

REMARKS OF SENATOR BOB DOLE  
COMEX BOARD OF GOVERNORS  
NEW YORK CITY, NEW YORK  
DECEMBER 15, 1980

I WELCOME THIS OPPORTUNITY TO MEET WITH THE BOARD OF GOVERNORS AND OTHER MEMBERS OF THE COMMODITY EXCHANGE IN THIS TIME OF TRANSITION. THIS IS A PERIOD DURING WHICH THE LEADERSHIP OF THE NATION IS IN THE PROCESS OF SHIFTING TO A MAN WHO WILL MAKE A GREAT PRESIDENT, RONALD REAGAN.

ON THE SENATE SIDE, THE CHAIRMANSHIP OF THE SEVERAL COMMITTEES WILL HAVE A REPUBLICAN LABEL FOR THE FIRST TIME IN DECADES.

I UNDERSTAND THAT OVER AT THE CFTC, THE CHAIRMANSHIP WILL BE ALTERED WITH FIRST THE ELECTION OF BOB MARTIN, AS ACTING CHAIRMAN, AND THEN THE APPOINTMENT BY THE PRESIDENT OF A NEW CHAIRMAN PLUS A NEW REPUBLICAN MEMBER. I CAN ASSURE YOU THAT THE PHILOSOPHY OF THE CFTC WILL REFLECT THE FREE MARKET CONCEPTS OF A RONALD REAGAN. THE EXCESSIVELY INTERVENTIONIST VIEWS OF THE CURRENT CHAIRMAN WILL NO LONGER DOMINATE THE STAFF APPARATUS OF THAT IMPORTANT AGENCY.

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MOREOVER, I FEEL SAFE IN PREDICTING THAT THERE WILL BE NO TRANSITION OUT OF THE CFTC OF ITS CURRENT FUNCTIONS TO OTHER AGENCIES -- NOR WILL WE SEE OVERALL SUPERVISION OF THE FUNCTIONS OF THE CFTC MOVE OUT OF THE AGRICULTURE COMMITTEES.

THE 1980'S WILL BE MOST DECISIVE YEARS FOR THIS NATION. THIS DECADE AHEAD WILL BE THE PERIOD DURING WHICH THE DECISIONS WILL BE MADE AS TO THE TYPE OF FUTURE THIS NATION WILL HAVE. AS I VIEW THE SCENE, I AM CONVINCED THAT THE YEARS THAT LIE AHEAD, ALTHOUGH THEY WILL BE TROUBLESOME, IRKSOME AND TRY OUR PATIENCE, THAT NEVERTHELESS, THERE WILL EMERGE A NEW WORLD OF HOPE AND OPPORTUNITY. WE MUST BRING BOTH COURAGE AND RESILIENCY TO THE FORE SO THAT THE CRITICAL SITUATIONS WILL BE RESOLVED IN FAVOR OF A CONTINUATION AND EXPANSION OF THE FREE ENTERPRISE SYSTEM.

ONE OF THE GREAT FACTORS IN OUR FAVOR IS THE TREMENDOUS TECHNICAL ABILITY AND PHYSICAL AND MENTAL RESOURCES WHICH THE UNITED STATES CAN BRING TO BEAR IN THE STRUGGLE. THIS IS ONE OF THE GREAT ADVANTAGES WHICH A FREE SOCIETY HAS OVER A REGIMENTED ONE. WITNESS THE ADVANTAGES IN PRODUCTIVITY ACCRUING TO THE UNITED STATES PROVIDED BY OUR PRIVATE OWNERSHIP SYSTEM IN AGRICULTURE. WITNESS THE RESULTANT ADVANTAGES IN THE STANDARD OF LIVING.

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IF THE FREE ENTERPRISE SYSTEM IS TO SURVIVE, WE MUST QUICKLY GET A HANDLE ON INFLATION AND THE RESULTANT MURDEROUS INTEREST RATES. LET US NOT RANT AT THE BANKERS FOR THE 20 PERCENT PRIME INTEREST RATE. LET US EXAMINE THE ROOT CAUSES AND MAKE UP OUR MINDS THAT AS A NATION WE WILL DEVELOP A SELF-DISCIPLINE TO ELIMINATE THAT MAN-MADE SCROUGE.

THE PERSISTENCE OF INFLATION CAUSED TO A MAJOR DEGREE BY THE PERSISTENCE OF DEFICITS IN FEDERAL FINANCES IS ENDANGERING THE WHOLE FREE ENTERPRISE SYSTEM. THERE IS ONE BASIC FACT THAT SHOULD NOT BE OVERLOOKED, I.E. WHEN THE FEDERAL GOVERNMENT RUNS A BUDGET DEFICIT, IT PUMPS MORE MONEY INTO THE HANDS OF PEOPLE THAN IT REMOVES FROM THEIR POCKETBOOKS. THOSE WHO ARE ABLE TO RETAIN SOME OF IT HAVE A CURRENCY WHICH KEEPS REDUCING IN VALUE OVER TIME. A TYPICAL SERIOUS INFLATION HAS ITS INCEPTION IN DEFICITS -- IT'S FULL FLOWERING IN GREATER AND GREATER GOVERNMENTAL INTERFERENCE IN BUSINESS ACTIVITIES.

