

ASSOCIATED GENERAL CONTRACTORS OF AMERICA

HONOLULU, HAWAII

FRIDAY, MARCH 21, 1980

ADDRESSING THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA IS A LITTLE BIT LIKE COMING HOME FOR ME. WE HAVE JOINED FORCES TO FIGHT MANY A BATTLE OVER THE YEARS AND RIGHT NOW WE ARE WORKING TOGETHER ON A NUMBER OF MATTERS. LET ME BRING YOU UP TO DATE ON A FEW OF THESE INITIATIVES - AND THEN TURN MY ATTENTION TO THE BROADER ISSUES OF WHAT HAS GONE WRONG WITH THE AMERICAN ECONOMY - AND WHAT CAN BE DONE TO RIGHT IT.

PROTECTING THE HIGHWAY TRUST FUND

LET ME SPEAK BRIEFLY ABOUT A BILL THAT I HAVE HAD DRAFTED AND WILL INTRODUCE UPON MY RETURN TO WASHINGTON. MOST OF YOU KNOW THAT WE HAVE FOR SOME TIME HAD A 4 CENTS PER GALLON TAX ON GASOLINE AND SPECIAL VEHICLE FUELS. THE RECEIPTS FROM THIS TAX ARE DEPOSITED IN THE HIGHWAY TRUST FUND AND USED FOR NEW HIGHWAY CONSTRUCTION AND ROAD MAINTENANCE. AS INFLATION HAS ESCALATED THE COST OF ROAD CONSTRUCTION AND MAINTENANCE, GASOLINE CONSUMPTION HAS DECREASED. THUS, TRUST FUND RECEIPTS ARE SHRINKING AT A TIME WHEN MORE MONEY IS NEEDED.

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I PROPOSE TO RESOLVE THIS PROBLEM, NOT BY RAISING THE GASO-  
LINE TAX BUT RATHER BY CONVERTING IT FROM A FLAT 4 CENTS PER  
GALLON TO A TAX OF 4 <sup>anywhere</sup> PERCENT OF THE PRICE OF THE PRODUCT.  
ALL OF THE PROCEEDS WOULD GO TO CONSTRUCTION AND MAINTENANCE  
OF HIGHWAYS. THIS TYPE OF TAX WILL AUTOMATICALLY INCREASE  
THE FUNDS AVAILABLE TO THE TRUST FUND AS THE PRICE OF GASO-  
LINE INCREASES. IT ALSO, HOPEFULLY, WILL REMOVE FROM THE  
POLITICAL ARENA THE HIGHWAY TRUST FUND. I HOPE THAT YOU AND  
YOUR ASSOCIATION WILL SUPPORT THIS PROPOSAL.

#### INDEPENDENT CONTRACTORS - AN UPDATE

ANOTHER BATTLE THAT WE HAVE FOUGHT TOGETHER INVOLVES THE  
TREATMENT OF INDEPENDENT CONTRACTORS. IN THE MID 1970'S,  
THE IRS, ON ITS OWN, BEGAN TO RECLASSIFY THOUSANDS OF  
INDEPENDENT CONTRACTORS AS EMPLOYEES FOR TAX PURPOSES. THE  
PROSPECT OF PAYING WITHHOLDING TAXES, SOMETIMES FOR SEVERAL  
BACK YEARS, THREATENED THE EXISTENCE OF MANY COMPANIES  
ACROSS THE COUNTRY. IN 1976 CONGRESS ASKED THE IRS TO HALT  
ITS RECLASSIFICATION. WHEN THIS REQUEST WAS LARGELY IGNORED,  
WE INCLUDED A PROVISION IN THE 1978 TAX ACT THAT PROHIBITED  
SUCH RECLASSIFICATION UNTIL 1980. IN DECEMBER WE EXTENDED  
THE PROHIBITION ANOTHER YEAR.



IN THIS REGARD I WOULD LIKE TO COMPLIMENT ROBERT DUNVILLE OF RICHMOND, VIRGINIA FOR HIS VERY HELPFUL TESTIMONY ON MY BILL, S. 736. I WOULD ALSO LIKE TO THANK THE AGC FOR SUPPORTING MY BILL AND FOR OFFERING THE NATIONAL CONSTRUCTION INDUSTRY COUNCIL RESOLUTION THAT VOICED THE KIND WORDS FOR ME AND OUR EFFORT ON THIS IMPORTANT ISSUE. IN MY LINE OF WORK, IT'S ALWAYS NICE AND USUALLY RARE - TO HEAR COMPLIMENTS OF ANY KIND - OR GET MUCH SUPPORT FROM GROUPS LIKE THIS ... AS I LEARNED THE HARD WAY THE PAST 10 MONTHS.

