

SECURITIES INDUSTRY ASSOCIATION

WHITE SULPHUR SPRINGS, W. VIRGINIA

MAY 9, 1980

WHEN I ACCEPTED YOUR VERY GRACIOUS INVITATION TO COME HERE AND SPEAK TODAY, I WAS CONFRONTED WITH A CHOICE. ON THE ONE HAND, I COULD ADDRESS SOLELY THE LEGISLATIVE ISSUES THAT CONFRONT ME AS RANKING REPUBLICAN ON THE SENATE FINANCE COMMITTEE. I COULD TAKE A FEW BOWS FOR PAST ACHIEVEMENTS, SUCH AS CAPITAL GAINS REFORM AND OUR MORE RECENT SUCCESS IN REPEALING CARRYOVER BASIS. I COULD BEMOAN THE CURRENT ECONOMIC MALAISE, AND QUOTE THE PAINFUL STATISTICS WHICH NEVER REALLY CONVEY THE INDIVIDUAL PAIN THAT ACCOMPANIES DOUBLE DIGIT INFLATION AND MOUNTING UNEMPLOYMENT.

RATHER THAN DO THAT, HOWEVER, I THOUGHT I MIGHT TRY AND PUT SOME CURRENT LEGISLATIVE PROPOSALS INTO A BROADER PERSPECTIVE.

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STANDING AT A CROSSROADS

FOR 1980, AFTER ALL, IS A PRESIDENTIAL ELECTION YEAR, AND WE STAND AT ONE OF THE FATEFUL CROSSROADS OF OUR LONG JOURNEY AS A FREE PEOPLE. BEFORE THIS YEAR IS OUT, WE WILL ANSWER MUCH MORE THAN THE IMMEDIATE ECONOMIC DILEMMAS BEFORE US; BY THE TIME THE NEXT PRESIDENT IS INAUGURATED ON JANUARY 20, 1981, WE WILL PASS JUDGEMENT ON NOTHING LESS THAN THE SURVIVAL OF WHAT WE CALL THE AMERICAN DREAM. THAT DREAM IS NOTHING MORE OR LESS THAN THE OLD VISION OF INDIVIDUAL MOBILITY IN A SOCIETY DEDICATED TO INDIVIDUAL ADVANCEMENT. THAT IS THE DREAM THAT MADE US GREAT, AND THAT IS A DREAM THREATENED AS NEVER BEFORE, NOT ONLY BY 18% INFLATION, 7% UNEMPLOYMENT, RECORD INTEREST RATES, DIMINISHED PRODUCTIVITY AND DISPOSABLE INCOME OR EVEN A NATIONAL DEBT HEADED FOR A TRILLION DOLLARS.

THAT DREAM IS THREATENED BY A GOVERNMENT WHICH MISTAKES AN EQUAL SHARE OF SCARCITY FOR SOCIAL JUSTICE, AND WHICH COLLECTS MORE TAXES AND LESS RESPECT THAN AT ANY POINT IN OUR LIFETIMES.

FOR THE LAST HALF CENTURY, AMERICANS HAVE PUT THEIR FAITH IN GOVERNMENT. NOW, IT'S TIME FOR GOVERNMENT TO PUT ITS FAITH IN AMERICANS.

THE ISSUE AT HAND IS CENTRAL TO OUR SELF-IMAGE AS A FREE PEOPLE. THE ISSUE IS INFLATION - AND THE QUESTION WE CONFRONT IS HOW TO COMBAT IT IN A WAY COMPATIBLE WITH OUR HERITAGE OF ECONOMIC INCENTIVE.

LOOSENING THE REGULATORY STRAIGHT JACKET

ONE THING WE KNOW WILL NOT STEM INFLATION - AND THAT IS MANDATORY WAGE AND PRICE CONTROLS. I HAVE SPONSORED LEGISLATION TO PROHIBIT ENFORCEMENT OF VOLUNTARY GUIDELINES THROUGH THE WITHHOLDING OF GOVERNMENT CONTRACTS. I HAVE ALSO INTRODUCED A SENSE OF THE SENATE RESOLUTION OPPOSING ANY AUTHORIZATION OF MANDATORY CONTROLS.

