

TAX INCENTIVES

The tax credits will start people buying equipment in 1978 and the Maximum savings will occur in 1985 after all the accumulated equipment is in place.

If we consider all the money spent on credits that will produce negligible savings in 1985, we get \$787 million spent to obtain negligible savings.

But these are only the items that the Committee will admit to producing no savings. None of the savings estimates used by the Committee can be backed up.

(This is a good reason to send the bill back for further study.)

Suggested Additions to Janeway Material

On page 4, where I make reference to the International Sugar Agreements, add the following:

The same striped pants executives at the State Department who helped us lose Cuba, are the same ones who want us to suffer from a new OPEC in sugar -- and the General Manager of this new OPEC will be Fidel Castro.

With reference to your comments on the Panama Canal, point out that the President has threatened to veto the proposed barge legislation, unless he gets everything he wants in the way of taxes on barge line operations. Lock and dam 26 at Alton, Illinois handles 25 percent more tonnage than the entire Panama Canal. Failure to rebuild this lock and dam will cause a disaster on the river. Apparently, the President can devote 100 percent of his time and attention to the Panama Canal issue and fails to grasp the entire significance to the U.S. economy of the domestic river system.

REMARKS OF SENATOR BOB DOLE
ELIOT JANEWAY SEMINAR
UNIVERSITY CLUB, WASHINGTON, D. C.
OCTOBER 25, 1977

I APPRECIATE THE OPPORTUNITY TO VISIT ABOUT A NUMBER OF ISSUES THAT CONGRESS AND THE EXECUTIVE BRANCH ARE CONFRONTING IN THE CLOSING DAYS OF THE FIRST SESSION OF THE 95TH CONGRESS.

FRANKLY, I HAVE BEEN SOMEWHAT AT A LOSS TO KNOW WHERE TO BEGIN, BECAUSE THERE ARE SO MANY CROSS CURRENTS AT WORK IN GOVERNMENT NOW THAT IT'S DIFFICULT TO DETERMINE WHETHER WE ARE GOING FORWARD, BACKWARD OR SOME OTHER DIRECTION.

FIRST, FOR WHATEVER IT MAY BE WORTH, LET ME EXPRESS MY VIEWS ON HOW THE CONGRESS SEES THE PRESIDENT.

FIRST, FROM A PARTISAN STANDPOINT, I BELIEVE THIS ADMINISTRATION IS EMERGING AS ONE OF THE MOST PARTISAN IN RECENT MEMORY. REPUBLICANS ARE IGNORED, AND ALL THE EARLY TALK ABOUT A BIPARTISAN APPROACH TO PROBLEMS NEVER REALLY DEVELOPED.

SECONDLY, I BELIEVE THAT THE DISTANCE BETWEEN THE CAPITOL AND THE WHITE HOUSE IS INCREASING. IT IS CERTAINLY TOO EARLY TO MAKE A FINAL JUDGMENT, BUT I SENSE THAT MANY GOOD DEMOCRATS ON THE HILL HAVE AN INCREASINGLY NEGATIVE ATTITUDE TOWARD THE EXECUTIVE BRANCH AND EVEN THE PRESIDENT HIMSELF. I DON'T MEAN TO SAY THAT THIS CANNOT CHANGE; BUT AS ALL OF YOU KNOW, MEMBERS OF CONGRESS ARE CONCERNED ABOUT SURIVAL, AND I BELIEVE SOME ARE ADOPTING THE ATTITUDE THAT CHANCES FOR SURVIVAL ARE BETTER IF THERE IS A LITTLE DISTANCE BETWEEN THEM AND THE CARTER ADMINISTRATION.

THE PRESIDENT HAS NOT SOUGHT MY ADVICE, BUT I WOULD SUGGEST THAT HE MIGHT INITIATE A MASSIVE TALENT SEARCH AND ULTIMATELY SURROUND HIMSELF WITH ABLE MEN AND WOMEN WITH BROAD EXPERIENCE WHO KNOW THE ISSUES AND HAVE WHAT IN THE PAST WAS REFERRED TO AS COMMON SENSE. HE IS ALREADY OVERSTAFFED WITH OPTION PAPER WRITERS AND THOSE DEVOTED TO ECONOMETRIC MODELS.

