

REMARKS OF SENATOR BOB DOLE  
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WASHINGTON, D.C.

June 22, 1977

CAPITAL FORMATION IS AN ESSENTIAL COMPONENT TO THE SURVIVAL OF OUR ECONOMIC SYSTEM. WITHOUT IT WE WILL BE UNABLE TO RESTORE FULL EMPLOYMENT AND BRING THE RATE OF INFLATION DOWN. INCREASED CAPITAL FORMATION WILL ELIMINATE BOTTLENECKS IN THE SUPPLY OF SCARCE COMMODITIES THAT WOULD OTHERWISE MANIFEST THEMSELVES IN A CLIMATE OF RAPIDLY RISING PRICES.

ONE OF THE MOST DIFFICULT TASKS CURRENTLY FACING THE CONGRESS IS ATTEMPTING TO DIRECT CAPITAL FORMATION TO THE SECTORS OF THE ECONOMY WHERE IT IS NEEDED MOST.

ECONOMIC INDICATORS SHOW THAT THE OUTLOOK FOR BUSINESS INVESTMENT IS IMPROVING AS THE EFFECTS OF THE ECONOMIC POLICY OF THE PRIOR ADMINISTRATION ARE PLAYED OUT IN THE ECONOMY.

THE RATE OF REAL GROSS NATIONAL PRODUCT IS INCREASING. TOTAL FIXED BUSINESS IS EXPECTED TO INCREASE BY ABOUT 11½ PERCENT IN 1977.

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HOWEVER, THERE ARE A NUMBER OF LONG RANGE PROBLEMS FACING AMERICA THAT WILL REQUIRE TREMENDOUS INVESTMENT ON THE PART OF BUSINESS AND GOVERNMENT ALIKE.

ENERGY DEVELOPMENT, HOUSING, AND MASS TRANSPORTATION ARE ONLY A FEW AREAS THAT WE WILL NEED LARGE SUMS OF CAPITAL IF WE ARE TO RESOLVE FUTURE PROBLEMS.

WHILE RECENT ECONOMIC TRENDS ARE ENCOURAGING, THE EXPERIENCE OF THE LAST FEW YEARS SHOWS THAT RECOVERY OF THE ECONOMY CAN BE PAINSTAKING AND MAY BE EASILY STALLED. THE MOST FREQUENTLY MENTIONED INHIBITING FACTOR IN TODAY'S CAPITAL MARKET IS UNCERTAINTY. THIS UNEASINESS IS FELT BOTH BY THE BUSINESS COMMUNITY AND INDIVIDUAL INVESTORS. A MAJOR CAUSE FOR THIS UNCERTAINTY HAS BEEN AN INABILITY TO DETERMINE WHERE THE CURRENT ADMINISTRATION STANDS ON MOST ECONOMIC ISSUES. UNFORTUNATELY, WHEN THE ADMINISTRATION HAS TAKEN A POSITION, THE THRUST OF THAT STAND USUALLY HAS NOT BEEN TO PROMOTE ECONOMIC GROWTH.

ONE ANSWER TO THE CAPITAL FORMATION PROBLEM IS TO IMPROVE OUR TAX SYSTEM. ALL TAXES DISCOURAGE CAPITAL FORMATION IN THE SENSE THAT THEY DIVERT RESOURCES AWAY FROM THE PRIVATE SECTOR IN ORDER TO MAKE RESOURCES AVAILABLE FOR THE PROVISION OF GOVERNMENT SERVICES. IN ADDITION, THE FORM IN WHICH TAXES

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RAISE A GIVEN AMOUNT OF REVENUE MAY BE SUCH AS TO DISCOURAGE INVESTMENT.

THERE ARE SEVERAL IMPORTANT ISSUES THAT THE ADMINISTRATION AND THE CONGRESS SHOULD ADDRESS QUICKLY. CONTINUED FAILURE TO COME FORWARD ON THESE ISSUES WILL ONLY INCREASE THE CHANCES THAT A LACK OF NEW INVESTMENT MAY STALL OUR CONTINUING ECONOMIC RECOVERY.

#### CORPORATE INTEGRATION

DURING THE RECENT CAMPAIGN, PRESIDENT CARTER REPEATEDLY STATED THAT ONE OF HIS OBJECTIVES IN TAX REFORM WOULD BE TO END THE DOUBLE TAXATION OF CORPORATE DIVIDENDS. I HAVE HAD A LONG TIME INTEREST IN THE INTEGRATION OF CORPORATE TAXES. IT IS ESSENTIAL THAT THE FORM OF INTEGRATION CHOSEN BE ONE CONDUSIVE TO BUSINESS EXPANSION. BERT LANCE, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET, RECENTLY TESTIFIED BEFORE THE FINANCE COMMITTEE THAT ELIMINATION OF DOUBLE TAXATION ON DIVIDENDS WAS AN IMPORTANT "SYMBOLIC" ACTION. CORPORATE TAX INTEGRATION MUST BE MORE THAN SYMBOLIC ACTION TO BE BENEFICIAL. IF THE RESULT OF INTEGRATION IS INCREASED TAXES OR LARGE DISINCENTIVES FOR INVESTMENT, THE SITUATION WILL BE WORSE THAN UNDER PRESENT LAW.

DUE TO THE UNCERTAINTY ABOUT WHAT TYPES OF INVESTMENT WILL BE PROFITABLE, ENERGY LEGISLATION PROPOSED BY THE ADMINISTRATION IS PROBABLY SLOWING DOWN THE EXPANSION OF BUSINESS INVESTMENT. DUE TO OPPORTUNITIES FOR BETTER

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ENERGY EFFICIENCY IN PRODUCTION, THE ADMINISTRATION HAS ASSERTED THAT ITS ENERGY LEGISLATION WILL BRING ABOUT INCREASED INVESTMENT ACTIVITY. HOWEVER, EVEN IF MORE TOTAL INVESTMENT DOES RESULT FROM THE REQUIREMENTS IMPOSED BY ENERGY LEGISLATION, MUCH OF THIS INVESTMENT WILL NOT ADD TO PRODUCTIVE CAPACITY.

