

News from Senator

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FOR IMMEDIATE RELEASE
Friday, November 7, 1980

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SENATOR BOB DOLE ADDRESS TO NATIONAL ASSOCIATION OF HOME BUILDERS

PALM BEACH, FLORIDA

NOVEMBER 7, 1980

MEANING OF THE ELECTION

Since Tuesday, we have all heard varying explanations of what the American electorate had to say. But some simple facts came clearly through the vote patterns regardless of what the professional pollsters tried to tell us. The single biggest fact is that the people want things to change. The American voter is fed up with gimmicks. They don't want a Value Added Tax. They don't want public employment in place of honest jobs; they don't want their pockets picked by inflation on one side and by the tax man on the other. It takes nothing away from the victories of anyone from Mr. Reagan right down to the lowest local candidate to state the obvious. The voters may not be sure exactly what things they do want done, but it is plain that they don't want anymore of what they have been handed over the last four years. They want a decisive change and they want it now.

It wasn't lost on the politicians that on Wednesday the stock market had its biggest trading day in history and the dollar gained measurable strength on foreign markets. Things are not only going to change, but it is evident they already have.

Our immediate and absolute need is to get the economy back on the road to stability. The retiring Administration and former majority party in the Senate has shown us the price of promise without performance. We owe our constituents as big a turn to financial and social stability as they expressed at the polling place Tuesday. We live with politics, but you have had to live with the consequences.

CHANGE IN THE HOUSE

How big is the change? Just look at the House of Representatives. The other party retained numerical control but their majority was weakened substantially. Their desire to tinker with the economy and their ability to get away with it have been severely limited. All the survivors must go back to face their constituents in two short years. It is unlikely that they will bet that the mood of the country will change in those two short years. So even within their own chamber there will be an abrupt change in the course followed by the Democrats over the last 40 years. There will be a shift away from government over-regulation, over-taxation and over-spending. There will be a trend towards less statutory enactment, less restraint on the capacity of the economy to cure itself and more of a willingness to permit the government to withdraw from those areas to which it has no legitimate claim.

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CHANGE IN THE SENATE

In the Senate, the change was even more staggering. The Republicans realized a net gain of 12 seats which have placed us in the majority, a position we have not held for over a quarter of a century. I, suddenly and not entirely expectedly, will have the privilege of serving as Chairman of The Senate Finance Committee. Senators Percy, Helms, and Tower will take the place of Senators Church, Talmadge and Stennis to name just a few. Directions will shift rapidly and perceptibly.

But with this change comes the responsibility to produce on our promises. We have got to get the job done. We need to control inflation -- we need to put our nation's unemployed back to work -- we need to reduce the tax burden on all Americans.

THE BATTLE FOR ECONOMIC RECOVERY

But all of that is now history. We have had a decisive victory. But it is important to remember that the economy is still in a critical state. The battle for economic recovery is just beginning. If all of you who have carried the banner of economic revitalization for the last several months just go home and don't continue the pressure, you may find that the victories we have won are not as substantial as we hoped.

There may be debate among economists as to whether we are still in a recession. It is not debatable, however, that there are still more than eight million unemployed Americans. It also cannot be debated that inflation is still raging at the rate of 12.7%. No one can dispute that the prime rate of interest is 15 1/2% and on the rise.

"BOOM OR BUST" INDUSTRY

No industry traditionally experiences the highs of economic growth or the misery of economic collapse to the same extent as the housing industry. While housing starts showed some statistical improvement in September, they are still 15.3% below where they were a year ago. Any signs of improvement, however, are welcome.

Members of what has all too often been a "boom or bust" industry, like the homebuilders, have a major stake in seeing to it that the kind of fundamental change in the economic policy of this country that we have talked about recently actually finds its way into law. We need major changes and we should be satisfied with nothing less.

INFLATION AND FEDERAL DEFICITS

Inflation in my view remains public enemy number one, both for the economy as a whole and for the housing industry in particular. None of the myriad policies initiated over the last four years to deal with inflation has worked. The wageprice guidelines are nothing but an embarrassing monument to the Administration's anti-inflation failures. Despite an apparent worsening of the inflationary cycle, I do not view the problem as one that is intractable. We can and must find some effective solution before the corrosive effects of inflation dissolve the economic fabric of the Country.

I am one who strongly believes that Federal deficit spending is one of the chief villains responsible for inflation since it results in the pumping of more money into the economy without any correspondingly increase in national productivity. In 19 of the last 20 years, the Federal budget has been in deficit. Deficits are run regardless of whether business conditions are poor or the economy is booming. The budget has not been balanced at all in the last decade.

Despite all of the recent promises about cutting spending and balancing the Federal budget, the fiscal record of President Carter and the Democratic Congress has been dismal.

It is now clear that President Carter's much heralded "lean and austere" balanced budget for fiscal year 1981 will be nowhere near balanced. The Administration's July economic report forecast a \$30 billion deficit for FY 1981 without a tax cut and \$50 billion with one.