I CAN UNDERSTAND WHY MANY IN THE BUSINESS COMMUNITY ARE LOOKING FOR DIRECTION, BUT I CAN TELL YOU THAT THE CONFUSION EXTENDS TO NEARLY EVERY OTHER SEGMENT OF OUR ECONOMY ALSO. A FEW PUZZLING ILLUSTRATIONS MAY BE HELPFUL IN FOCUSING ON A POSSIBLE TREND IN THIS ADMINISTRATION.

ACCORDING TO A WASHINGTON POST STORY ON OCTOBER 20, THE SECRETARY OF COMMERCE TOLD A CONFERENCE THAT THE COMMERCE DEPARTMENT PLANNED TO DEVELOP AN INDEX THAT WOULD EVALUATE CORPORATE CONTRIBUTIONS TO SOCIETY AND "HELP BRING ABOUT AN IMPROVEMENT IN THE BEHAVIOR OF LESS PROGRESSIVE FIRMS". THE INDEX WOULD EVALUATE CORPORATE PERFORMANCE IN FIELDS RANGING FROM ENVIRONMENTAL CONTROL TO AFFIRMATIVE ACTION TO PRODUCT TESTING TO CONSUMER COMPLAINTS TO PURCHASING FROM MINORITY OPERATED FIRMS. THE SECRETARY ALSO CALLED FOR SHARPLY INCREASED CORPORATE CONTRIBUTIONS TO NON-PROFIT AND PHILANTHROPIC ORGANIZATIONS.

ON ANOTHER FRONT, ASSISTANT SECRETARY OF AGRICULTURE FOR CONSERVATION, RESEARCH AND EDUCATION, RUPPERT CUTLER, INDICATED IN A SPEECH ON OCTOBER 13 THAT FUTURE AGRICULTURAL FOOD POLICIES WOULD BE BASED ON SOME NEBULOUS "NUTRITION POLICY". THE CONGRESS NEVER AGREED TO SUBORDINATE FARM POLICY -- WHICH IS SPELLED OUT IN THE 1977 FARM BILL IN PRECISE TERMS -- TO SOMEBODY'S IDEA OF WHAT NUTRITION POLICY OUGHT TO BE.

FINALLY, ON STILL ANOTHER FRONT, THE CONGRESS WAS IN EFFECT TOLD BY SECRETARY OF ENERGY SCHLESINGER THAT UNLESS WE YIELDED TO PRESSURES AND ADOPTED THE ADMINISTRATION'S ENERGY PROGRAM, HE WOULD IMPOSE A \$5 A BARREL IMPORT FEE ON FOREIGN OIL. HE SAID, AND I QUOTE, "WE ARE IN THE LUDICROUS POSITION IN WHICH WE ARE SUBSIDIZING EVERY BARREL OF OIL THAT COMES IN THIS COUNTRY". WHILE I AGREE THAT SUBSIDIZING IMPORTS IS LUDICROUS, THAT WAS JUST THE PLAN THE ADMINISTRATION WAS PURSUING FOR SUGAR UNTIL CONGRESS FORCED THE ADMINISTRATION TO IMPLEMENT SPECIFIC LEGISLATION. IT WAS NOTED IN TODAY'S WASHINGTON POST THAT HOWARD HJORT, CHIEF ECONOMIST AT THE DEPARTMENT OF AGRICULTURE, SAID THAT THEY WERE NOW ACTING BECAUSE "WE HAVE TO IMPLEMENT THE FARM BILL. IT'S THE LAW." WELL, IT'S BEEN THE LAW SINCE SEP. 29, THE DAY THE FARM BILL WAS SIGNED BY THE PRESIDENT; AND EVEN WEEKS BEFORE THAT, WHEN THE U.S.D.A. OFFICIALS KNEW THAT CARTER WOULD SIGN THE BILL. WE HAD NOTHING BUT A MASSIVE FOOT-DRAGGING CONTEST. THANKS TO AMBASSADOR BOB STRAUSS AND PERHAPS OTHERS IN THE DEPARTMENT, WE MAY NOW SEE SOME RESULTS.

