAR THEIR CONCERN THAT GOVERNMENT WAS TOO BIG AND TOO REMOTE, AND THAT TAXES NEEDED REFORMING AS WELL AS REDUCING. FOR 20 MONTHS NOW, CONGRESS AND THIS PRESIDENT HAVE CONFRONTED DIFFICULT CHOICES WITH COURAGE. WE HAVE HAMMERED OUT A CONSENSUS FOR CHANGE. WE HAVE BROKEN A 50-YEAR COVENANT WITH THE STATUS QUO -- WITHOUT BREAKING OUR COMMITMENTS TO THOSE IN GENUINE NEED. THE LAST YEAR AND A HALF HAS WITNESSED CONTENTION AND SOMETIMES BITTER PARTISANSHIP. IT HAS ALSO PRODUCED THE FIRST STREAKS OF HOPE IN MANY YEARS THAT DEMOCRACY IN AMERICA CAN RESTRAIN ITS APPETITE AND RENEW ITS BATTERED POLITICAL INSTITUTIONS. "IF YOU WANT TO MAKE ENEMIES," WOODROW WILSON ONCE WROTE, "TRY TO CHANGE SOMETHING." PRESIDENT REAGAN AND THE 97th CONGRESS HAVE TRIED TO CHANGE MANY THINGS. WE'VE PROBABLY MADE SOME ENEMIES ALONG THE WAY. BUT WE'VE ALSO MADE HISTORY. AND HISTORY'S JUDGMENT ON THIS PRESIDENT AND THIS CONGRESS, I AM CONVINCED, WILL BE GENEROUS.

HOW THE COURSE WAS SET

TO UNDERSTAND WHERE YOU ARE, IT HELPS TO TAKE A LOOK AT WHERE YOU'VE BEEN. A FOUNTAIN RISES NO HIGHER THAN ITS SOURCE. AND WE SHOULDN'T FOR ONE MOMENT FORGET THE SOURCE OF VOTER DISENCHANTMENT WITH GOVERNMENT IN 1980. THEN FEDERAL SPENDING GREW AT A RATE OF 17.4 PERCENT. NOW, ITS GROWTH HAS BEEN CUT TO 11.2 PERCENT AND IF WE HEW TO THE COURSE SET OUT IN THE 1983 BUDGET RESOLUTION, INCLUDING THE RECONCILIATION BILLS ALREADY PASSED AND THE APPROPRIATIONS BILLS STILL TO COME, THE RATE OF SPENDING GROWTH SHOULD DROP TO 7.5 PERCENT BY 1985. IN 1980, INFLATION, IN ADDITION TO RAVAGING MILLIONS OF FAMILY BUDGETS AND DEADENING THE NERVES OF MILLIONS OF AMERICAN BUSINESSMEN, WAS INCREASING INDIVIDUAL INCOME TAXES TO THE TUNE OF \$15 BILLION ANNUALLY. THAT TOO, HAS BEEN STOPPED IN ITS TRACKS, THANKS TO INDIVIDUAL RATE CUTS AND THE INDEXING OF TAX BRACKETS.

NONE OF THESE CHANGES HAVE COME EASILY. - THEY HAVE RESULTED FROM A STRENUOUS DEBATE OVER TAX POLICY AND BUDGET PRIORITIES. THAT DEBATE IS BY NO MEANS OVER. BUT ONE THING IS CLEAR: THE DAYS ARE OVER WHEN TAX CHANGES AND SPENDING PROPOSALS WERE CONSIDERED IN A GREEDY VACUUM, WITHOUT AN OVERRIDING PLAN OR PURPOSE. IN THEIR PLACE IS A STILL-DAWNING REALIZATION THAT HARD CHOICES AND POLITICAL SACRIFICE WILL BE THE LOT OF SEVERAL CONGRESSES TO COME.

THE FIRST AREA OF CONSENSUS FOR CHANGE WAS TAXES. EVERYONE AGREED THEY WERE TOO HIGH -- BUT THEN EVERYONE IN WASHINGTON IS ALWAYS WILLING TO AGREE TO THAT -- AT LEAST IN PUBLIC. WHAT CONGRESSES HAVE HISTORICALLY FAILED TO DO IS GIVE MORE THAN LIP SERVICE TO GENUINE TAX REFORM.