TO ME, CONTROLS CANNOT WORK, AND CAN ONLY SERVE TO PLACATE THE PUBLIC WITH A SENSE OF ACTION INSTEAD OF THE REAL THING. THEY HAVE THEIR POLITICAL ATTRACTIONS, BUT THEN IT IS PRECISELY THE POLITICALLY ATTRACTIVE COURSE OF ACTION THAT HAS GOTTEN US INTO OUR CURRENT MESS.

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I PREFER TO ATTACK THE ROOTS OF INFLATION - AND NOT MERELY PRUNE AN OVERGROWN TREE.

IT'S TIME TO LOOSEN THE REGULATORY STRAIGHT JACKET THAT COST BUSINESS AND CONSUMER A HUNDRED BILLION DOLLARS EACH YEAR, AND DEPRIVES THOUSANDS OF THE POOR, THE BLACK, THE HISPANIC AND THE YOUNG OF THE DIGNITY AND SELF-ESTEEM THAT COMES WITH A PAYCHECK. THAT'S WHY I'VE INTRODUCED LEGISLATION IN THE JUDICIARY COMMITTEE TO REQUIRE A COST-BENEFIT ANALYSIS OF EVERY PROPOSED RULE AND REGULATION AND WHY I WOULD REQUIRE ALSO THAT PRIVATE MEANS OF ACHIEVING THE SAME OBJECTIVE BE FULLY EVALUATED. IN SHORT, I WANT TO REGULATE THE REGULATORS - THE HUNDRED THOUSAND PEOPLE IN 116 GOVERNMENT AGENCIES WHOSE SOLE RESPONSIBILITY IS TELLING YOU AND ME WHAT GOVERNMENT FORBIDS US TO DO.

ANYTHING LESS IS A PERVERSION OF ECONOMIC JUSTICE - THE PUREST APPROACH THAT WOULD INSIST ON AUTOMOBILE SAFETY BAGS IN A CAR BOUND FOR THE UNEMPLOYMENT OFFICE.

CREATING NEW CAPITAL - AND A RESTRAINED GOVERNMENT

IT'S TIME TO REDIRECT BILLIONS OF DOLLARS AWAY FROM THE PUBLIC AND INTO THE PRIVATE SECTOR. THAT'S WHY I'VE INTRODUCED A PROPOSED CONSTITUTIONAL AMENDMENT LIMITING BOTH FEDERAL SPENDING AND FEDERAL TAXATION. FOR 19 OF THE LAST 20 YEARS, THE FEDERAL BUDGET HAS BEEN UNBALANCED. WE HAVE PREFERRED TO BUY NOW AND PAY LATER - AND INVARIABLY THAT PAYMENT HAS COME IN THE FORM OF PAINFUL INFLATION.

LIMITING THE AMOUNT OF CAPITAL AVAILABLE TO WASHINGTON WOULD EXPAND THE CAPITAL AVAILABLE TO THE PRIVATE SECTOR. IT WOULD ALSO REASSERT OUR HISTORIC BELIEF IN A GOVERNMENT THAT PROMOTES PRIVATE PRODUCTION INSTEAD OF PUBLIC PATERNALISM.

IT'S TIME THAT WE REFORM THE TAX SYSTEM IN THIS COUNTRY - NOT SOME ELECTION YEAR TINKERING, OR A FEW BAUBLES HUNG ON A LEGISLATIVE CHRISTMAS TREE, BUT GENUINE REFORM AIMED AT STRENGTHENING OUR BADLY ERODED CAPITAL AND PRODUCTIVITY PICTURE. I HAVEN'T HAD TOO MANY KIND WORDS FOR THE RECENTLY ENACTED WINDFALL PROFITS TAX - WHICH TURNED OUT NOT TO BE A CONSERVATION AND PRODUCTIVE INCENTIVE AT ALL, BUT A HAMHANDED SLAP IN THE FACE OF POTENTIAL PRODUCERS, BIG AND SMALL, AS WELL AS INDEPENDENTS AND ROYALTY HOLDERS.

