

REMARKS OF SENATOR BOB DOLE

NEW JERSEY CHAMBER OF COMMERCE
CAPITOL HILL CLUB
WASHINGTON, D. C.
FRIDAY, FEBRUARY 7, 1975

IN THE COURSE OF MY BRIEF REMARKS I WOULD LIKE TO REVIEW WITH YOU SOME OF THE STARK ECONOMIC NEWS WE SEEM TO BE RECEIVING ALMOST DAILY, AND THE STATE OF OUR TAX LAWS, WHICH WE OUGHT TO BE UTILIZING TO DIRECT OUR VAST RESOURCES DOWN THE PATH TO ECONOMIC RECOVERY.

STATE OF FLUX

PERHAPS THE MOST REVEALING COMMENT ABOUT OUR ECONOMY CAME FROM THE COUNCIL OF ECONOMIC ADVISORS REPORT, ISSUED ON TUESDAY. IN IT, THE PRESIDENT'S CHIEF ADVISERS ADMITTED THEIR OWN LIMITATIONS IN THESE WORDS, "THE UNCERTAINTIES ARE SO GREAT AT THE PRESENT TIME THAT THE PROJECTIONS ARE SUBJECT TO AN UNUSUALLY WIDE MARGIN OF ERROR." WE ARE, IN SHORT, IN AN UNUSUALLY ACTIVE STATE OF FLUX. THE ECONOMY ITSELF IS, AND OUR INSTITUTIONS FOR DEALING WITH ECONOMIC PROBLEMS ARE.

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IN THE HOUSE, VERY SIGNIFICANT CHANGES IN THE MAKE-UP AND LEADERSHIP OF THE WAYS AND MEANS COMMITTEE MAY FORETELL MAJOR CHANGES IN THE WAY THE HOUSE HANDLES FISCAL POLICY. THE SHORTHAND FOR IT IS THAT THE WAYS AND MEANS COMMITTEE HAS BECOME MORE LIBERAL, IN WHICH CASE, THE FINANCE COMMITTEE OF THE SENATE, AT LEAST ON A RELATIVE SCALE, HAS BECOME MORE CONSERVATIVE. I DON'T WANT TO APPEAR TO MAKE TOO MUCH OF THIS, BUT IT IS APPARENT THAT, LIKE THE ECONOMY, OUR TOOLS FOR DEALING WITH IT, AND FOR DESIGNING FEDERAL INTERVENTIONS IN IT, ARE CHANGING IN WAYS THAT CAN'T NECESSARILY BE PREDICTED WITH ANY PRECISION.

BAD NEWS....

AS YOU KNOW, THE GOVERNMENT'S INDEX OF LEADING ECONOMIC INDICATORS DECLINED FOR THE FIFTH CONSECUTIVE MONTH IN DECEMBER. THIS INDEX HAS MEASURED THE DECLINE IN MANUFACTURERS' NEW ORDERS AND NEW HOUSING UNITS AUTHORIZED, THE INCREASE IN MANUFACTURERS' INVENTORIES AND THE RISING NUMBER OF NEW UNEMPLOYMENT COMPENSATION APPLICATIONS, AS WELL AS EIGHT OTHER CATEGORIES OF ECONOMIC ACTIVITY. OVERALL THIS INDEX HAS SUFFERED A TOTAL DECLINE OVER THIS FIVE-MONTH PERIOD OF AROUND 11.5%.

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THE LAST TIME A DECLINE OF THIS DURATION OCCURRED WAS AT THE
OUTSET OF THE 1957 - 58 RECESSION, WHICH WAS, UNTIL NOW, THE WORST
SINCE WORLD WAR II.

AND GOOD NEWS

HISTORICALLY, THE 12 BASIC INDICATORS WHICH MAKE UP THIS INDEX
HAVE TENDED TO POINT UP IN ADVANCE OF BOOMS AND TO POINT DOWN BEFORE
RECESSIONS. FORTUNATELY, FOR THE LATEST MONTH AVAILABLE, DECEMBER,
THREE OF THESE INDICATORS SHOWED SOME IMPROVEMENT; ORDERS FOR NEW
PLANTS AND EQUIPMENT, BUILDING PERMITS, AND THE PRICE - LABOR COST
RATIO. ANOTHER PIECE OF GOOD NEWS IS THAT FOR THE WEEK ENDING
JANUARY 18, INITIAL UNEMPLOYMENT COMPENSATION CLAIMS DECLINED ABOUT
14% FROM THE PREVIOUS WEEK, WITH 41 STATES REPORTING FEWER CLAIMANTS.
HOWEVER, WITH MOST ECONOMISTS, INCLUDING THE COUNCIL OF ECONOMIC
ADVISORS, IN AGREEMENT THAT WE WILL BE EXPERIENCEING RISING
UNEMPLOYMENT FOR THE NEXT SEVERAL MONTHS, UP TO 8% OR MORE, THERE
SEEMS TO BE A WIDELY HELD BELIEF THAT AN IMMEDIATE SHOT IN THE ARM FOR
THE ECONOMY IS WHAT IS NEEDED.