The \$59 billion deficit for the just concluded fiscal year will be the largest in U.S. history, when "off budget" spending is added in. The

The reason for these continued deficits is simple. Politicians have liked to buy now and pay later just like everyone else. The appeal of credit is even more alluring when you buy during an election year and may not have to pay until after you retire. Hopefully, this will change now that a few of the big spenders have been retired by the voters.

This lack of Congressional self-restraint is the principal reason that since 1978 I have introduced and have advocated enactment of some form of Constitutional amendment to require a balanced Federal budget. Unfortunately, that effort seems recently to have run out of steam, but it may have a more receptive audience in Congress next year. But in any event, the recent failure of the Congressional budget process makes the need for some kind of additional mechanism for fiscal restraint painfully obvious. I am optimistic that the new Congress will spend more time tightening and overseeing existing programs rather than creating new ones.

STABLE MONETARY POLICY

Another vital component in any successful battle against inflation is the establishment of a stable, consistent monetary policy. No one knows better than the members of your industry what wildly fluctuating interest rates mean to the economy. They tend to reinforce the boom periods and greatly exaggerate the bad times. Such fluctuations only encourage inflation.

A NEW TAX POLICY

As part of our attack on inflation, we also need to substantially reduce the tax drag on the economy. The percentage of the national economy consumed by Federal taxation is now at the highest level in peacetime history. Thus, I believe we need a tax cut along with an effective limit on the growth of Federal spending.

In considering the advisability of such a move, I flatly reject the view that we have to forego any kind of tax cut because it necessarily will be inflationary. This charge strikes me as an election-year scare tactic that was simply not supported by the facts. A number of the nation's most prominent economists, including Nobel Prize winner, Dr. Lawrence Klein, testified before the Senate Finance Committee that a properly structured tax cut would actually reduce inflation when compared with doing nothing.

TAX CUT LEGISLATION

As most of you know, in August the Senate Finance Committee responded to a Republican tax cut initiative by reporting out a broad-gauged bill designed to offset part of the tax increases for 1981. This bill would reduce individual's taxes by about \$22 billion in calendar year 1981 and would also make about \$16.5 billion in capital formation and productivity-oriented tax changes. This bill is the product of a remarkable bipartisan effort and acknowledgment of the fact that taxes have reached excessive levels. The basic framework of the bill -- across-the-board rate reductions for individuals and accelerated cost recovery for business investment -- derive from the Republican proposal.

The Finance Committee tax cut measure is a balanced and responsible bill. The results of the election confirm that the Committee has been moving in the right direction. The Finance Committee bill represents a well-constructed compromise and has been endorsed by President-elect Reagan.

PROVISIONS FOR HOME BUILDERS

Several provisions of the Finance Committee tax bill would directly benefit homebuilders. This bill contains a major simplification and improvement of the Business Asset Depreciation system. The new system would generally cut in half the period over which general contractors can write off their tools and equipment. Smaller businesses would benefit further by being allowed to write off in the year of purchase a \$25,000 worth of new equipment.

The Finance Committee bill would also cut corporate and individual tax rates. It includes a 2 percentage point reduction in the top and bottom corporate rates and a widening reduction in the top and bottom corporate rates and a widening of corporate rate brackets over a two-year period. This would effectively reduce the tax burden on small and medium sized corporations.

(More)

I am sure many of you want to know when a tax cut is likely to be enacted. As you know, I and many of my colleagues tried every strategy available to bring the Finance Committee bill to the Senate floor before the election recess. Ultimately, however, our efforts were blocked by the Senate Democratic leader.

I still firmly believe we need a tax cut effective January 1, 1981, and the best way to assure that would be to enact legislation this year. Senator Long has consistently agreed with this position. In fact, I spoke with him yesterday and he confirmed his desire to push forward with the tax cut legislation. Senator Robert Byrd has recently reversed his opposition to taking up the bill in this Congress.

The President-elect has indicated that he would like immediate action on tax cut. With the mandate he has received from the American people, we have responsibility to respect his views on tax policy.

If tax cut legislation is not enacted this year, I am nevertheless confident that it will have highest priority when the new Congress convenes in January. By acting promptly next year, we can still enact a tax cut bill by May or June retroactive to January 1. We certainly will have a Senate which will be receptive to early action and, hopefully, there will be a similar consensus in the House.

MORTGAGE REVENUE BONDS

Turning to another tax matter that has been of considerable interest to homebuilders, I believe that it is possible that some kind of legislation to restrict the use of tax-exempt mortgage revenue bonds could be enacted during the "lame-duck" session this year.

In recent years, the issuance of mortgage revenue bonds to finance single family housing has mushroomed. In 1978 about \$620 million worth of bonds were sold. In 1979 that number exploded to more than \$3.8 billion. As more people become aware of these instruments, further growth is expected.

This rapid proliferation of mortgage subsidy bonds has provoked the House of Representatives to take legislative action. The House-passed bill would put severe limitations on the issuance of single-family housing bonds for the next two years and prohibit their use beyond the two years. This bill is currently being considered in the House-Senate Budget Reconciliation Conference. Although the conferees on this bill have already met to discuss other issues, the provisions on mortgage revenue bonds have been left for the "lame-duck" session.