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THE TAX FINALLY PASSED WILL PRODUCE BARELY A TRICKLE OF THE NEW OIL AND GAS WE NEED TO SURVIVE THE DECADE OR MORE IT WILL TAKE TO DEVELOP ANY OF THE SO-CALLED ALTERNATIVE ENERGY SOURCES. BUT IT DOES CONTAIN A COUPLE OF LONG OVERDUE FISCAL REFORMS. I KNOW - I INTRODUCED THEM BOTH.

ONE IS THE ALREADY MENTIONED CARRYOVER BASIS REPEAL, WHICH WILL EASE THE ESTATE TAX AND PROVE ESPECIALLY HELPFUL TO MANY FARMERS AND SMALL BUSINESSMEN. THE OTHER IS A PROVISION TO EXCLUDE UP TO \$200 A YEAR IN SINGLE RETURNS - AND \$400 IN JOINT ONES - IN DIVIDEND AND INTEREST INCOME. THIS DOES MORE THAN CUT INDIVIDUAL TAXES BY OVER \$2 BILLION. IT IS A SIGNAL TO THE INVESTOR AND THE SAVER THAT THEIR WORK AND SACRIFICE AND RISK-TAKING ARE TO BE REWARDED, NOT PUNISHED.

A FISCAL SLEIGHT OF HAND

I STRONGLY OPPOSE PRESIDENT CARTER'S PROPOSED 15% WITHHOLDING TAX ON ~~SUCH PAYMENTS~~ ^{INTEREST AND Dividend Income}. TO ME, IT IS THE LATEST EXAMPLE OF FISCAL SLIGHT OF HAND, SHIFTING FISCAL YEAR 82 RECEIPTS INTO FISCAL YEAR 81, THEREBY CLOSING A BUDGET GAP IN TIME FOR THE SPRING PRIMARIES. MORE IMPORTANTLY, SUCH A SCHEME DISCOURAGES CAPITAL FORMATION AT A TIME WHEN THAT VITAL INDEX OF ECONOMIC STRENGTH IS AT AN ALL-TIME LOW. IT WOULD IMPOSE ADDITIONAL HARDSHIPS ON THE ELDERLY AND OTHER SMALL SAVERS, AS WELL AS FINANCIAL INSTITUTIONS ALREADY STRUGGLING TO COPE WITH AN AVALANCHE OF FEDERAL PAPERWORK.

HELP FOR THE SAVER - AND THE HOUSING INDUSTRY

MY IDEAS RUN COUNTER TO THOSE OF THE ADMINISTRATION. I EXPECT TO OFFER IN THE NEAR FUTURE LEGISLATION THAT WOULD PROVIDE SUBSTANTIAL TAX INCENTIVES TO FAMILIES TRYING TO ACCUMULATE FUNDS FOR A FIRST HOME OR A CHILD'S EDUCATION. I WOULD ALLOW AN INDIVIDUAL AN ANNUAL TAX DEDUCTION OF UP TO \$1500 - \$3000 FOR MARRIED COUPLES FILING JOINTLY, SET ASIDE IN A SPECIAL, IRA LIKE ACCOUNT. THE ACCOUNT COULD BE MAINTAINED FOR UP TO 10 YEARS, WITH ALL INVESTMENT GAIN TO BE TAX FREE. IF THE ACCOUNT'S CONTENTS ARE USED TO PURCHASE A HOME, THERE WOULD BE NO TAX ON THEIR DEDUCTIBLE, AND THE AMOUNT WOULD NOT BE INCLUDED IN THE TAX BASES OF THE HOUSE.

I WOULD ALSO ALLOW ANNUAL DEDUCTIONS OF UP TO ONE THOUSAND DOLLARS PER CHILD FOR THE COST OF HIGHER EDUCATION.

IN ONE FELL SWOOP, SUCH A BILL COULD ASSIST THE HARD-PRESSED MIDDLE CLASS, AID IN CAPITAL FORMATION AND HELP A HOUSING INDUSTRY THAT JUSTIFIABLY TALKS IN TERMS OF AN OUTRIGHT DEPRESSION.