PRESIDENT REAGAN TOOK OFFICE WITH TWO GREAT LEGISLATIVE GOALS IN THE REALM OF ECONOMIC AND FISCAL POLICY: ONE, TO REDUCE THE TAX BURDEN BY CUTTING MARGINAL TAX RATES, AND TWO, TO REDUCE THE RATE OF GROWTH OF FEDERAL SPENDING. THE LATTER, AS I HAVE ALREADY SUGGESTED IS HAPPENING EVEN AS WE MEET. WITH THE COOPERATION OF CONGRESS, THE PRESIDENT ALSO MANAGED TO CUT MARGINAL TAX RATES BY 25 PERCENT OVER THREE YEARS. THE PHENOMENON CALLED BRACKET CREEP WILL DISAPPEAR FROM OUR LEXICON AFTER 1984.

A CONSENSUS FOR ECONOMIC CHANGE DID NOT COME AS ANY SURPRISE. AFTER ALL, BACK-TO-BACK YEARS OF DOUBLE-DIGIT INFLATION RACKED THE ECONOMY, DROVE INTEREST RATES TO RECORD LEVELS, AND DEVASTATED TAXPAYERS BY CATAPULTING THEM INTO HIGHER BRACKETS. PRESIDENT REAGAN'S PROPOSED INDIVIDUAL RATE REDUCTIONS AND FASTER WRITEOFFS FOR CAPITAL INVESTMENT TO PROMOTE LONG-TERM BUSINESS EXPANSION WERE EXTREMELY POPULAR. SO LAST YEAR'S TAX DEBATE WAS NOT OVER RATE CUTS, BUT OVER HOW TO STRUCTURE THEM, HOW BIG A CUT, HOW LONG IT SHOULD CONTINUE, AND THE PARTICULAR FORM OF ACCELERATED DEPRECIATION. DESPITE THE SO-CALLED BIDDING WAR THAT ADDED COSTLY ORNAMENTS TO THE 1981 BILL, ITS BASIC ELEMENTS WERE WHAT THE PRESIDENT SOUGHT ORIGINALLY -- A LONG-RANGE PROGRAM INCORPORATING RATE REDUCTIONS, INDEXING, AND DEPRECIATION REFORM.

THERE ARE GOOD REASONS FOR THAT, DESPITE RESERVATIONS THAT WE'VE REDUCED TAXES TOO MUCH. I WOULD REMIND THOSE WHO REJECTED REAGAN'S PROGRAM OUT OF HAND THAT BY 1981 FEDERAL TAXES HAD REACHED A RECORD PEACETIME HIGH OF 21 PERCENT OF THE GROSS NATIONAL PRODUCT. WITHOUT FAST ACTION TO PREVENT IT, THAT SHARE WOULD HAVE RISEN TO 24 PERCENT BY 1987. NOW, AFTER THE 1981 TAX CUT AND 1982 TAX REFORMS, THE 1987 SHARE WILL BE ONLY ABOUT 19 PERCENT.

EXISTING DEPRECIATION SCHEDULES HAD ALSO GOTTEN OUT OF SYNC WITH INFLATION. A CORRECTION WAS NEEDED TO REFLECT THE REAL COST OF REPLACING EQUIPMENT. THE OLD HIGH-TAX POLICY MEANT SLOW GROWTH, HIGH INFLATION, AND DECLINING PRODUCTIVITY, THE VERY DANGERS WE'VE BEEN TRYING TO COMBAT OVER THE PAST 20 MONTHS.

A VIRTUE OF NECESSITY

UNFORTUNATELY, THE 1981 TAX BILL IN A FEW AREAS PROVIDED MORE THAN A NECESSARY CORRECTION. THE ANTI-INFLATION PROGRAM SUCCEEDED TOO WELL BY HALF, CUTTING REVENUE EXPECTATIONS AND CONTRIBUTING TO THE RECORD DEFICITS NOW PROJECTED. SIMULTANEOUSLY, THE PROSPECT OF SUSTAINED, TRIPLE-DIGIT DEFICITS THREATENED LONG-TERM RECOVERY, AND THE FINANCIAL MARKETS LACKED CONFIDENCE THAT CONGRESS COULD BRING THE BUDGET UNDER CONTROL. GIVEN THE TRACK RECORD OF RECENT YEARS, IT WASN'T HARD TO UNDERSTAND WHY -- EVEN IF, AT THE TIME, IT SEEMED BEWILDERING WHEN INTEREST RATES SOARED AND THE STOCK MARKET STAGNATED.

TO DEAL WITH THE PROBLEM I, LIKE MANY OTHER MEMBERS, WAS READY TO MAKE SUBSTANTIAL ADDITIONAL SPENDING CUTS THIS YEAR. BUT THAT WAS NOT, IN ITSELF, ENOUGH TO STAUNCH THE BUDGET HEMMORRHAGE. IT WAS SOON OBVIOUS THAT ONLY A FAIR AND BALANCED PACKAGE OF SPENDING REDUCTIONS AND REVENUE INCREASES COULD BRING THE DEFICIT DOWN WHILE MAINTAINING THE CONSENSUS IN FAVOR OF THE OVERALL ECONOMIC RECOVERY PROGRAM.