ANOTHER AREA OF CONCERN IS THIS ADMINISTRATION'S PROCLIVITY TO INVOLVE THE UNITED STATES IN COMMODITY AGREEMENTS WITH MAXIMUM AND MINIMUM PRICE PROVISIONS, OR OTHER PROVISIONS AIMED AT WHAT PROponents OF THIS APPROACH CALL PRICE AND MARKET STABILITY. OUR EXPERIENCE WITH SUCH AN APPROACH IS ONE OF DISRUPTION OF MARKETS AND LONG-TERM HARM TO BOTH PRODUCERS AND CONSUMERS.

FOR EXAMPLE, THE LAST INTERNATIONAL GRAINS AGREEMENT WITH MAXIMUM AND MINIMUM PRICES WAS AN INTERNATIONAL ECONOMIC DISASTER, ESPECIALLY TO THE U.S. WHEAT GROWERS. IT IS REGRETTABLE THAT THE THEN PRESIDENT JOHNSON, IN SIGNING ON BEHALF OF THE UNITED STATES, SHOULD STATE:

"THE NEW ARRANGEMENT THUS WILL PROVE TO BE NEW PRICE INSURANCE TO U.S. WHEAT FARMERS."

IT PROVED TO BE LOW PRICE INSURANCE AND LOSING MARKET INSURANCE. OTHER COUNTRIES UNDERSOLD US, AND WE WERE LEFT "HOLDING THE BAG" FULL OF UNEXPORTED WHEAT.

AUSTRALIAN MINISTER FOR PRIMARY INDUSTRY, THE HONORABLE J. D. ANTHONY, EXPRESSED THE PROBLEMS AND PROBABLY ACTIONS PERFECTLY WHEN HE FRANKLY ADMITTED THAT, AS A RESULT OF THE INTERNATIONAL GRAINS AGREEMENT, HIS COUNTRY HAD BEEN ABLE TO TAKE ADVANTAGE OF IT AND GAIN MORE THAN HER TRADITIONAL SHARE OF THE WORLD MARKET.

NOW, WE WILL SHORTLY BE PRESENTED WITH AN INTERNATIONAL AGREEMENT ON SUGAR. THE SAME STRIPED PANTS EXECUTIVES AT THE STATE DEPARTMENT WHO HELPED US LOSE CUBA, ARE THE SAME ONES WHO WANT US TO SUFFER FROM A NEW OPEC IN SUGAR -- AND THE GENERAL MANAGER OF THIS NEW OPEC WILL BE FIDEL CASTRO. I INTEND TO HAVE A CAREFUL STUDY OF JUST HOW MUCH POWER IS BEING GIVEN TO FIDEL CASTRO IN THIS PROPOSAL.

IT IS A FACT OF ECONOMIC LIFE THAT INTEREST IN COMMODITY AGREEMENTS BY PRODUCERS IS MOST APPEALING WHEN PRICES ARE RELATIVELY LOW. TO BE EFFECTIVE IN MEETING THIS OBJECTIVE, A DEGREE OF MONOPOLY POWER MUST BE ACHIEVED THROUGH SUFFICIENT EXPORTER AND IMPORTER PARTICIPATION. TO OBTAIN IMPORTER PARTICIPATION IS DIFFICULT, ESPECIALLY IN YEARS OF LARGE SUPPLIES WHICH WERE THE BASIC CAUSE OF THE LOWER PRICES IN THE FIRST PLACE.

THE PROMINENCE WHICH HAS BEEN GIVEN TO COMMODITY AGREEMENTS AS A SOLUTION TO COMMODITY PROBLEMS IS OUT OF ALL PROPORTION TO WHAT EXPERIENCE HAS TAUGHT US. THIS IS BECAUSE MOST OF THE LITERATURE ON THE SUBJECT AND MOST OF THE POLICY RECOMMENDATIONS OF THE UNITED NATIONS AND OTHER INTERNATIONAL ORGANIZATIONS ARE ROOTED IN A WORLD OF THEORY, THE DEVELOPMENT OF WHICH HAS RESPONDED ALL TOO SLOWLY TO CONDITIONS AND DEVELOPMENTS IN THE REAL WORLD. CONSIDERATION IS NOW BEING GIVEN TO INTERNATIONAL AGREEMENTS ON COTTON, COCOA, TEA AND OTHERS.