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THE PRESIDENT HAS PUT FORWARD A SERIES OF TAX AND ENERGY-RELATED PROPOSALS AND HAS ASKED THE CONGRESS TO MOVE QUICKLY ON THIS PACKAGE. ON THE TAX SIDE, RECOMMENDED ARE TAX REBATES FOR INDIVIDUALS, TEMPORARY CHANGES FOR CORPORATIONS AND SEVERAL PERMANENT CHANGES IN THE TAX LAWS.

TAX PROPOSALS

IT HAS BEEN ESTIMATED THAT, AS A RESULT OF THE ADOPTION OF THIS PROPOSED SERIES OF TEMPORARY AND PERMANENT TAX CHANGES AS WELL AS THE OPERATION OF OTHER ONGOING FEDERAL PROGRAMS, THE GOVERNMENT WILL RUN AT A DEFICIT DURING THIS FISCAL YEAR OF MORE THAN \$50 BILLION. YOU MAY WANT TO PONDER THAT \$50 BILLION FIGURE FOR A MOMENT. TO ME IT IS MIND-BOGGLING.

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INFLATION STILL A CONCERN

IN MY JUDGMENT ONE OF THE SIGNIFICANT CAUSES OF OUR CURRENT ECONOMIC WOES HAS BEEN OUR HISTORY OF EXCESSIVE FEDERAL SPENDING, WHICH HAS LED TO AN INTOLERABLE LEVEL OF INFLATION DURING THE PAST YEAR. THE ANNUAL RATE OF THAT INFLATION FOR 1974 WAS MORE THAN 12%. BETWEEN THE FOURTH QUARTER OF 1973 AND THE FOURTH QUARTER OF 1974, WHILE OUR GROSS NATIONAL PRODUCT INCREASED BY A LITTLE OVER 5%, IN REAL TERMS, OUR GROSS NATIONAL PRODUCT ACTUALLY DECLINED BY AROUND 5%.

ALTHOUGH PUBLIC ATTENTION HAS SHIFTED FROM THE PROBLEM OF INFLATION TO THAT OF RECESSION, IN THE LONG RUN, IT IS INFLATION WHICH WE ARE GOING TO HAVE TO CONTROL IF WE ARE TO SEE ECONOMIC STABILITY AGAIN. IT IS INCUMBENT ON THE GOVERNMENT TO PURSUE ECONOMIC POLICIES WHICH MAKE IT POSSIBLE FOR INDIVIDUALS AND BUSINESSES TO ACHIEVE REAL EARNINGS WHICH CAN BE UTILIZED FOR INVESTMENT, WHICH IS ESSENTIAL TO MAKE THIS COUNTRY MORE PRODUCTIVE.

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BUSINESS PROFIT DECLINE

UNFORTUNATELY, TOO FEW PEOPLE IN THIS COUNTRY ARE AWARE THAT OVER THE LAST 25 YEARS CORPORATE PROFITS HAVE DECLINED FROM 15.6% OF NATIONAL INCOME TO 9.2%. IF WE ARE TO HAVE THE NEW JOBS AND THE STANDARD OF LIVING NECESSARY TO MEET THE EXPECTATIONS OF OUR POPULATION OVER THE REMAINDER OF THIS DECADE AND BEYOND, WE ARE GOING TO HAVE TO MAKE SOME BASIC CHANGES TO PERMIT GREATER AFTER-TAX PROFITABILITY SO THAT THE INVESTMENTS NECESSARY TO EXPAND PRODUCTIVITY TO SUPPORT THESE GOALS WILL BE MADE.