FINALLY, THERE ARE TWO OTHER ISSUES IN WHICH WE HAVE FOUGHT A SO-FAR PROMISING BATTLE. THE WINDFALL PROFIT TAX BILL THAT WE ARE NOW CONSIDERING ON THE FLOOR OF THE SENATE CONTAINS A PROVISION THAT REPEALS CARRYOVER BASIS. SINCE 1976, WHEN CARRYOVER BASIS WAS FIRST PASSED, WE HAVE FOUGHT TO REMOVE IT. THAT FIGHT WILL END IN VICTORY WHEN THE WINDFALL PROFIT TAX IS SIGNED BY THE PRESIDENT.

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AND, THROUGH H.R. 5224, WE HAVE SUCCEEDED IN PUTTING OFF UNTIL AT LEAST JUNE, 1981 ATTEMPTS BY THE IRS TO ISSUE FRINGE BENEFIT REGULATIONS. ONLY LEGISLATION THAT PERMANENTLY PROHIBITS THE ISSUANCE OF THIS REGULATION WILL SATISFY US. AND WE CANNOT SLACK OFF IN OUR EFFORTS UNTIL THIS FIGHT, TOO, IS WON.

#### 1980: A YEAR OF DECISION

NOW, ALL OF THESE THINGS ARE SPECIFIC LEGISLATIVE INITIATIVES WHICH, IF ENACTED, WILL PROVIDE HELP TO AN ECONOMY THAT NEEDS IT DESPERATELY. OF COURSE, I BELIEVE THE BEST SHOT WE COULD GIVE THE ECONOMY IS A NEW PRESIDENT NEXT JANUARY, AND A COHERENT PROGRAM OF SUPPLY-BASED ECONOMICS.

THAT MEANS A REALIZATION THAT WORDS LIKE PROFIT AND INCENTIVE ARE FIT FOR POLITE CONVERSATION. THAT MEANS THAT WE PUT AN END TO

THE PATRONIZING ATTITUDE OF WASHINGTON TOWARD THE POOR AND DIS-ADVANTAGED, AND WAKE UP TO THE REALIZATION THAT A JOB AND THE INDEPENDENCE THAT COMES WITH A WEEKLY PAYCHECK IS FAR BETTER THAN SPENDING YOUR LIFE ON THE WELFARE TREADMILL.

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THAT MEANS AN ENERGY POLICY THAT STIMULATES PRODUCTION OF NEW OIL AND GAS AS WELL AS CONSERVATION OF EXISTING RESOURCES. IT MEANS GIVING THE PRIVATE SECTOR THE INCENTIVE TO DO THE JOB THAT GOVERNMENT CANNOT DO. IT MEANS AN ENERGY POLICY MORE CREATIVE THAN NEW TAXES - OR ONE MORE DEPARTMENT IN AN ALREADY BLOATED CABINET.

### A CRISIS OF CONFIDENCE

NOW LET ME CHANGE THE SUBJECT FOR A FEW MINUTES, FROM SPECIFIC LEGISLATIVE PROPOSALS TO THE BROADER CRISIS OF CONFIDENCE THAT IS TODAY AFFLICTING THE AMERICAN ECONOMY.

AS WE MEET THIS MORNING, AMERICANS ARE CONFRONTED WITH THE HIGHEST INTEREST RATES IN THEIR HISTORY. INFLATION OF NEARLY 20% IS TEARING AT THE VITALS OF OUR SOCIETY. THE STOCK MARKET HAS PLUNGED BELOW THE 800 FIGURE AND NO ONE KNOWS WHERE IT WILL ALL END.



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A WEEK HAS PASSED SINCE THE PRESIDENT UNVEILED HIS LATEST ANTI-INFLATION PACKAGE. IT MIGHT BEST BE DESCRIBED AS NIBBLING THE INFLATIONARY BULLET OF COURSE, HOW CAN YOU EXPECT AN ADMINISTRATION TO BITE THE BULLET WHEN ITS SPENT THE LAST 3 YEARS FIRING BLANKS.