QUITE SIMPLY, WE HAD TO PRESERVE THE THRUST OF THE PRESIDENT'S TAX CUT PROGRAM FROM THOSE WHO WANTED, NOT A MIDCOURSE CORRECTION, BUT A DRASTIC U-TURN. BY ENDING THE REVENUE WINDFALL FROM INFLATION, THE PROGRAM ENSURED THAT REVENUE LOST, NOT ONLY FROM LOWER INFLATION BUT THE RECESSION AS WELL COULD ONLY BE OFFSET BY FRESH SPENDING CUTS, NEW TAXES, STEPS TO GET MORE REVENUE OUT OF EXISTING LAW, OR A COMBINATION OF ALL THREE. TO SHARE THE BURDEN OF DEFICIT REDUCTION FAIRLY, REVENUES HAD TO PLAY A ROLE. WE WEREN'T ABOUT TO BALANCE THE BUDGET ON THE BACKS OF THE POOR. COME TO THINK OF IT, WE WEREN'T ABOUT TO BALANCE THE BUDGET, PERIOD.

THE CHALLENGE WAS TO MAKE A VIRTUE OUT OF NECESSITY BY IMPROVING THE EQUITY AND EFFICIENCY OF THE TAX CODE. IT'S NO ACCIDENT THAT THIS YEAR'S TAX EQUITY AND FISCAL RESPONSIBILITY ACT FOCUSES ON IMPROVING COMPLIANCE AND CLOSING LOOPHOLES. BECAUSE OUR FISCAL PROBLEMS REQUIRE A CLOSE SCRUTINY OF EXISTING TAX LAW, JUST AS THEY REQUIRE A RE-EXAMINATION OF SPENDING

PRIORITIES. IN THE 1970'S WE ALLOWED SPECIAL TAX PREFERENCES TO MULTIPLY LIKE RABBITS, WHILE INDIVIDUAL TAX RATES AND THE OVERALL TAX BURDEN WERE RISING IN AN ALTOGETHER DIFFERENT DIRECTION. WE CHOSE TAX RELIEF FOR THE FEW AT THE EXPENSE OF TAX RELIEF FOR THE MANY -- AND THE ECONOMY SUFFERED FOR IT. NOW, OUR RATE REDUCTIONS, BASE-BROADENING AND COMPLIANCE MEASURES HAVE BEGUN TO REVERSE THAT POLICY.

I'VE SAID IT BEFORE AND I'LL SAY IT AGAIN -- THE SO-CALLED "BIGGEST TAX INCREASE IN U.S. HISTORY" WAS NOTHING OF THE SORT. OF THE \$98 BILLION RAISED BY THE 1982 REVENUE REFORM BILL, 30 PERCENT IS IN IMPROVED TAX COMPLIANCE; NEARLY 56 PERCENT COMES FROM CLOSING LOOPHOLES, IMPROVING TAX EQUITY, AND IMPOSING MODERATE USER FEES. THAT LEAVES JUST 14 PERCENT IN MEASURES AFFECTING THE AVERAGE TAXPAYER. CLEARLY WE HAVE TAKEN CHARGE OF TAX POLICY AGAIN -- NOT BY VOTING SPECIAL TAX BREAKS, BUT BY CONSIDERING BROADER GOALS OF TAX POLICY AND ITS OVERALL FISCAL IMPACT.

THE REVENUE PROVISIONS I HAVE DESCRIBED, TOGETHER WITH THE \$17.5 BILLION IN SPENDING REDUCTIONS IN THE BILL, MARKED THE FIRST SUBSTANTIVE ACTIONS TAKEN ON THE DEFICIT THIS YEAR. MORE THAN THAT, THEY DEMONSTRATED THAT CONGRESS COULD MAKE THE DECISIONS NEEDED TO REVIVE FINANCIAL MARKETS AND RESTORE A SENSE OF STABILITY. I'M BY NO MEANS ALONE IN ATTRIBUTING A MAJOR PART OF WALL STREET'S 150 POINT RALLY TO THE PERCEPTION, ENTIRELY NEW ON WALL STREET AS WELL AS WASHINGTON, THAT CONGRESS CAN DEAL WITH THE DEFICIT, EVEN IN AN ELECTION YEAR. AND THE PSYCHOLOGICAL IMPACT IS HARDLY LIMITED TO DELAYED TICKERS OR BEAMING CONGRESSMEN. THE PRIME RATE HAS DROPPED FROM 21 PERCENT IN 1980 TO 13 1/2 PERCENT. THE LONG-TERM BOND MARKET HAS HAD A SUBSTANTIAL RECOVERY, WHILE INVESTORS HAVE BEGUN TO SHIFT ASSETS FROM MONEY MARKET FUNDS TO SHARES IN AMERICAN INDUSTRY. THIS, IN NO SMALL PART, IS BECAUSE CONGRESS SHOWED A WILLINGNESS TO BE HELD ACCOUNTABLE FOR TOUGH ACTIONS THAT SERVE THE GENERAL INTEREST OF THE NATION. REMEMBER, WE PRESERVED THE THIRD YEAR TAX REDUCTION FOR INDIVIDUALS, AS WELL AS INDEXING, IN THE PROCESS.