THE INVESTMENT PICTURE IN THIS COUNTRY IS BLEAK. AMONG MAJOR INDUSTRIALIZED NATIONS, THE UNITED STATES RANKS LAST IN SAVINGS AS A PERCENTAGE OF INCOME. IT IS NO COINCIDENCE THAT WE ALSO TRAIL IN INVESTMENT AND PRODUCTIVITY.

WE CALL OUR TAX SYSTEM PROGRESSIVE. YET NOWHERE DO OUR COUNTER PRODUCTIVE POLICIES OF RECENT YEARS IMPOSE A GREATER DRAG ON ECONOMIC GROWTH - OR THE SOCIAL JUSTICE THAT ACCOMPANIES A JOB IN THE PRIVATE SECTOR.

IN 1978, WE TOOK AN IMPORTANT STEP FORWARD, ADOPTING THE CAPITAL GAINS REDUCTION THAT SENATOR KENNEDY AMONG OTHERS, URGED THE PRESIDENT TO VETO. LOOKING AHEAD, I WANT TO PASS A COMPREHENSIVE PACKAGE OF BUSINESS TAX CUTS TO REVERSE THE TREND TOWARD SLOWER BUSINESS GROWTH, FALLING RATES OF PRODUCTION, AND LAGGING RE-SEARCH AND DEVELOPMENT.

OVER THE NEXT FIVE TO SEVEN YEARS, I BELIEVE WE CAN IMPLEMENT A SERIES OF BOLD, NEW TAX POLICIES WHICH HELP EASE INFLATIONARY PRESSURES AND ENCOURAGE INDIVIDUALS TO INVEST IN AMERICA'S FUTURE.

TO HELP INDIVIDUAL TAXPAYERS, I FAVOR:

*AN INCREASE IN THE PERSONAL EXEMPTION BY \$250 FROM ITS PRESENT \$1000 TO \$1250.

*AN INCREASE IN THE ZERO BRACKET AMOUNT TO GIVE ADDITIONAL INCENTIVES TO THE WORKING POOR.

*AND MOST IMPORTANTLY, I WANT TO SEE OUR INCOME TAXES INDEXED IN ORDER TO SAFEGUARD A RAISE OR PROMOTION FROM INFLATION'S UNJUST PHENOMENON KNOWN AS "BRACKET CREEP."

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CORRECTING THE CAPITAL SHORTAGE

I AM ALSO DEEPLY CONCERNED ABOUT THE SERIOUS SHORTAGE OF INVESTMENT CAPITAL IN THIS COUNTRY. LITERALLY HUNDREDS OF BILLIONS OF DOLLARS ARE NEEDED IN THE PRIVATE SECTOR TO STRENGTHEN THIS NATION'S ABILITY TO COMPETE IN THE WORLD MARKETPLACE.

THE REDUCTION IN CAPITAL GAINS RATES APPROVED BY CONGRESS WAS A STEP IN THE RIGHT DIRECTION. SO, TOO, WAS THE EXPANSION OF THE INVESTMENT TAX CREDIT AND THE MODEST REDUCTION IN CORPORATE INCOME TAXES.

IN THE IMMEDIATE FUTURE, THE FOCUS OF OUR EFFORTS TO RESTORE OUR CAPITAL STOCKS SHOULD BE ON CAPITAL RECOVERY - DEPRECIATION. AMERICAN BUSINESS SIMPLY MUST BE ALLOWED TO RECOVER INVESTMENT COSTS MORE RAPIDLY. THIS IS PARTICULARLY TRUE DURING PERIODS OF HIGH INFLATION.

I BASICALLY SUPPORT THE POPULAR 10-5-3 PROPOSAL BUT I REALIZE THAT IT NEEDS MODIFICATION BEFORE IT IS FINALLY ENACTED. SOME OF THE WRITE-OFF PERIODS MAY BE TOO SHORT AND THE SCHEME MAY NOT PERMIT FULL COST RECOVERY IN TIMES OF EXTREMELY HIGH INFLATION. SOME SERVICE INDUSTRIES HAVE ALSO COMPLAINED THAT UNDER 10-5-3 THEY WILL NOT BENEFIT AS MUCH AS OTHERS FROM A TAX CUT. I BELIEVE, HOWEVER, THAT DEPRECIATION MUST BE ACCELERATED AND THAT THIS PROPOSAL WILL SET THE LEGISLATIVE MACHINE IN GEAR.