TENS OF MILLIONS OF AMERICANS HAVE SUFFERED A DROP IN REAL WAGES THIS PAST YEAR. APPROXIMATELY 7.5 MILLION AMERICANS ARE OUT OF WORK. IT WOULD CERTAINLY BE COUNTERPRODUCTIVE, UNDER SUCH CIRCUMSTANCES, TO ADOPT NEW POLICIES WHICH WOULD FURTHER REDUCE THE ABILITY OF THE CORPORATE SECTOR TO MEET THE EXPANDED NEEDS OF THE PEOPLE OF THIS COUNTRY OVER THE NEXT DECADE.

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CORPORATE SECTOR TAX REVIEW

ALTHOUGH MOST OF THE ATTENTION OF THE PUBLIC HAS BEEN DIRECTED TOWARD THE PRESIDENT'S PROPOSED INDIVIDUAL INCOME TAX REBATE AND INDIVIDUAL INCOME TAX PERMANENT CHANGES, THE CHANGES PROPOSED FOR THE CORPORATE SECTOR SHOULD NOT BE OVERLOOKED. MANY ECONOMISTS HAVE URGED, AND THE PRESIDENT HAS AGREED, THAT ONE OF THE IMPORTANT WAYS TO REVERSE THE CURRENT RECESSION IS BY INCREASING AGGREGATE CONSUMER DEMAND BY MAKING MORE MONEY AVAILABLE TO INDIVIDUALS THROUGH A TAX CUT. JUST AS VITAL, IT SEEMS TO ME, ARE MEASURES DESIGNED TO PROVIDE INCENTIVES TO THE PRODUCTION SIDE OF OUR ECONOMY. TO ASSIST COMPANIES, AND PARTICULARLY PUBLIC UTILITY COMPANIES, TO MEET THEIR FUTURE NEEDS FOR EXPANDED CAPACITY, AN INCREASE IN THE INVESTMENT TAX CREDIT HAS BEEN PROPOSED. IT HAS PROVEN TO BE AN IMPORTANT INCENTIVE IN THE PAST AND I FEEL CERTAIN IT WILL BE ABLE TO PLAY AN IMPORTANT ROLE ONCE AGAIN. YESTERDAY, AS YOU MAY HAVE NOTED, THE WAYS AND MEANS COMMITTEE APPROVED AN INCREASE IN THE INVESTMENT TAX CREDIT FROM THE PRESENT 4% FOR UTILITIES AND 7% FOR OTHER CORPORATIONS, TO 10% FOR ALL.

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ANOTHER PROPOSAL MADE BY THE PRESIDENT IS A REDUCTION IN THE MAXIMUM CORPORATE TAX RATE FROM 48% TO 42%. THIS CHANGE HAS BEEN RECOMMENDED TO HELP CORPORATIONS MEET RISING ENERGY COSTS AND TO INCREASE THE AMOUNT OF CAPITAL THEY CAN GENERATE THROUGH THEIR OPERATIONS FOR REINVESTMENT. IT IS THIS REINVESTMENT, IN THE LONG RUN, WHICH WILL INCREASE OUR PRODUCTIVITY, REDUCE UNEMPLOYMENT, AND ASSURE US OF CONTINUED ECONOMIC VITALITY.

WAYS AND MEANS COMMITTEE ACTS

WHILE THE COMMITTEE DID NOT ACT ON THIS PROPOSAL, IT DID RAISE THE CORPORATE SURTAX EXEMPTION FROM \$25,000 TO \$50,000. THIS WILL PROVIDE THAT THE FIRST \$50,000 OF CORPORATE INCOME WILL BE TAXED AT THE 22% RATE. IT WILL PROVIDE OVER A BILLION DOLLARS IN TAX RELIEF TO AMERICAN BUSINESS, WITH THE OBVIOUS EMPHASIS ON RELIEF TO SMALL BUSINESSES.

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WHILE IT IS DIFFICULT TO PREDICT WHETHER SOME OR ALL OF THESE PROPOSED TAX CHANGES WILL ULTIMATELY BECOME LAW, ONE THING HAS BECOME QUITE CLEAR. MOST KNOWLEDGEABLE LEGISLATORS ARE AWARE OF THE NEED FOR MODIFICATION OF OUR PRESENT TAX LAWS. MORE IMPORTANTLY, RHETORIC ASIDE, THEY HAVE BECOME ACUTELY AWARE OF THE NEED FOR SOME POSITIVE INCENTIVES TO GET OUR ECONOMY BACK ON THE UPSWING.

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