THE DRIVE FOR A SIMPLER TAX

ARE OTHER, EQUALLY INNOVATIVE MEASURES LIKELY IN THE NEAR FUTURE? THAT, I BELIEVE, IS WHAT THE LIVELY DEBATE OVER THE SO-CALLED FLAT RATE TAX IS ALL ABOUT. TO ITS CREDIT, IT REFLECTS A DESIRE TO FOCUS ON MAJOR GOALS, TO SEE WHERE WE MAY HAVE GONE WRONG IN THE PAST AND TO FIND A POLICY THAT MAKES THE MOST SENSE FOR THE NATION AS A WHOLE, RATHER THAN ONE PLEASING TO THE WIDEST ARRAY OF SPECIAL INTERESTS. EVEN NOW, TAXPAYERS FEEL FRUSTRATED AND RESENTFUL OVER WHAT THEY PERCEIVE AS THE PRESENT SYSTEM'S UNFAIRNESS. THEY WANT EVERYONE TO PAY A FAIR SHARE OF THE BURDEN; THEY CANNOT UNDERSTAND WHY A TAX BILL SHOULD BE DETERMINED ACCORDING TO ONE'S ABILITY TO AFFORD SOPHISTICATED TAX ADVICE, ALSO KNOWN AS CREATIVE ACCOUNTING. WHEN THAT PERCEPTION UNDERMINES CONFIDENCE IN THE TAX SYSTEM -- AND IT HAS -- THEN IT'S TIME TO CONSIDER MAJOR CHANGES.

FIRST, LET'S PUT THE FLAT RATE ISSUE IN PERSPECTIVE. THE TERM 'FLAT RATE' DOESN'T REALLY INDICATE MUCH DETAIL. THE REAL DEBATE IS OVER WHETHER THE PRESENT SYSTEM OF PROGRESSIVE RATES IS PREFERABLE TO A MODIFIED SYSTEM WITH LOWER RATES AND A BROADER BASE, OR A TRUE PROPORTIONAL TAX. DO WE WANT EVERYONE PAYING THE SAME PROPORTION OF THEIR INCOME IN TAXES? ARE WE BETTER OFF WITH THE PRESENT SYSTEM? OR DO WE WANT TO TAKE STEPS TO BROADEN THE BASE, AND LOWER RATES, AS A COMPROMISE BETWEEN WHAT WE HAVE NOW AND WHAT FLAT TAX ADVOCATES WOULD CREATE? ANYTIME YOU TALK ABOUT RAISING REVENUES, YOU ALSO RAISE DIFFICULT QUESTIONS, BOTH PRACTICAL AND POLITICAL. EVERYONE WANTS A SIMPLER TAX SYSTEM AND A LOWER, MORE FAIRLY DISTRIBUTED TAX BURDEN. BUT NOT EVERY FLAT RATE OR LOW-RATE SYSTEM WILL ACHIEVE THESE GOALS.

CONSIDER THE POSITION OF A TYPICAL MIDDLE-INCOME FAMILY UNDER PRESENT LAW, WITH THEIR LIKELY STANDING UNDER ONE OF THE POPULAR FLAT RATE PROPOSALS. SUPPOSE THIS FAMILY HAS \$30,000 IN INCOME, OWNS A HOME, AND DEDUCTS A MODEST AMOUNT IN CHARITABLE CONTRIBUTIONS, STATE AND LOCAL TAXES, AND THE LIKE. NOT AN UNUSUAL CASE AT ALL. UNDER OUR PRESENT SYSTEM, THIS FAMILY PAYS ABOUT \$2,600 IN TAXES. UNDER ONE OF THE MAJOR FLAT RATE PROPOSALS -- A 19 PERCENT FLAT RATE WITH A \$100 CREDIT FOR EACH TAXPAYER, AND A \$200 CREDIT FOR EACH DEPENDENT -- THE SAME TAXPAYER WOULD EXPERIENCE A 25 PERCENT TAX INCREASE. IN OTHER WORDS, THE LOSS OF MAJOR DEDUCTIONS OUTWEIGHS THE PROMISE OF A LOWER RATE. WHEN SUCH FACTS ARE CAREFULLY CONSIDERED, THE FLAT TAX ITSELF MAY GO FLAT.