THE ECONOMIC CREATURES OF INTERNATIONAL AGENCIES CANNOT MAKE THE FORCES OF SUPPLY AND DEMAND DISAPPEAR. IN THE SHORT RUN THEY MAY BE CHECKED, SHIFTED, BLUNTED OR EVEN TEMPORARILY SUSPENDED. BUT THE CONSEQUENCES CANNOT BE EVADED FOREVER. SUBSTITUTES, INCLUDING SYNTHETICS, ENTER INEVITABLY. THE CONTROL AGENCIES CANNOT AVOID GETTING INTO TROUBLE IN TRYING TO DIRECT, MANAGE AND CONTROL THE VITAL ENERGIES OF THE FREE MARKETS. MONOPOLY PRICES GET INTO TROUBLE AND GENERATE INTERGOVERNMENTAL PROBLEMS AS SOON AS THEIR PRICING ARRANGEMENTS GET OUT OF AGREEMENT WITH MARKET CONDITIONS. WE HAVE LEARNED FROM EXPERIENCE THAT SUCH APPROACHES DISRUPT MARKETS AND DISTURB PRODUCTION TO THE LONG-TERM DETRIMENT OF BOTH PRODUCERS AND CONSUMERS.

I RECOGNIZE THE CHALLENGE THAT THE DEVELOPING COUNTRIES HAVE PUT TO THE INDUSTRIAL WORLD. FUNDAMENTALLY, WHAT THEY ARE REALLY CALLING FOR IS A REDISTRIBUTION OF WEALTH THROUGH INCREASING THE PRICES OF RAW MATERIALS. THEIR MEANS FOR EFFECTUATING THIS REDISTRIBUTION ARE EITHER THROUGH UNILATERAL PRODUCER CARTEL ACTION OR BY AGREEMENT AMONG PRODUCERS AND CONSUMERS TO ESTABLISH A RANGE OF PRICES. OUR APPROACH MUST BE AN EXPRESSED DESIRE TO COOPERATE WITH ALL NATIONS, BUT AT THE SAME TIME, TO STAND UP FOR WHAT IS ECONOMICALLY SOUND. OUR POLICY WITH REGARD TO THE SIGNIFICANT ISSUES RELATING TO COMMODITY POLICY SHOULD BE A STRONG DEFENSE OF THE FREE ENTERPRISE SYSTEM THAT HAS GIVEN US STRENGTH, AND, AT THE SAME TIME, ENABLED US TO HELP MANY OF THE DEVELOPING COUNTRIES.

FOR THOSE WHO WISH TO REALLY STUDY THIS AREA OF INTERNATIONAL COMMODITY AGREEMENTS, I RESPECTFULLY RECOMMEND THE RECENT DETAILED REVIEW BY THE U.S. INTERNATIONAL TRADE COMMISSION.

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This can be followed by a kind of score card as follows:

1. Stock market approaching 800 because investors do not have confidence.
2. Farm prices down to 63 percent of parity -- approaching the depression lows. Farm income down and depression signs in many farm towns.
3. No improvement in unemployment. Now, President Carter is flirting with a new version of the Humphrey-Hawkins bill. This raises the fundamental question as to whether the promise of a balanced budget for the 1981 fiscal year is still a Carter objective -- or just another promise.
4. The continuing high spending levels plus Secretary Blumenthal's "great" judgment that there is nothing to worry about from the large payment deficits and the weakness of the dollar certainly do not reflect the President's claim that holding down inflation has a top priority.

The American War for Independence produced the world's first society truly open to the fulfillment of its people's potential. And in so doing, it released the extraordinarily creative genius of the American people, freed it to explore every channel of innovation in their political, social and economic order.