The House critics claim that mortgage revenue bonds are inefficient, inflationary and increase the cost of other tax exempt borrowing by State and local governments for schools, roads and similar projects. They also point out that these bonds could prove quite costly to Federal tax collectors.

Despite this criticism, we cannot ignore the important role that these bonds now play in the U.S. housing market. This fact is obviously critical now when homebuilders are suffering from a serious slump. In my view we cannot evaluate these issues in a vacuum. We have to be mindful of the practical impact that the House mortgage bond bill would leave on the housing industry.

Most responsible people in Congress and in the industry agree that some long-range restrictions need to be placed on mortgage subsidy bonds. The real controversy is between those who support the House bill and those who believe it is too restrictive. From my perspective, we need to develop an approach that better balances our clear need for the housing capital with some sort of reasonable limitations on tax-exempt bonds. Therefore, if the House conferees expect to get any agreement on the bond legislation, they are going to have to accept some substantial modifications to their bill. If they remain intractable, it is likely that the Budget Reconciliation bill will die in conference.

ADDITIONAL INCENTIVES FOR HOMEOWNERSHIP

The pressure to dry up the use of mortgage subsidy bonds just underscores the need for a comprehensive review of our national housing policy. We must find some effective means of assisting young Americans to purchase homes during the 1980s. I understand that with the rapid escalation of home prices that only one in eleven young Americans can afford to buy their own home. Unless we act to reverse this trend, individual home ownership will be classified with diamonds, jewelry and mink coats as a luxury that only the rich can afford.

(More)

One means of addressing this problem is to reduce the tax bias against savings and investment that frustrates those trying to accumulate enough capital to buy their first home. I recently introduced legislation to accomplish this objective. Under my bill, the Housing and Education Savings Account Act, persons saving for a first home will be permitted to establish something like an individual retirement account.. A couple could get a tax deduction of up to \$3000 per year for contributions to their housing account. All income earned on the money of the housing account would be tax deferred and no tax would be paid until their final house is sold.

In my judgment, this kind of savings incentive would do much to make the dream of home ownership a reality for millions of Americans, and would provide a source of steady capital for the housing industry. I am hopeful that this organization will support this legislative approach and that we can get it promptly enacted.

Most important, however, I hope this legislative initiative will begin a new dialogue on the national problem of housing financing. We must find new, innovative ways to deal with the "boom or bust" cycles in your industry and to provide housing that all Americans can afford.

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~~SECRET~~
SENATOR BOB DOLE

ADDRESS TO NATIONAL ASSOCIATION OF HOME BUILDERS

But all of that is now history. We have had an

~~THE ELECTION IS NOW OVER AND WE HAVE WON A DECISIVE VICTORY.~~

BUT IT IS IMPORTANT TO REMEMBER THAT THE ECONOMY IS STILL IN A CRITICAL STATE. THE BATTLE FOR ECONOMIC RECOVERY IS JUST BEGINNING. IF ALL OF YOU WHO HAVE CARRIED THE BANNER OF ECONOMIC REVITALIZATION FOR THE LAST SEVERAL MONTHS JUST GO HOME AND DON'T CONTINUE THE PRESSURE, YOU MAY FIND THAT THE VICTORIES WE HAVE WON ARE NOT AS SUBSTANTIAL AS WE HOPED.

THERE MAY BE DEBATE AMONG ECONOMISTS AS TO WHETHER WE ARE STILL IN A RECESSION. IT IS NOT DEBATABLE, HOWEVER, THAT THERE ARE STILL MORE THAN EIGHT MILLION UNEMPLOYED AMERICANS. IT ALSO CANNOT BE DEBATED THAT INFLATION IS STILL RAGING AT THE RATE OF 12.7%. NO ONE CAN DISPUTE THAT THE PRIME RATE OF INTEREST IS 14 1/2% AND ON THE RISE.

"BOOM OR BUST" INDUSTRY

NO INDUSTRY TRADITIONALLY EXPERIENCES THE HIGHS OF ECONOMIC GROWTH OR THE MISERY OF ECONOMIC COLLAPSE TO THE SAME EXTENT AS THE HOUSING INDUSTRY. WHILE HOUSING STARTS SHOWED SOME STATISTICAL IMPROVEMENT IN SEPTEMBER, THEY ARE STILL 15.3% BELOW WHERE THEY WERE A YEAR AGO. ANY SIGNS OF IMPROVEMENT, HOWEVER, ARE WELCOME.

MEMBERS OF WHAT HAS ALL TOO OFTEN BEEN A "BOOM OR BUST" INDUSTRY, LIKE THE HOMEBUILDERS, HAVE A MAJOR STAKE IN SEEING TO IT THAT THE KIND OF FUNDAMENTAL CHANGE IN THE ECONOMIC POLICY OF THIS COUNTRY THAT WE HAVE TALKED ABOUT RECENTLY ACTUALLY

FINDS ITS WAY INTO LAW. WE NEED MAJOR CHANGES AND WE SHOULD BE SATISFIED WITH NOTHING LESS.