OBVIOUSLY WE CAN STRUCTURE A REVISED TAX SYSTEM TO REFLECT THE CURRENT DISTRIBUTION OF THE TAX BURDEN. BUT IN DOING SO WE MIGHT ALSO SACRIFICE SOME OF THE SIMPLICITY AND ECONOMIC EFFICIENCY WE ALL CLAIM TO WANT. THE FACT IS THAT THE MIDDLE CLASS HAS ALWAYS FORMED THE GREAT BULK OF THE TAXPAYING PUBLIC. IT HAS ALWAYS SHOULDERED THE LION'S SHARE OF THE TAX BURDEN. ACKNOWLEDGING THAT WE CAN DO BETTER IN TERMS OF FAIRNESS AND EFFICIENCY, WE MUST ALSO ACKNOWLEDGE THAT FUNDAMENTAL REALITY.

FUNDAMENTAL QUESTIONS

THAT DOESN'T MEAN WE SHOULD NOT TRY TO IMPROVE THE SYSTEM. WE CAN AND I BELIEVE WE WILL. THE RATE REDUCTIONS OF 1981 AND THE BASE BROADENING MEASURES ACHIEVED THIS YEAR ARE BIG STEPS IN THE RIGHT DIRECTION, THAT IS TO SAY, TOWARD A LOWER-RATE, BROADER BASED TAX SYSTEM. BUT IN DECIDING THE NEXT STEPS WE OUGHT TO TAKE, LET'S NOT BE FUZZY ABOUT THE OPTIONS UNDER DISCUSSION.

MANY WOULD DEFEND THE PRESENT SYSTEM. IT TOO IS THE RESULT OF A CONSENSUS, DEVELOPED STEP-BY STEP OVER THE YEARS. IT UPHOLDS THE PRINCIPLE OF PROGRESSIVITY. IT EFFECTIVELY ACCOMMODATES BOTH THE NEED TO RAISE REVENUE AND THE DESIRE TO USE TAX INCENTIVES AS TOOLS OF SOCIAL AND ECONOMIC POLICY, FROM ENCOURAGING HOME OWNERSHIP WITH MORTGAGE INTEREST DEDUCTIONS TO USING TAX CREDITS TO STIMULATE INDUSTRIAL RESEARCH AND DEVELOPMENT.

THE PURE FLAT RATE, OR PROPORTIONAL TAX AS I PREFER TO CALL IT, ALSO HAS STRONG ADVOCATES. THAT SYSTEM HAS THE POTENTIAL FOR GREAT IMPROVEMENTS IN SIMPLICITY AND ECONOMIC EFFICIENCY. IN MANY WAYS IT PROMISES GREATER FAIRNESS BY ELIMINATING TAX PREFERENCES THAT ARE AWARDED SOLELY ACCORDING TO WEALTH. THESE ARE BY NO MEANS INSIGNIFICANT VIRTUES. AND NO ONE SHOULD DISMISS OUT OF HAND THE OPTION OF A SINGLE TAX RATE APPLIED TO A COMPREHENSIVE INCOME BASE.

BUT THERE IS A THIRD OPTION, NOT UNKNOWN TO WASHINGTON -- ESPECIALLY TO SEEKERS OF CONSENSUS. THE THIRD OPTION IS OF COURSE A COMPROMISE. BASE-BROADENING MEASURES AND FURTHER RATE REDUCTIONS CAN BRING MAJOR IMPROVEMENTS OVER THE PRESENT SYSTEM IF PROPERLY DONE. FOR USEFUL PRECEDENTS TO FOLLOW, WE NEED ONLY LOOK OVER OUR SHOULDERS, AT THE RECORD OF THE LAST 20 MONTHS.

WHICHEVER OPTION YOU PREFER, ODDS ARE YOU SHARE A FEW BASIC GOALS. YOU HOPE TO SIMPLIFY THE TAX CODE. YOU WANT TO MAKE THE SYSTEM MORE EQUITABLE BY LIMITING OR ELIMINATING ALTOGETHER SPECIAL PREFERENCES THAT HAVE ACCUMULATED OVER THE YEARS. AND YOU HOPE TO STIMULATE THE ECONOMY BY ENDING THE DISTORTIONS OF TAX POLICY THAT INFLUENCE ECONOMIC DECISIONS: WHETHER TO SAVE, SPEND, OR INVEST IN A CERTAIN WAY.