IN FACT, TOTAL PRODUCTION INVESTMENT MAY BE LESS BECAUSE OF THE INFLATIONARY EFFECTS OF THE ENERGY LEGISLATION.

EXPERIENCE WITH POLLUTION ABATEMENT INVESTMENT EXPENDITURES PROVIDES A GOOD ILLUSTRATION. IN 1976, IT IS ESTIMATED THAT 5.6 PERCENT OF ALL INVESTMENT IN PLANT AND EQUIPMENT WAS FOR POLLUTION ABATEMENT PURPOSES. THIS AMOUNTS TO \$6.7 BILLION COVERING ALL INDUSTRIES. ALTHOUGH THIS TYPE OF INVESTMENT IS NECESSARY, IT DOES DIVERT SUBSTANTIAL CAPITAL FROM OTHER POTENTIAL BUSINESS SOURCES.

POLLUTION EQUIPMENT CURRENTLY QUALIFIES FOR RAPID AMORTIZATION. I BELIEVE HOWEVER, CONSIDERATION SHOULD BE GIVEN DURING ANY TAX REFORM DEBATE TO THE POSSIBILITY OF WRITING SUCH EXPENDITURES AND OTHER NON-PRODUCTIVE INVESTMENTS OFF AS CURRENT EXPENSES.

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CAPITAL GAINS TAX

APPARENTLY SOME CONSIDERATION IS BEING GIVEN IN THE ADMINISTRATION TO ENDING THE CURRENT CAPITAL GAINS TAXATION SYSTEM. IN THE TAX REFORM ACT OF 1976, CONGRESS INCREASED THE HOLDING PERIOD FOR CAPITAL GAINS FROM SIX MONTHS TO NINE MONTHS IN 1977 AND TO 12 MONTHS FOR 1978 AND BEYOND. MANY EXPERTS CONTEND THAT THIS ACTION ALONE WILL RESULT IN DECREASED MOBILITY OF MONEY WITHIN THE ECONOMY.

THE SPECIAL TAX RATE FOR CAPITAL GAINS WAS DESIGNED TO ENCOURAGE INVESTMENT IN AREAS WHERE RETURNS ARE NOT GUARANTEED. THIS PROVISION HAS BEEN A PART OF OUR TAX LAWS FOR OVER THIRTY FIVE YEARS. DURING THAT TIME, IT HAS PROVEN TO BE A POWERFUL INCENTIVE FOR INVESTMENT BY MANY INDIVIDUALS.

THERE IS A COMMON HELD NOTION THAT ONLY HIGH INCOME TAXPAYERS BENEFIT FROM THE USE OF THE CAPITAL GAINS PROVISION. HOWEVER, IN 1975 48 PERCENT OF ALL CAPITAL GAINS WERE REPORTED BY TAXPAYERS WITH INCOMES OF LESS THAN \$30,000. FURTHERMORE, THE MINIMUM-MAXIMUM TAX SYSTEM HAS INCREASED THE EFFECTIVE CAPITAL GAINS TAX RATE TO SLIGHTLY OVER 49 PERCENT.

ANY PROPOSAL TO CUT BACK ON THE CAPITAL GAINS SYSTEM SHOULD CLEARLY CONTAIN ADEQUATE INCENTIVES TO REPLACE THE LOSS FROM ELIMINATION OF CAPITAL GAINS PROVISIONS.

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THE AMERICAN ECONOMY IS AT A FAIRLY LOW UTILIZATION RATE OF ITS BUSINESS CAPACITY. ONE WAY TO STIMULATE INVESTMENT AND INCREASED PRODUCTION IS TO ALLOW BUSINESS LARGER DEPRECIATION DEDUCTIONS. THIS COULD BE ACCOMPLISHED BY VARIOUS COMBINATION OF CHANGES IN EITHER ASSET LIVES, OR MORE ACCELERATED METHOD. BECAUSE INFLATION NATURALLY DRIVES UP THE REPLACEMENT COST OF EQUIPMENT, WE SHOULD ALSO CONSIDER INDEXING DEPRECIATION FOR INFLATION. IT SEEMS THAT DEPRECIATION BASED ON REPLACEMENT COST COULD BE AN IMPORTANT DEVICE IN PROMOTING INVESTMENT DECISIONS.

UNCERTAINTY MUST END

TAX LEGISLATION HAS AN IMPORTANT IMPACT ON BUSINESS INVESTMENT DECISIONS. TAX REFORM MUST BE COORDINATED WITH MONETARY AND BUDGET POLICIES TO PROVIDE THE OVERALL ECONOMIC ENVIRONMENT FOR HEALTHY GROWTH AND INVESTMENT. THE PROSPECT OF LARGE BUDGET DEFICITS, CONTINUED INFLATION FROM ENERGY LEGISLATION, AND UNCERTAINTY AS TO TAX LAW CHANGES THREATEN TO DESTROY THE UPWARD MOVEMENT OF THE ECONOMY WHICH THE PAST ADMINISTRATION ACHIEVED. IT IS VERY IMPORTANT THAT THE ADMINISTRATION GIVE UNMISTAKABLE SIGNS AS SOON AS POSSIBLE THAT THEIR TAX REFORM PROPOSALS WILL PROVIDE BUSINESSES WITH ADEQUATE CAPITAL RECOVERY AND INVESTMENT INCENTIVES, RATHER THAN TRYING TO LEVY INCREASED TAXES ON BUSINESS.