INFLATION AND FEDERAL DEFICITS

INFLATION IN MY VIEW REMAINS PUBLIC ^MENEMY NUMBER ONE, BOTH FOR THE ECONOMY AS A WHOLE AND FOR THE HOUSING INDUSTRY IN PARTICULAR. NONE OF THE MYRIAD POLICIES INITIATED OVER THE LAST FOUR YEARS TO DEAL WITH INFLATION HAS WORKED. THE WAGE-PRICE GUIDELINES ARE NOTHING BUT AN EMBARRASSING MONUMENT TO THE ADMINISTRATION'S ANTI-INFLATION FAILURES. DESPITE AN APPARENT WORSENING OF THE INFLATIONARY CYCLE, I DO NOT VIEW THE PROBLEM AS ONE THAT IS INTRACTABLE. WE CAN AND MUST FIND SOME EFFECTIVE ^SOLUTION BEFORE THE CORROSIVE EFFECTS OF INFLATION DISSOLVE THE ECONOMIC FABRIC OF THE COUNTRY.

I AM ONE WHO STRONGLY BELIEVES THAT FEDERAL DEFICIT SPENDING IS ONE OF THE CHIEF ^RVILLAINS RESPONSIBLE FOR INFLATION SINCE IT RESULTS IN THE PUMPING ^{AD} OF MORE MONEY INTO THE ECONOMY WITHOUT ANY CORRESPONDINGLY INCREASE IN NATIONAL PRODUCTIVITY. IN 19 OF THE LAST 20 YEARS, THE FEDERAL BUDGET HAS BEEN IN DEFICIT. DEFICITS ARE RUN REGARDLESS OF WHETHER BUSINESS CONDITIONS ARE POOR OR THE ECONOMY IS BOOMING. THE BUDGET HAS NOT BEEN BALANCED AT ALL IN THE LAST DECADE.

DESPITE ALL OF THE RECENT PROMISES ABOUT CUTTING SPENDING AND BALANCING THE FEDERAL BUDGET, THE FISCAL RECORD OF PRESIDENT CARTER AND THE DEMOCRATIC CONGRESS HAS BEEN DISMAL.

IT IS NOW CLEAR THAT PRESIDENT CARTER'S MUCH HERALDED "LEAN AND AUSTERE" BALANCED BUDGET FOR FISCAL YEAR 1981 WILL BE NOWHERE NEAR BALANCED. THE ADMINISTRATION'S JULY ECONOMIC

REPORT FORECAST A \$30 BILLION DEFICIT FOR FY 1981 WITHOUT A TAX CUT AND \$50 BILLION WITH ONE.

THE \$59 BILLION DEFICIT FOR THE JUST CONCLUDED FISCAL YEAR WILL BE THE LARGEST IN U.S. HISTORY, WHEN "OFF BUDGET" SPENDING IS ADDED IN. THE CURRENT DEFICIT IS FUELED BY THE SINGLE LARGEST INCREASE IN FEDERAL SPENDING IN OUR HISTORY. FEDERAL SPENDING INCREASED BY \$79 BILLION IN FISCAL YEAR 1980, A SPENDING GROWTH RATE OF 17.5%

THE REASON FOR THESE CONTINUED DEFICITS IS SIMPLE. ^{UP TO} ~~NO~~ ^{HAVE} POLITICIANS LIKED TO BUY NOW AND PAY LATER JUST LIKE EVERYONE ELSE. THE APPEAL OF CREDIT IS EVEN MORE ALLURING WHEN YOU BUY DURING AN ELECTION YEAR AND MAY NOT HAVE TO PAY UNTIL AFTER YOU RETIRE. HOPEFULLY, THIS WILL CHANGE NOW THAT A FEW OF THE BIG SPENDERS HAVE BEEN RETIRED BY THE VOTERS.

~~THIS IS THE PRINCIPAL REASON THAT SINCE 1978 I HAVE INTRODUCED~~ ^{REPLACE OF CONGRESSIONAL SELF-RESTRAINT} AND HAVE ADVOCATED ENACTMENT OF SOME FORM OF CONSTITUTIONAL AMENDMENT TO REQUIRE A BALANCED FEDERAL BUDGET. UNFORTUNATELY, ~~THAT EFFORT SEEMS RECENTLY TO HAVE RUN OUT OF STEAM~~ ^{BUT IT MAY ATTRACT MORE INTEREST} ~~AT LEAST~~ ^{HAVE A MORE RECEPTIVE AUDIENCE IN CONGRESS NEXT YEAR.} ~~UNTIL NEXT YEAR.~~ ^{IN ANY EVENT,} BUT THE RECENT FAILURE OF THE CONGRESSIONAL BUDGET PROCESS MAKES THE NEED FOR SOME KIND OF ADDITIONAL MECHANISM FOR FISCAL RESTRAINT PAINFULLY OBVIOUS. I AM OPTIMISTIC THAT THE NEW CONGRESS WILL SPEND MORE TIME TIGHTENING AND OVERSEEING EXISTING PROGRAMS RATHER THAN CREATING NEW ONES.