NOW, NOT ALL TAXES ARE CREATED EQUAL WITH RESPECT TO EACH OF THESE GOALS. FOR EXAMPLE, ELIMINATING MOST TAX PREFERENCES WOULD SEEM QUITE EQUITABLE TO SOME EVEN IF WE RETAINED THE PRESENT RATES, BECAUSE IT WOULD PREVENT UPPER INCOME TAXPAYERS FROM ESCAPING THEIR FAIR SHARE OF TAXES. BUT THAT WOULD ALSO DISCOURAGE ECONOMIC ACTIVITY AND DRIVE SOME SOURCES OF INCOME UNDERGROUND. BY THE SAME TOKEN, A SINGLE RATE SYSTEM WITH A LARGE ZERO BRACKET COULD ACHIEVE VAST IMPROVEMENTS IN SIMPLICITY, BUT I DOUBT ANY CONSENSUS WOULD FORM AROUND THE IDEA OF TAXING EVERYONE AT THE SAME RATE AND EXCLUDING A LARGE GROUP OF MODERATELY LOW INCOME CITIZENS FROM THE TAX ROLLS ALTOGETHER.

WE MUST ALSO TAKE INTO ACCOUNT THE DIFFICULTIES OF MAKING A TRANSITION TO A NEW SYSTEM, WHATEVER IT MAY BE. THE PASSAGE OF ANY MAJOR TAX BILL BRINGS WITH IT AN EXPLOSION OF RULES GOVERNING THE TRANSITION FROM OLD TO NEW LAW. IRONICALLY, GIVEN OUR TASTE FOR SIMPLICITY, THESE REFORMS PROVIDE A MAJOR SOURCE OF CONFUSION. ANY COMPREHENSIVE OVERHAUL OF THE TAX SYSTEM WOULD BE SURE TO MAGNIFY THE CONFUSION SEVERAL TIMES OVER. THAT IS, UNLESS WE CHOSE TO IGNORE THOSE WHO MADE THESE ECONOMIC DECISIONS IN RELIANCE ON THE OLD LAW. PRACTICALLY, THAT WOULD BE NEARLY IMPOSSIBLE; AS A MATTER OF EQUITY, THERE WOULD BE LITTLE JUSTIFICATION FOR SUDDENLY SHIFTING TO A NEW SYSTEM WITHOUT ADEQUATE PROVISION FOR POTENTIAL ECONOMIC LOSSES FROM THE SHIFT. THIS DOES NOT MEAN WE ARE HAMSTRUNG FROM MAKING MAJOR TAX CHANGES: ONLY THAT WE HAVE TO PROCEED WITH OUR EYES OPEN.

NEITHER CAN WE DISREGARD A MAJOR ISSUE THAT HAS BEEN IGNORED IN MANY OF THE FLAT-RATE PROPOSALS: THE RELATION BETWEEN THE TAXATION OF INDIVIDUALS AND THE TAXATION OF BUSINESSES. SHOULD WE RETAIN THE PRESENT DISTINCTION

BETWEEN CORPORATIONS AND INDIVIDUAL PROPRIETORSHIPS? IF SO, HOW SHOULD WE HANDLE THE RELATIONSHIP BETWEEN A FLAT RATE OR LOW RATE FOR INDIVIDUALS AND THE EXISTING CORPORATE TAX STRUCTURE? SHOULD WE MODIFY CORPORATE RATES IN LINE WITH INDIVIDUAL TAXATION IN SOME WAY, SO THAT THE LONG-STANDING PROBLEM OF DOUBLE TAXATION OF BUSINESS INCOME AT THE CORPORATE AND SHARE HOLDER LEVEL IS ELIMINATED?