MOREOVER, I BELIEVE A FURTHER REDUCTION IN THE TOP CORPORATE TAX RATE MAY BE ADVISABLE IN THE NOT-TO-DISTANT FUTURE, AS WELL AS SPECIAL TAX CREDITS TO ENCOURAGE RESEARCH AND DEVELOPMENT.

PROSPECTS FOR TAX REDUCTION

WHAT ELSE LOOMS BEFORE US? FOR ONE THING, SOME KIND OF TAX CUT SEEMS LIKELY. UNDER BOTH SENATE AND HOUSE BUDGET RESOLUTIONS, TEN BILLION DOLLARS IS SET ASIDE FOR SUCH PURPOSES. AS THE COUNTRY SLIDES DEEPER INTO RECESSION, AND THE PRESIDENT SLIDES DEEPER INTO POLITICAL QUICKSAND, THERE WILL BE ENORMOUS PRESSURE FOR SUCH A TAX CUT. PERHAPS MORE IMPORTANT FOR THE LONG RANGE DEVELOPMENT OF THE ECONOMY, I DETECT BROAD SENTIMENT ON THE HILL FOR DEPRECIATION REFORM, AS WELL AS FOR AVOIDING THE PLANNED SOCIAL SECURITY INCREASE SCHEDULED TO TAKE EFFECT NEXT JANUARY 1ST.

FOR TOO LONG, GOVERNMENT HAS BEHAVED AS IF PROFIT AND INCENTIVE WERE WORDS TO BE AVOIDED IN POLITE ECONOMIC CONVERSATION. THE COST OF SUCH AN ATTITUDE IS BORNE BY EACH OF US - BUT BY NO ONE MORE THAN THE VERY POOR AND DISADVANTAGED WHOM GOVERNMENT CLAIMS IT WANTS MOST TO HELP.

RONALD REAGAN'S AGENDA OF HOPE

THE IRONY OF ALL THIS IS PAINFUL. BUT IT DOESN'T HAVE TO CONTINUE. I'M SUPPORTING RONALD REAGAN'S PRESIDENTIAL CANDIDACY BECAUSE I BELIEVE IN THE AGENDA OF HOPE THAT HE OFFERS TO ALL THOSE WHO WANT TO SEE AMERICA RESTORED TO HER ONCE PRE-EMINENT PLACE IN THE WORLD. HE ASKS US TO BELIEVE IN OURSELVES, OUR RESOURCES, OUR TECHNOLOGICAL GENIUS, OUR STAMINA AND OUR DETERMINATION.

HE OFFERS US A COHERENT PLAN, BASED ON PRODUCTION INSTEAD OF REGULATION AND POLITICAL LEADERSHIP THAT UNDERSTANDS THE NATURE AND ECONOMIC BENEFITS OF A SUPPLY-BASED ECONOMY. MOST IMPORTANT OF ALL, GOVERNOR REAGAN REMINDS US THAT OUR CURRENT PROBLEMS NEED NOT BE CRISES OF PERMANENT DURATION, BUT SPURS TO NATURAL RENEWAL.

THE AMERICAN DREAM STILL LIVES. I KNOW - I'VE SEEN IT COME TRUE IN MY LIFE. IT MOTIVATES MY CONVICTION THAT THE BEST JUSTICE FOR ALL AMERICANS IS A JOB AND A STAKE IN SOCIETY. IN THE MONTHS TO COME, WE WILL HOLD A REFERENDUM ON THAT CONVICTION, AND I HOPE PROFOUNDLY THAT EACH ONE OF YOU WILL CONTINUE TO PLAY YOUR PART IN WORKING FOR A SOCIETY THAT IS PRODUCTIVE AS WELL AS COMPASSIONATE, AND A PRESIDENT WHO COMBINES MORAL AUTHORITY WITH EXPERIENCED LEADERSHIP.

WORKING TOGETHER, WE CAN ENSURE THAT THE DREAM WE SHARE WILL NEVER DIE.