INFLATION HAS A CORROSIVE INFLUENCE THAT DISTORTS THE WHOLE ECONOMY -- NOT ONLY BY ERODING THE PURCHASING POWER OF MONEY INCOMES. PEOPLE START TO ASK THEMSELVES THE BASIC QUESTION AS TO WHY THEY SHOULD SAVE FOR THE FUTURE. THE FORCES OF INFLATION DRIVE UP INTEREST RATES WITH THEIR ATTENDANT DIRECT EFFECTS ON MANY INDUSTRIES -- ESPECIALLY HOUSING AND AUTOMOBILE.

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A BUSINESSMAN IN BIDDING ON A MANUFACTURED ITEM HAS EXTREME DIFFICULTY IN FIGURING HIS PRODUCTION COSTS, AND INEVITABLY MUST BE CONCERNED ABOUT COST OVERRUNS. INEVITABLY, A PRUDENT BUSINESSMAN MUST INSERT RISK PREMIUMS IN CONSIDERING NEW INVESTMENTS. IF WE ARE TO ENCOURAGE IMPROVED PRODUCTIVITY, THE INFLATION CAUSED DISCOURAGEMENT OF CAPITAL INVESTMENT AND ITS ATTENDANT RISKS MUST BE ELIMINATED.

INFLATION HAS WEAKENED OUR ECONOMIC SYSTEM. IT WILL FURTHER WEAKEN IT IF THE INFLATIONARY BIAS IS CONTINUED AND CONTRIBUTE TO GREATER UNCERTAINTY. WE MUST NOT OVERLOOK ITS IMPACT ON THOSE PEOPLE WHO HAVE BEEN SELF-RELIANT ALL THEIR LIVES AND HAVE SAVED TO PUT THEIR CHILDREN THROUGH COLLEGE, AND FOR THEIR OWN RETIREMENT. THEY ARE BEING ROBBED BY INFLATION. THE POOR AND THE ELDERLY ARE MAJOR VICTIMS OF THIS MAN-MADE CURSE.

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IN THE END, THE GREATEST VICTIM MAY BE THE FREE ENTERPRISE SYSTEM ITSELF. YET, OURS CAN BE A DYNAMIC AND PROSPEROUS ECONOMY. WE CAN LICK THE PROBLEMS OF INFLATION. WE CAN LICK THE UNEMPLOYMENT PROBLEM. WE CAN LICK THE PROBLEMS OF OVERREGULATION BY GOVERNMENT.

I AM NOT UNAWARE THAT EVEN THE BURDEN OF TAXES IS INCREASED BY INFLATION. TAXES HAVE GONE UP ALONG WITH INCREASED GOVERNMENT OUTLAYS. TAXES RISE BECAUSE THE INDIVIDUAL TAX RATES ARE PROGRESSIVE. IT IS BECAUSE OF THIS FACTOR THAT I HAVE RECOMMENDED INDEXING.

I BELIEVE THE REAGAN ADMINISTRATION WILL WORK CLOSELY WITH THE NEW CONGRESS TO ENACT A TAX REDUCTION PACKAGE AS SOON AS POSSIBLE NEXT YEAR. WHILE THE DETAILS OF SUCH A TAX BILL WILL HAVE TO BE CAREFULLY WORKED OUT, I THINK THERE IS BROAD AGREEMENT ON THE GENERAL OUTLINES. FIRST, WE WILL HAVE REDUCTIONS IN THE MARGINAL RATES PAID BY INDIVIDUALS IN EVERY TAX BRACKET. THIS FORM OF REDUCTION WILL DO THE MOST TO RESTORE INCENTIVE FOR GREATER INDIVIDUAL PRODUCTIVITY AND MORE PERSONAL SAVING. RATE REDUCTIONS ARE LONG OVERDUE; MARGINAL RATES HAVE NOT BEEN REDUCED SIGNIFICANTLY SINCE 1964.

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SECONDLY, I BELIEVE CONGRESS AND THE ADMINISTRATION WILL ACT TO SUBSTANTIALLY SIMPLIFY DEPRECIATION RULES AND ACCELERATE WRITE-OFF PERIODS. THERE IS A STRONG CONSENSUS THAT SUCH ACTION IS NEEDED TO MAKE NEW INVESTMENT A WINNING PROPOSITION AGAIN, IN SPITE OF DOUBLE-DIGIT INFLATION. THE GAINS IN PRODUCTIVITY, TECHNOLOGICAL INNOVATIONS, AND JOB-CREATION THAT WE DESPERATELY NEED WILL BE UNATTAINABLE UNLESS OUR TAX LAWS PROVIDE INCENTIVE FOR NEW INVESTMENT.