STABLE MONETARY POLICY

ANOTHER VITAL COMPONENT IN ANY SUCCESSFUL BATTLE AGAINST INFLATION IS THE ESTABLISHMENT OF A STABLE, CONSISTENT MONETARY POLICY. NO ONE KNOWS BETTER THAN THE MEMBERS OF YOUR INDUSTRY WHAT WILDLY FLUCTUATING INTEREST RATES MEAN TO THE ECONOMY. THEY TEND TO REINFORCE THE BOOM PERIODS AND GREATLY EXAGGERATE THE BAD TIMES. SUCH FLUCTUATIONS ONLY ENCOURAGE INFLATION.

A NEW TAX POLICY

AS PART OF OUR ATTACK ON INFLATION, WE ALSO NEED TO SUBSTANTIALLY REDUCE THE TAX DRAG ON ^{THE} ECONOMY. THE PERCENTAGE OF THE NATIONAL ECONOMY CONSUMED BY FEDERAL TAXATION IS NOW AT THE HIGHEST LEVEL IN PEACETIME HISTORY. THUS, I BELIEVE WE NEED A TAX CUT ALONG WITH AN EFFECTIVE LIMIT ON THE GROWTH OF FEDERAL SPENDING.

IN CONSIDERING THE ADVISABILITY OF SUCH A MOVE, I FLATLY REJECT THE VIEW THAT WE HAVE TO FOREGO ANY KIND OF TAX CUT BECAUSE IT NECESSARILY WILL BE INFLATIONARY. THIS CHARGE STRIKES ME AS AN ELECTION-YEAR SCARE TACTIC THAT WAS SIMPLY NOT SUPPORTED BY THE FACTS. A NUMBER OF THE NATION'S MOST PROMINENT ECONOMISTS, INCLUDING NOBEL PRIZE WINNER DR. LAWRENCE KLEIN, TESTIFIED BEFORE THE SENATE FINANCE COMMITTEE THAT A PROPERLY STRUCTURED TAX CUT WOULD ACTUALLY REDUCE INFLATION WHEN COMPARED WITH DOING NOTHING.

TAX CUT LEGISLATION

AS MOST OF YOU KNOW, IN AUGUST THE SENATE FINANCE COMMITTEE RESPONDED TO A REPUBLICAN INITIATIVE ON TAX REDUCTION BY REPORTING OUT A BROAD-GAUGED TAX CUT BILL DESIGNED TO OFFSET PART OF THE TAX INCREASES SCHEDULED FOR 1981. WHILE THE COMMITTEE BILL WOULD NOT HAVE REDUCED TAX LIABILITIES AS DRAMATICALLY AS THE PROPOSAL SET FORTH BY PRESIDENT-ELECT REAGAN, IT DID REPRESENT A BIPARTISAN ACKNOWLEDGMENT OF THE FACT THAT TAXES HAVE REACHED EXCESSIVE LEVELS. THE BASIC FRAMEWORK OF THE BILL -- ACROSS-THE-BOARD RATE REDUCTIONS FOR INDIVIDUALS AND ACCELERATED COST RECOVERY FOR BUSINESS INVESTMENT -- DERIVE FROM THE REPUBLICAN PROPOSAL. I BELIEVE WHATEVER LEGISLATION IS ULTIMATELY ENACTED WILL FOLLOW THIS BASIC OUTLINE.

I AM CONFIDENT THE FINANCE COMMITTEE WILL PROCEED ALONG THESE LINES DESPITE SIGNIFICANT CHANGES IN THE MEMBERSHIP OF THE

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COMMITTEE. THE TAX CUT MEASURE APPROVED IN AUGUST WAS A GOOD AND REASONABLE EFFORT, AND THE RESULTS OF THE ELECTION CONFIRM THAT THE COMMITTEE WAS MOVING IN THE RIGHT DIRECTION. THE FINANCE COMMITTEE WAS A SENSIBLE COMPROMISE GIVEN THE MAKEUP OF THE COMMITTEE IN THE 96TH CONGRESS. HOWEVER, IT IS CLEAR THAT THE NEW ADMINISTRATION AND THE NEW CONGRESS WILL WANT TO GUARANTEE THAT ANY MAJOR TAX BILL WILL DO AS MUCH AS IS POSSIBLE TO RESTORE PERSONAL INCENTIVE AND BEGIN THE PROCESS OF REVITALIZING THE ECONOMY.

SEVERAL PROVISIONS OF THE FINANCE COMMITTEE TAX BILL THAT SHOULD BE REFLECTED IN THE LEGISLATION WE ULTIMATELY ENACT WOULD DIRECTLY BENEFIT HOMEBUILDERS. FOR EXAMPLE, ANY TAX CUT BILL SHOULD SIMPLIFY DEPRECIATION RULES AND REDUCE THE PERIOD IN WHICH GENERAL CONTRACTORS CAN WRITE OFF THEIR TOOLS AND EQUIPMENT. SMALLER BUSINESSES COULD BENEFIT FURTHER BY BEING ALLOWED TO WRITE OFF IN THE YEAR OF PURCHASE A LIMITED AMOUNT OF NEW EQUIPMENT (THE FINANCE COMMITTEE BILL ALLOWED UP TO \$25,000 OF EQUIPMENT TO BE IMMEDIATELY EXPENSED).