Today, we are still carrying forward the unfinished business of that Revolution; we are still searching out new ways to enlarge the American Dream of a society really open to the full potential of all its people.

Assuring the nation's military strength and economic well being must be the essential goal of our policy. The need to continually struggle for those goals underlies our facing up to our fundamental obligations -- obligations we really owe to ourselves. We cannot stand aside from the tremors of international disturbances when we know that any disturbance in the general balance

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of power will of necessity affect us. We are just too important in the life of the world to stand aside -- to play the isolationist game. We need wiser men and women in the highest levels of our government. Most importantly, we need people who understand what made us a great nation, and how to maintain that position. Already, we need a change.

THE SUGAR PROVISION OF THE FOOD AND AGRICULTURE ACT OF 1977 REQUIRES THE "MINIMUM LEVEL OF SUPPORT FOR SUGAR BEETS AND SUGAR CANE WOULD BE 52.5 PERCENT OF PARITY, BUT NOT LESS THAN 13.5 CENTS PER POUND RAW SUGAR EQUIVALENT."

IN CONTRAST TO THE VARIOUS SUBSIDY PROGRAMS OFFERED BY THE ADMINISTRATION, THE FIRST OF WHICH HAS BEEN DECLARED ILLEGAL AND THE SECOND OF WHICH MAY ALSO BE ILLEGAL, THE FARM BILL PROVISION WILL GIVE FARMERS MARKET PRICE SUPPORT AT A REASONABLE LEVEL. ITS IMPLEMENTATION BY NOVEMBER 8, 1977, WHICH HAS NOW BEEN AGREED TO BY THE ADMINISTRATION, WILL NECESSARILY HAVE TO ADDRESS THE PROBLEM OF THE DUMPING OF THE EXCESS SUGAR SUPPLIES OF THE WORLD IN THE U.S. MARKET.

IMPLEMENTATION OF A TARIFF ON IMPORTED SUGAR TO EFFECTUATE THE FARM BILL PROVISION WILL RAISE REVENUE ESTIMATED AT \$300 MILLION TO \$400 MILLION.

THUS, INSTEAD OF THE ADMINISTRATION'S ILLEGAL AND COSTLY SUBSIDY PROGRAM WE NOW HAVE A SUGAR PROGRAM THAT:

- (1) PROVIDES FARMERS WITH TRUE MARKET SUPPORT;
- (2) WILL PREVENT DUMPING OF SUGAR IN THE U.S. MARKET; AND,
- (3) WILL GENERATE REVENUE FOR THE U.S. TREASURY INSTEAD OF COSTING THE U.S. GOVERNMENT.

October 25, 1977

MEMORANDUM FOR:

Senator Dole

FROM:

Jack

SUBJECT:

Stockmarket

The Dow Jones Industrial closed at 802 yesterday, the lowest it has been since October 2, 1975.

The dollar yesterday plunged against most major currencies and reached a record low against the Swiss Franc. The lower the dollar falls, according to some analysts, the more likely that OPEC will raise oil prices (thus increasing our trade deficit).

There are two major problems confronting the stock market:

- (1) Interest rates - prime rate has risen in past weeks to 7 3/4%.
This makes it difficult for business to expand.
- (2) Uncertainty - the Administration has refused to unveil their tax reform package. Rumors that have been circulating would make any investors nervous - especially the repeal of capital gains. As you know, since Lance left the business community, they believe that they have no friends in the Administration. Carter is trying to make Blumenthal the new hero but no luck so far.

Confidence could be bolstered by:

- (1) A pledge for tax cuts to encourage business expansion.
- (2) The indication that inflation will be brought under control (3-4%) by decreased budget deficits.

Blumenthal believes that our deficit results from the fact that the American economy has recovered faster than that of our trading partners. While there is some merit to this, the fact remains that we do not have a comprehensive policy to push exports. The GATT negotiations have been sent back largely because Carter was late in naming some of the Deputy Special Trade Representatives.

Budget deficit this year - \$60-64 billion
Trade deficit: Project \$30 billion - largest in history
LAST Q was almost as the entire deficit for 1976 (which was the largest in history prior to this year)
Inflation rate 7.3 annual since January