THE PRESIDENT SEEMS TO UNDERSTAND THE LINK THAT EXISTS BETWEEN RUNAWAY INFLATION AND CRUSHING INTEREST RATES. THERE IS NO WAY TO AVOID THAT CONNECTION, AND NO SLOGANS THAT WILL SOLVE ONE WITHOUT TACKLING THE OTHER.

TO BRING INTEREST RATES DOWN, WE'VE GOT TO GET A HANDLE ON INFLATION ITSELF. TO DO THAT - TO EXERCISE THE POLITICAL COURAGE TO SAY NO WHEN THERE ARE A LOT MORE VOTES TO BE GAINED BY SAYING YES - THIS IS THE ULTIMATE TEST OF A DEMOCRATIC SYSTEM OF GOVERNMENT. THE AMERICAN

THE AMERICAN PEOPLE DO NOT DESERVE AN ECONOMY WORTHY OF A BANANA REPUBLIC, BUT THAT IS WHAT THEY ARE GETTING. THE PHRASE "ECONOMIC CRISIS" IS GAINING MORE AND MORE CURRENCY, BUT A CRISIS IMPLIES SOMETHING SUDDEN AND UNANTICIPATED. MANY OF US IN CONGRESS HAVE WARNED THAT COMPOUNDED GOVERNMENT DEFICITS, COMBINED WITH EVER RISING LEVELS OF FEDERAL SPENDING AND TAXATION, WOULD BRING THE NATION TO A POINT WHERE ONLY WRENCHING, PAINFUL ADJUSTMENTS COULD DAMPEN INFLATION.

NOW IT APPEARS THAT THE HOUR MAY HAVE ARRIVED, AND PUBLIC RELATIONS GESTURES AND PRIME TIME PRESS CONFERENCES ARE NOT GOING TO DO THE TRICK. THE PROBLEM GOES BEYOND APPEARANCES. PEOPLE LACK CONFIDENCE IN THEIR ABILITY TO INVEST AND GAIN OVER THE LONG TERM, AND THAT IS A VERY DANGEROUS SIGN FOR THE ECONOMY. LESS INVESTMENT MEANS LOWER GROWTH, FEWER JOBS, A DWINDLING TAX BASE. AND YET WE HAVE BORROWED NEARLY A TRILLION DOLLARS FROM THAT FUTURE, AS THE NATIONAL DEBT CONTINUES TO ACCUMULATE.

LAST FRIDAY PRESIDENT CARTER UNVEILED YET ANOTHER PROGRAM TO HALT INFLATION. RATHER, HE UNVEILED PARTS OF A PROGRAM -- ACCORDING TO ALFRED KAHN, THE PRESIDENT MEANT TO TALK ABOUT THE NEED FOR REGULATORY REFORM, BUT THAT PORTION OF HIS SPEECH WAS OMITTED BECAUSE SEVERAL PAGES STUCK TOGETHER. THIS MAY BE THE FIRST TIME MR. CARTER HAS GOTTEN SOMETHING TO STICK. IT DOES NOT, HOWEVER, HELP THE PRESIDENT TO CONVINCE THE PUBLIC THAT HE HAS A SERIOUS, COMPREHENSIVE PROGRAM IN HAND. NOR WAS MR. CARTER HELPED BY STATING HE PROPOSED \$18 BILLION IN SPENDING CUTS, WHEN HE MEANT TO PROPOSE \$13 BILLION. BUT THAT ERROR DRAMATIZED THE INADEQUACY OF THE ADMINISTRATION'S PROGRAM -- HOW MUCH DIFFERENCE CAN \$5 BILLION MAKE, IN A \$600 BILLION BUDGET?



### AN ECONOMIC SHELL GAME

WHAT THEN DOES THE PRESIDENT OFFER? I HAVE SAID IT BEFORE AND I SAY IT AGAIN -- THE ADMINISTRATION OFFERS UNPRECEDENTED INCREASES IN TAXATION, AND WILL PROPOSE MODEST, SHORT-TERM CUTS IN SPENDING. LET US TRY TO CONSIDER SOME OF THE DETAILS, PAINFUL THOUGH THAT MAY BE. UNFORTUNATELY, MOST OF THE DETAILED SPENDING CUTS HAVE YET TO BE MADE PUBLIC. BUT WHAT WE HAVE DOES NOT INSPIRE CONFIDENCE. FOR EXAMPLE, LOOK AT SOME OF THE PROPOSED CUTS WITHIN THE JURISDICTION OF THE FINANCE COMMITTEE, WHERE I SERVE AS RANKING REPUBLICAN. \$400 MILLION TO BE SAVED BY DELAYING A NEW MEDICAID PROGRAM FOR ONE YEAR; \$850 MILLION BY DELAYING WELFARE REFORM FOR ONE YEAR; \$1 BILLION BY DELAYING COUNTERCYCLICAL REVENUE SHARING FOR ONE YEAR. THESE ARE NOT SPENDING CUTS, THEY ARE DEFERRALS. WHAT HAS BECOME OF THE PRESIDENT'S COMMITMENT TO LONG-TERM SPENDING RESTRAINT?