THE TAX BILL ALSO SHOULD CUT CORPORATE AND INDIVIDUAL TAX. THE FINANCE COMMITTEE RECOMMENDED A 2 PERCENTAGE POINT REDUCTION IN THE TOP AND BOTTOM CORPORATE RATES AND A WIDENING OF CORPORATE RATE BRACKETS OVER A TWO-YEAR PERIOD. THIS WOULD EFFECTIVELY REDUCE THE TAX BURDEN ON SMALL AND MEDIUM SIZED CORPORATIONS.

ANOTHER AREA THAT DESERVES ATTENTION IS THE ENCOURAGEMENT OF SAVING AND INVESTMENT. UNDER THE FINANCE COMMITTEE BILL, THE

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MAXIMUM CAPITAL GAINS TAX RATE WOULD FALL TO 20 PERCENT. ALSO, MORE TAXPAYERS WOULD BE ABLE TO SET UP INDIVIDUAL RETIREMENT ACCOUNTS, AND MORE MONEY COULD BE SET ASIDE AS LONG-TERM SAVINGS FOR RETIREMENT. THESE CHANGES SHOULD BENEFIT THE HOUSING INDUSTRY BY MAKING AVAILABLE MORE MONEY FOR MORTGAGES AND INCREASING GENERAL AVAILABILITY OF CAPITAL.

TIMING OF TAX CUT LEGISLATION

I AM SURE MANY OF YOU WANT TO KNOW WHEN A TAX CUT IS LIKELY TO BE ENACTED. AS YOU KNOW, I AND MANY OF MY COLLEAGUES TRIED EVERY STRATEGY AVAILABLE TO BRING THE FINANCE COMMITTEE BILL TO THE SENATE FLOOR BEFORE THE ELECTION RECESS. ULTIMATELY, HOWEVER, OUR EFFORTS WERE BLOCKED BY THE SENATE DEMOCRATIC LEADERSHIP.

I STILL FIRMLY BELIEVE WE NEED A TAX CUT EFFECTIVE JANUARY 1, 1981 AND THAT THE BEST WAY TO ASSURE THAT WOULD BE TO ENACT LEGISLATION THIS YEAR. HOWEVER, AS A PRACTICAL MATTER, IT IS UNLIKELY THAT A TAX CUT CAN GET THROUGH BOTH THE SENATE AND THE HOUSE THIS YEAR. THE HOUSE, AS YOU KNOW, HAS MADE NEXT TO NO PROGRESS ON TAX CUT LEGISLATION THIS YEAR AND WILL BE IN FURTHER DISARRAY WITH THE DEFEAT OF WAYS AND MEANS CHAIRMAN ULLMAN.

IT IS ALSO CLEAR THAT THE PRESIDENT-ELECT HAS HIS OWN VIEWS OF WHAT FORM MY TAX CUT SHOULD TAKE AND, WITH THE MANDATE HE HAS RECEIVED FROM THE AMERICAN PEOPLE, WE HAVE A RESPONSIBILITY TO RESPECT HIS VIEWS ON TAX POLICY.

IF TAX CUT LEGISLATION IS NOT ENACTED THIS YEAR, I AM VERY CONFIDENT THAT IT WILL HAVE HIGHEST PRIORITY WHEN THE NEW CONGRESS CONVENES IN JANUARY. BY ACTING PROMPTLY NEXT YEAR, WE CAN STILL ENACT A TAX CUT BILL BY MAY OR JUNE, RETROACTIVE TO JANUARY 1. WE CERTAINLY WILL HAVE A SENATE WHICH WILL BE RECEPTIVE TO EARLY ACTION AND HOPEFULLY, THERE WILL BE A SIMILAR CONSENSUS IN THE HOUSE.

MORTGAGE REVENUE BONDS

TURNING TO ANOTHER TAX MATTER THAT HAS BEEN OF CONSIDERABLE INTEREST TO HOMEBUILDERS, I BELIEVE THAT IT IS POSSIBLE THAT SOME KIND OF LEGISLATION TO RESTRICT THE USE OF TAX-EXEMPT MORTGAGE REVENUE BONDS COULD BE ENACTED DURING THE "LAME-DUCK" SESSION THIS YEAR.

IN RECENT YEARS, THE ISSUANCE OF MORTGAGE REVENUE BONDS TO FINANCE SINGLE-FAMILY HOUSING HAS MUSHROOMED. IN 1978 ABOUT \$620 MILLION WORTH OF BONDS WERE SOLD. IN 1979 THAT NUMBER EXPLODED TO MORE THAN \$3.8 BILLION. AS MORE PEOPLE BECOME AWARE OF THESE INSTRUMENTS, FURTHER GROWTH IS EXPECTED.