ON TOP OF EVERYTHING ELSE, WE MUST WEIGH THE IMPACT OF SO MAJOR A POLICY SHIFT ON CERTAIN SECTORS OF THE ECONOMY. FOR EXAMPLE, THE HOUSING INDUSTRY AND CHARITABLE INSTITUTIONS HAVE A SIGNIFICANT INTEREST AT STAKE IN THE FORM OF TAX DEDUCTIONS FOR MORTGAGE INTEREST AND CHARITABLE GIVING. SIMILARLY, ANY PROPOSAL THAT ENDED DEDUCTIONS FOR RAPID CAPITAL COST RECOVERY COULD MEAN FAR-REACHING CHANGES IN THE COMPOSITION AND LEVEL OF CAPITAL INVESTMENT. WE ACCELERATED THOSE WRITE OFFS LAST YEAR IN ORDER TO SPUR GROWTH. AND WE OUGHT TO THINK LONG AND HARD BEFORE SWITCHING SIGNALS AGAIN ON INVESTMENT POLICY. FOR EXAMPLE, THE ENERGY INDUSTRY, BOTH IN TERMS OF EXPLORATION AND DEVELOPMENT AND USE OF NEW CONSERVATION METHODS AND ALTERNATIVE SOURCES, COULD BE GREATLY AFFECTED IF WE JETTISONED EVERY TAX INCENTIVE IN PRESENT LAW. AND STATE AND LOCAL GOVERNMENTS WOULD HAVE TO REACT TO MAJOR FEDERAL TAX CHANGES, NOT ONLY BECAUSE OF THE DEDUCTIBILITY OF THEIR TAXES UNDER FEDERAL LAW BUT BECAUSE MANY STATES 'PIGGYBACK' ON THE FEDERAL TAX SYSTEM.

THESE QUESTIONS HAVE TO BE RAISED BEFORE THEY CAN BE ANSWERED. TO DO EITHER IS THE MOST POSITIVE THING WE HAVE SEEN IN TAX POLICY IN A LONG TIME. AS I SAID AT THE OUTSET, WE ARE LEARNING TO MAKE CHOICES IN PUBLIC POLICY. WE ARE RE-EXAMINING LONG-STANDING ASSUMPTIONS ABOUT TAXES AND SPENDING. WE ARE TRYING TO FORMULATE REALISTIC ALTERNATIVES. THE ISSUES I HAVE OUTLINED WITH REGARD TO THE FLAT TAX SUGGEST JUST SOME OF THE SPECIFIC, PRACTICAL QUESTIONS WE HAVE LEARNED TO ASK OURSELVES OVER THE PAST 20 MONTHS.

HOW TO PROCEED

IT IS TO ASK AND, HOPEFULLY, ANSWER QUESTIONS LIKE THESE THAT THE SENATE FINANCE COMMITTEE HAS SCHEDULED HEARINGS NEXT WEEK ON THE FLAT TAX ISSUE. THESE HEARINGS ARE A NECESSARY BEGINNING IF WE HOPE TO UNDERSTAND THE IMPLICATIONS OF MAJOR TAX ALTERNATIVES: NOT JUST THE FLAT RATE, BUT OTHER OPTIONS AS WELL, SUCH AS A CONSUMPTION TAX BASE, A VALUE-ADDED TAX, AND EVEN MORE EXOTIC PROPOSALS THAT HAVE BEEN FLOATED IN RECENT YEARS.

THE HEARINGS WILL UNDOUBTEDLY PRODUCE DIFFERENCES BEFORE CONSENSUS, BUT WHATEVER DISAGREEMENTS MAY EXIST, THEY ARE BALANCED BY GROWING SYMPATHY FOR FURTHER TAX RATE REDUCTION, AND ADDITIONAL BROADENING OF THE TAX BASE. IF THAT CONSENSUS SURVIVES PUBLIC DEBATE, THEN THE FLAT RATE TAX COULD WELL BECOME A MAJOR ISSUE IN THE 1984 PRESIDENTIAL CAMPAIGN. EVEN NOW, WE CAN TAKE STEPS TOWARD A LOWER-RATE, BROADER BASED SYSTEM. WHAT I CANNOT PREDICT IS HOW FAR RATES CAN BE CUT, OR WHICH MEASURES MIGHT BE TAKEN TO BROADEN THE TAX BASE. I CANNOT PREDICT THAT BECAUSE LARGE-SCALE REFORMS, AS I'VE LEARNED INTIMATELY OVER THE LAST TWO YEARS, REQUIRE THE LAYING OF POLITICAL, AS WELL AS ECONOMIC FOUNDATIONS.

ANY MAJOR OVERHAUL OF OUR TAX SYSTEM WILL DEMAND THAT WE BUILD A STRONG CONSENSUS. THE BIGGEST DANGER OF LEAPING INTO A NEW SYSTEM, WHATEVER IT MAY BE, IS THAT THOSE WHO MAY PERCEIVE THEMSELVES AS WORSE OFF UNDER THE REVISED LAW WILL PRESSURE IMMEDIATELY FOR MODIFICATIONS TO CORRECT THEIR LOSS. IN OTHER WORDS, UNLESS WE WORK LONG AND HARD AT THE GRASSROOTS LEVEL TO ASSURE BROAD SUPPORT FOR ANY COMPREHENSIVE REVISION OF THE WAY WE TAX, THEN ALL OUR WORK WILL HAVE THE PERMANENCE OF A WAVE ON THE SHORE. WITHOUT PAINSTAKING PREPARATION, WE COULD FIND OURSELVES RIGHT BACK WHERE WE STARTED -- OR POSSIBLY EVEN WORSE OFF.