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ON THE TAXATION SIDE, WE DO HAVE SPECIFICS. SOCIAL SECURITY TAXES ARE UP OVER \$20 BILLION. THE WINDFALL PROFITS TAX WILL BRING \$13 BILLION. WE WILL HAVE A OIL IMPORT FEE LATER CONVERTED TO A GAS TAX - ~~BRING~~ <sup>adding</sup> ANOTHER TEN BILLION, AND 3 BILLION THROUGH WITHHOLDING TAXES ON INTEREST AND DIVIDENDS. THEN AGAIN, IN THE 'PRE-CRISIS' CARTER BUDGET, INFLATION HAD ALREADY BOOSTED PERSONAL INCOME TAXES BY ABOUT \$16.5 BILLION FOR FY 1981 - NOW THE ADMINISTRATION FURTHER PROPOSES TO SQUEEZE THE TAXPAYER, ALREADY HIT BY TAXFLATION, EVEN HARDER.

THE CARTER PEOPLE DON'T MENTION THAT THIS WILL MEAN A FURTHER DISINCENTIVE TO SAVINGS AND INVESTMENT, AT A TIME WHEN WE DESPERATELY NEED TO ENCOURAGE BOTH. THEY HAVEN'T ADDED UP THEIR NEW MATH - TO DISCOVER THAT OVERALL TAXES WILL ~~RISE~~ <sup>RISE</sup> BY ABOUT \$92 BILLION IN FY 1981. TO AN ALL TIME RECORD IN PEACE TIME - 21.9% OF GNP. IN SHORT, WE HAVE A PRESCRIPTION FOR CONTINUED LOW PRODUCTIVITY, SLUGGISH ECONOMIC GROWTH -- AND FEWER JOBS. IT IS NOT AN ANTIDOTE TO INFLATION. IT IS A PROGRAM LOOKING FOR A RATIONALE - BUT THEN, WHAT ELSE IS NEW IN THE CARTER WHITE HOUSE?

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IF THE PRESIDENT HAS NO ANSWERS FOR OUR DILEMMA, WHAT CAN WE DO? I SUBMIT THAT WE NEED DEEPER AND LASTING SPENDING CUTS, NOT JUST ONE-YEAR DEFERRALS -- AND A COMMITMENT TO TAX REDUCTION IN FUTURE FISCAL YEARS.

STRAIGHTENING OUT THE TAX SYSTEM

TAX POLICY IN THIS COUNTRY HAS TENDED, IN RECENT YEARS, TO ENCOURAGE CONSUMPTION AND DISCOURAGE INVESTMENT, SAVINGS, AND CAPITAL FORMATION. AMONG MAJOR INDUSTRIALIZED NATIONS, THE UNITED STATES RANKS LAST IN SAVINGS AS A PERCENT OF INCOME, LAST IN FIXED INVESTMENT AS A PERCENT OF GNP AND LAST IN PRODUCTIVITY GROWTH. THIS IS NO ACCIDENT. IT IS NOT CAUSED BY THE PROFLIGACY OF OUR CITIZENS. IT IS CAUSED BY TAX POLICY.

→ R. B. C. H. A.