THIS RAPID PROLIFERATION OF MORTGAGE SUBSIDY BONDS HAS PROVOKED THE HOUSE OF REPRESENTATIVES TO TAKE LEGISLATIVE ACTION. THE HOUSE-PASSED BILL WOULD PUT SEVERE LIMITATIONS ON THE ISSUANCE OF SINGLE-FAMILY HOUSING BONDS FOR THE NEXT TWO YEARS AND PROHIBIT THEIR USE BEYOND THE TWO YEARS. THIS BILL IS CURRENTLY BEING CONSIDERED IN THE HOUSE-SENATE BUDGET RECONCILIATION CONFERENCE. ALTHOUGH THE CONFEREES ON THIS BILL HAVE ALREADY MET TO DISCUSS OTHER ISSUES, THE PROVISIONS ON MORTGAGE REVENUE BONDS HAVE BEEN LEFT FOR THE "LAME-DUCK" SESSION.

THE HOUSE CRITICS CLAIM THAT MORTGAGE REVENUE BONDS ARE INEFFICIENT, INFLATIONARY AND INCREASE THE COST OF OTHER TAX EXEMPT BORROWING BY STATE AND LOCAL GOVERNMENTS FOR SCHOOLS ROADS AND SIMILAR PROJECTS. THEY ALSO POINT OUT THAT THESE BONDS COULD PROVE QUITE COSTLY TO FEDERAL TAX COLLECTORS.

DESPITE THIS CRITICISM, WE CANNOT IGNORE THE IMPORTANT ROLE THAT THESE BONDS NOW PLAY IN THE U.S. HOUSING MARKET. THIS FACT IS OBVIOUSLY CRITICAL NOW WHEN HOMEBUILDERS ARE SUFFERING FROM

A SERIOUS SLUMP. IN MY VIEW WE CANNOT EVALUATE THESE ISSUES IN A VACUUM. WE HAVE TO BE MINDFUL OF THE PRACTICAL IMPACT THAT THE HOUSE MORGGAGE BOND BILL WOULD LEAVE ON THE HOUSING INDUSTRY.

MOST RESPONSIBLE PEOPLE IN CONGRESS AND IN THE INDUSTRY AGREE THAT SOME LONG-RANGE RESTRICTIONS NEED TO BE PLACED ON MORTGAGE SUBSIDY BONDS. THE REAL CONTROVERSY IS BETWEEN THOSE WHO SUPPORT THE HOUSE BILL AND THOSE WHO BELIEVE IT IS TOO RESTRICTIVE. FROM MY PERSPECTIVE, WE NEED TO DEVELOP AN APPROACH THAT BETTER BALANCES OUR CLEAR NEED FOR THE HOUSING CAPITAL WITH SOME SORT OF REASONABLE LIMITATIONS ON TAX-EXEMPT BONDS. THEREFORE, IF THE HOUSE CONFEREES EXPECT TO GET ANY AGREEMENT ON THE BOND LEGISLATION, THEY ARE GOING TO HAVE TO ACCEPT SOME SUBSTANTIAL MODIFICATIONS TO THEIR BILL. IF THEY REMAIN INTRACTABLE, IT IS LIKELY THAT THE BUDGET RECONCILIATION BILL WILL DIE IN CONFERENCE.

ADDITIONAL INCENTIVES FOR HOMEOWNERSHIP

THE PRESSURE TO DRY UP THE USE OF MORTGAGE SUBSIDY BONDS JUST UNDERSCORES THE NEED FOR A COMPREHENSIVE REVIEW OF OUR NATIONAL HOUSING POLICY. WE MUST FIND SOME EFFECTIVE MEANS OF ASSISTING YOUNG AMERICANS TO PURCHASE HOMES DURING THE 1980s. I UNDERSTAND THAT WITH THE RAPID ESCALATION OF HOME PRICES THAT ONLY ONE IN 11 YOUNG AMERICANS CAN AFFORD TO BUT THEIR OWN HOME. UNLESS WE ACT TO REVERSE THIS TREND, INDIVIDUAL HOMEOWNERSHIP WILL BE CLASSIFIED WITH DIAMOND JEWELRY AND MINK COATS AS A LUXURY THAT ONLY THE RICH CAN AFFORD.

ONE MEANS OF ADDRESSING THIS PROBLEM IS TO REDUCE THE TAX BIAS AGAINST SAVINGS AND INVESTMENT THAT FRUSTRATES THOSE TRYING TO ACCUMULATE ENOUGH CAPITAL TO BUY THEIR FIRST HOME. I RECENTLY

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INTRODUCED LEGISLATION TO ACCOMPLISH THIS OBJECTIVE. UNDER MY BILL, THE HOUSING AND EDUCATION SAVINGS ACCOUNT ACT, PERSONS SAVING FOR A FIRST HOME WILL BE PERMITTED TO ESTABLISH SOMETHING LIKE AN INDIVIDUAL RETIREMENT ACCOUNT. A COUPLE COULD GET A TAX DEDUCTION OF UP TO \$3000 PER YEAR FOR CONTRIBUTIONS TO THEIR HOUSING ACCOUNT. ALL INCOME EARNED ON THE MONEY OF THE HOUSING ACCOUNT WOULD BE TAX DEFERRED AND NO TAX WOULD BE PAID UNTIL THEIR FINAL HOUSE IS SOLD.