A DEGREE OF CAUTION IS IN ORDER. SO IS A WELL THOUGHT-OUT APPROACH. NEITHER SHOULD BE CONFUSED WITH TIMIDITY. THE INTERNAL REVENUE CODE IS NOT THE TEN COMMANDMENTS. THE IRS IS NOT MOSES, EVEN IF WE TAXPAYERS OCCASIONALLY CONFUSE IT WITH PHAROAH. THERE IS NOTHING IN THE TAX CODE THAT SHOULD BE FREE FROM SCRUTINY. WE LEARNED THAT LESSON IN PUTTING TOGETHER THIS YEAR'S TAX EQUITY BILL. OUR CHOICES MUST BE INFORMED ONES, HOWEVER. AND BOTH CONGRESS AND THE PUBLIC AT LARGE WILL HAVE TO UNDERSTAND THE IMPLICATIONS OF WHAT WE ARE DOING.

AND THAT IS WHERE THE PRESS ENTERS IN. YOU IN THE COMMUNITY OF REPORTERS, WRITERS, AND COMMENTATORS HAVE A DECISIVE IMPACT ON HOW OUR CITIZENS PERCEIVE AND RESPOND TO THE ISSUES BEING DEBATED IN CONGRESS. WE WILL DO OUR BEST TO SET FORTH AND EXPLAIN THE ISSUES: BUT WE NEED HELP IN CONVEYING THOSE ISSUES CLEARLY AND CONCISELY TO THE VOTERS AND THE TAXPAYERS.

THERE'S NO GRAPHIC THAT CAN MAKE SUCH ISSUES SEXY. EVERY SWEATER IN DAN RATHER'S WARDROBE CLOSET COULD NOT DRIVE HOME THE EMOTIONAL IMPACT OF ARCAINE TAX LEGISLATION. BUT DEBATE IS THE HEART OF DEMOCRATIC GOVERNMENT. WE CAN TOLERATE AND BE GRATEFUL FOR POLITICAL DIFFERENCES. IT IS ONLY POLITICAL INDIFFERENCE THAT THREATENS FREE GOVERNMENT. I HOPE THAT THE FINANCE COMMITTEE HEARINGS ON THE FLAT RATE TAX AND OTHER ALTERNATIVE TAX SYSTEMS GENERATE THE KIND OF PUBLIC-SPIRITED DEBATE THAT LEADS TO INFORMED DECISION-MAKING. I ALSO HOPE WE CAN MAKE YOUR JOB EASIER BY CLARIFYING THE CHOICES WE CONFRONT. I KNOW YOU CAN MAKE OUR JOB EASIER BY CONVEYING THOSE CHOICES TO THE PUBLIC IN A FORTHRIGHT MANNER. THE FLAT TAX DEBATE IS PART OF A NEW FISCAL REVOLUTION IN AMERICA -- A REVOLUTION OF CHOICES MADE OPENLY AND HONESTLY, OF PROBLEMS FACED UP TO RATHER THAN HIDDEN BEHIND A CLOAK OF FALSE OPTIMISM OR THE STALE DOGMAS OF A DISTANT PAST. OURS IS AN INCREASINGLY RESPONSIVE GOVERNMENT. THAT ALONE IS AN ACHIEVEMENT TO BE PROUD OF. NOW, AS WE WORK TO RESTORE THE SENSE OF NATIONAL PURPOSE THAT SEEMED TO FALTER IN DECADE OF MALAISE, BETTER PUBLIC UNDERSTANDING AT A TIME WHEN THERE ARE NO EASY CHOICES AND NO PAINLESS DECISIONS IS, TO SAY THE LEAST, A HIGH PRIORITY. THE IMPORTANT THING IS THAT DECISIONS ARE BEING MADE: WHAT WE NEED NOW IS COURAGE AS WELL AS CAUTION, VISION AS WELL AS FINESSE. THAT IS THE ESSENCE OF REPRESENTATIVE GOVERNMENT. IT IS THE ARENA WHEREIN THE MEDIA PLAYS SO CRUCIAL A ROLE. ADVERSARIAL RELATIONSHIPS NEED NOT DEGENERATE INTO ANIMOSITY OR CYNICISM. I PROMISE NEVER TO FORGET THAT. I ASK YOU TO REAFFIRM IT. TOGETHER, IF NOTHING ELSE, WE CAN PRODUCE THE ULTIMATE CONSENSUS: A CONSENSUS FOR CIVILITY.