THE EXTREME PROGRESSIVITY OF OUR INCOME TAX SYSTEM IS ONE PROBLEM. HIGH TAX RATES FOR MIDDLE INCOME TAXPAYERS DISCOURAGE PRODUCTIVE ACTIVITY. THIS PROBLEM IS MADE MORE ACUTE BY INFLATION. INDIVIDUALS OFTEN MUST PAY A HIGHER TAX ALTHOUGH THEY RECEIVE NO REAL INCREASE IN THEIR INCOME. SUCH TAXFLATION IS, TO ME, THE BIGGEST WINDFALL PROFIT OF ALL - AND IT IS DIRECTLY ATTRIBUTABLE TO A FEDERAL GOVERNMENT THAT EQUATES A PRINTING PRESS WITH SOUND CURRENCY. WE HAVE A CAPITAL CRISIS IN THIS COUNTRY. CAPITAL NEEDED FOR INVESTMENT IS ERODED BECAUSE OUR TAX SYSTEM DOES NOT RECOGNIZE INFLATION-CAUSED UNDER-DEPRECIATION OF ASSETS. IT MAKES NO SENSE TO DEPRECIATE ASSETS AT A PRICE THAT IS ONLY A FRACTION OF THEIR REPLACEMENT COST. INVESTMENT IS DISCOURAGED IN OTHER WAYS ALSO. FOR EXAMPLE, DIVIDENDS ARE TAXED TWICE IN OUR SYSTEM -- ONCE AS PROFIT TO THE CORPORATION AND AGAIN AS INCOME TO THE RECIPIENT.

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TAX REDUCTION SHOULD TAKE THE FORM OF INDEXING THE INCOME TAX TO INFLATION, TO ELIMINATE FUTURE REVENUE WINDFALLS TO THE TREASURY; TAX INCENTIVES FOR SAVINGS AND INVESTMENT; AND SOME FORM OF CORPORATE TAX RELIEF TO STIMULATE REAL, NON-INFLATIONARY GROWTH -- PERHAPS BY ADOPTING ONE OF THE PROPOSALS FOR ACCELERATING DEPRECIATION OF CAPITAL ASSETS. BY PLANNING TAX RELIEF FOR FUTURE FISCAL YEARS, WE CAN AVOID UPSETTING THE CURRENT BUDGET, YET GIVE THE NATION A CLEAR COMMITMENT TO A POLICY OF STABLE GROWTH, AND SHOW OUR DETERMINATION TO BATTLE OUR WAY OUT OF THE MIRE OF STAG-FLATION.

IF WE CAN DO THAT, WE WILL MAKE THE JOB OF MONETARY POLICY EASIER. BY DEFLATING PEOPLE'S EXPECTATION OF CONTINUING INFLATION AND SLOW GROWTH, WE WILL REDUCE INCENTIVES FOR INCURRING DEBT. THEN THE FED CAN PERMIT INTEREST RATES TO MODERATE, AND WE CAN ALL BREATHE EASIER. THOSE RATES WOULD NEVER HAVE GONE SO HIGH HAD THE PRESIDENT FOLLOWED CLEAR, CONSISTENT, FISCAL AND MONETARY POLICIES OVER THE LAST THREE YEARS.



### 1980 - A WATERSHED YEAR

NOW IS THE TIME FOR AMERICA TO PASS JUDGEMENT ON - 3 YEARS OF CARTER ECONOMICS. THE 1980 ELECTIONS ARE TRULY A WATERSHED. THIS YEAR WE WILL MAKE DECISIONS THAT DETERMINE FOR DECADES TO COME THE SHAPE OF OUR ECONOMY, THE EXTENT OF OUR INDIVIDUAL FREEDOMS AND OPPORTUNITIES, AND THE LEADERSHIP WE GIVE TO THE TROUBLED WORLD IN WHICH WE LIVE. IN 1980, WE WILL DECIDE WHAT PROMISES WE WISH TO KEEP, TO OURSELVES AND TO HUMANITY.

I HOPE THAT EACH OF YOU WILL GET INVOLVED IN THE DECISION-MAKING PROCESS. WE NEED TO HEAR YOUR VOICES. WE REQUIRE YOUR VIEWPOINT, AND WE CAN BENEFIT FROM YOUR IMPERISHABLE CONVICTION THAT THE BEST ECONOMY IS A FREE ECONOMY, AND THE BEST AMERICA IS ONE IN WHICH OPPORTUNITY'S DOOR IS NOT CLOSED OFF BY THE DEADENING HAND OF BUREAUCRACY.

IT IS A FIGHT THAT NEVER ENDS - AND IN WHICH WE MUST ALL REMAIN ALWAYS ON GUARD. KEEP UP THE FIGHT, AND ONE DAY EVEN WASHINGTON, D.C. MAY GET THE MESSAGE THAT WE CAN NEVER SPEND OUR WAY TO NATIONAL HAPPINESS - BUT WE VERY EASILY SPEND OURSELVES INTO NATIONAL DISASTER.