IN MY JUDGMENT, THIS KIND OF SAVINGS INCENTIVE WOULD DO MUCH TO MAKE THE DREAM OF HOMEOWNERSHIP A REALITY FOR MILLIONS OF AMERICANS, AND WOULD PROVIDE A SOURCE OF STEADY CAPITAL FOR THE HOUSING INDUSTRY. I AM HOPEFUL THAT THIS ORGANIZATION WILL SUPPORT THIS LEGISLATIVE APPROACH AND THAT WE CAN GET IT PROMPTLY ENACTED.

MOST IMPORTANT, HOWEVER, I HOPE THIS LEGISLATIVE INITIATIVE WILL BEGIN A NEW DIALOGUE ON THE NATIONAL PROBLEM OF HOUSING FINANCING. WE MUST FIND NEW, INNOVATIVE WAYS TO DEAL WITH THE "BOOM OR BUST" CYCLES IN YOUR INDUSTRY AND TO PROVIDE HOUSING THAT ALL AMERICANS CAN AFFORD.

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a shift away from gov ^{more regulated} ^{on transaction & on spending}
and a shift ^{to} less statutory enactment
towards less restraint on the capacity
of the economy to come
out more ^{itself} willingness to permit
the gov't to withdraw from
those areas in which it
has no right legitimate claim.

There are alot of Democrats who also
share these views.

United States Senate

WASHINGTON, D.C. 20510

→ put with this change comes the responsibility
to produce on our promise. We have
~~of putting our campaign rhetoric into action.~~
Got to get the job done.
~~it is not enough to merely talk about our~~

~~economic problems we must~~
We need to control inflation, ~~but~~ we
need to put Americans back to work.

We need to reduce the Tax burden on
all Americans.

*The Am. electorate is fed up with gimmicks.
They don't want a value added tax.
" " " put. employment in place of honest jobs.
They don't want this patchwork patchwork by inflation on one
side and the tax man on the other.*

You might have noticed that-a few things have changed around Washington in the last couple of days. For one, you won't have Jimmy Carter to kick around any more. You'll see a good number of members of both houses of Congress whose nerves won't be too good for a while. Those were the ones who just dodged the bullet last Tuesday.

But even for the Democrats it had some good side effects. It sure will reduce the public interest in the Abscam probe. Not many people care about the fate of a bunch of ex-Congressmen.

~~The public, even with those six hundred people all the pollsters~~
spent the last six months talking to. Pat Caddell even gave astrology a bad name.

*Some simple facts come clearly through the vote
patterns, regardless of what the pollsters might say.*

~~There are some facts which intrude on the sometimes fantasy world~~
~~of presidential campaign.~~ The single biggest fact is that the people want things to change. It takes nothing away from the victories of anyone from Mr. Reagan down to the lowliest local candidate to state the obvious. Our employers may not be entirely sure exactly what specific things they want done. But they want a new look, and they want it now.

It wasn't lost on politicians that on Wednesday, the stock market had its biggest trading day in history. Ordinary prudence kept the financial community from saying with dollars ~~before~~ Wednesday what the people had said on Tuesday. Things not only are going to change, but they *it is evident* ~~have already changed~~.

But we are now faced with the absolute need to get the economy back on the road to stability. The retiring administration has shown us the price of promise without performance But it much more important than who sits in the House or Senate or even who lives in the White House. A few more years like the last four will leave us all too weak to care. We owe these employers of ours as big a turn to financial and social stability as they made last Tuesday. We live with politics, but ~~they~~ *you* have had to live with the consequences.

How big is the change? Just look at the House. The other party retained numerical control. I say ~~numerical~~ ~~numerical~~ numerical because their majority was weakened substantially. But their will to tinker with the economy and their ability to get away with it have been severely limited. All the survivors have to go back to face their people in two short years. It is unlikely that they will bet that the mood will change in those two years. So even within their own chamber, there will be a sea change away from the course of the last forty years.

Add to that that not all of the other party feels strongly that these last four years should be perpetuated longer. Some commentators will talk about a survival instinct. I think that that does not do justice to many fine legislators. Having received Tuesdays mailgrams from the voters, they are prepared to carry out that mandate regardless of party considerations.

In the Senate, the change is staggering. I, suddenly and not entirely expectedly, will be chairman of the Senate finance Committee. Percy, Helms, Tower will take the place of Church, Talmadge and Stennis. Directions will shift rapidly and perceptibly.



But newly elected, reelected ~~Republican, Democrat or~~
~~Independent~~, we all [✓] hear the cry of anguish of the people.
~~we all~~ ~~have seen the anguish.~~ ~~we all~~
~~we all~~

*I am here today to tell you the newly
elected Republican majority in the Senate is
ready to respond to popular demand.*