I HOPE THAT NEXT YEAR'S TAX BILL WILL ALSO FURTHER REDUCE TAX ON CAPITAL GAINS. THE 1978 REDUCTION IN CAPITAL GAINS RATES HAS SHOWN DRAMATIC RESULTS IN TERMS OF NEW VENTURES AND NEW CAPITAL FROM PUBLIC OFFERINGS, AND THE SENATE FINANCE COMMITTEE RECOGNIZED THAT FACT BY INCLUDING CAPITAL GAINS REDUCTION IN THE TAX PACKAGE IT APPROVED LAST AUGUST. ENCOURAGING CAPITAL MOBILITY AND INVESTMENT IN NEW VENTURES IS CRUCIAL TO OUR ECONOMIC GOALS.

I HEAR A GREAT DEAL REGARDING THE ROLE OF THE SPECULATORS, ESPECIALLY IN A FALLING MARKET. SOMEHOW OR OTHER THE WORD "SPECULATE" HAS BEEN GIVEN AN UNDESIRABLE CONNOTATION. AND YET ON CAREFUL ANALYSIS ONE MUST RECOGNIZE THAT IT IS THE SPECULATOR WHO ENABLES THE HEDGER TO FUNCTION. HE TAKES

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THE RISK OF PROFIT IF THE MARKET GOES HIS WAY, AND LOSS IF IT WORKS AGAINST HIM. HE HELPS MAKE THE MARKET FUNCTION IN ITS PRICE DISCOVERY FUNCTION. SPECULATION IS ON BOTH SIDES OF THE MARKET AT THE SAME TIME.

BUYERS AND SELLERS ARE CONSTANTLY WATCHING THE PRICES REVEALED BY THE FUTURES MARKETS. ALL OVER THE WORLD THESE PRICE SIGNALS FLASH ON ELECTRONIC WINGS. SUPPLY AND DEMAND MEET QUICKLY AND PROMPTLY DURING THE DESIGNATED HOURS. YOUR JOB IS TO FOSTER EQUITY IN THESE MARKETS AND TO BE FOREVER VIGILANT THAT SUPPLY AND DEMAND ARE REFLECTED TRULY IN EACH PRICE THAT EMANATES FROM A TRADE. CHECK YOUR OWN RULES AND THEIR IMPLEMENTATION. THIS WILL MINIMIZE THE NEED FOR ADDITIONAL REGULATORY ACTIVITIES.

EARLIER I HAVE MADE REFERENCE TO THE IMPORTANT ROLE OF THE SPECULATOR. NOW THERE ARE EVEN SOME WHO ARE CLAIMING THAT SPECULATIVE EXCESSES IN FINANCIAL FUTURES AS A THREAT TO THE CASH MARKETS. BOTH OF THESE CRITICISMS ARE WRONG.

THERE IS NO DOUBT IN MY MIND THAT SOCIAL BENEFITS ARE DERIVED BY ENABLING FINANCIAL MARKET PARTICIPANTS TO HEDGE THEIR EXPOSURE TO FINANCIAL RISKS THROUGH THE FUTURES MARKET. MOREOVER, THE GENERAL LIQUIDITY OF THE MARKETS IS IMPROVED. THE FACT THAT APPROPRIATE REGULATION AND SURVEILLANCE

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BY THE EXCHANGES AND THE CFTC EXIST, ENABLES ANY PROBLEMS TO BE EXTREMELY LIMITED.

AS ONE EXAMINES THE GROWTH IN FINANCIAL FUTURES, ONE MUST BE IMPRESSED THAT THEY ARE MEETING A REAL PUBLIC NEED. MORE AND MORE BANKS, SECURITY DEALERS AND BOTH FINANCIAL AND NON-FINANCIAL INSTITUTIONS ARE USING THE HEDGING FACILITIES TO MINIMIZE INTEREST INTO RISK.

MORE AND MORE, ESPECIALLY IN THE RECENT VOLATILE MARKETS, THERE IS A NEED TO MANAGE INTEREST RATE RISKS BY MANY INSTITUTIONS. MORE AND MORE BUSINESS ENTITIES ARE BEING TAUGHT HOW TO USE THE FACILITIES OF THE FINANCIAL FUTURES MARKETS. THIS DISCOVERY IS INCREASING THE OPPORTUNITIES TO REDUCE RISKS. YOUR SEMINARS AND EDUCATIONAL ACTIVITIES ARE PAYING OFF FOR THE PARTICIPANTS AND FOR SOCIETY.

I CAN FIND NO THREAT TO THE EFFICIENCY OF THE CASH MARKET. ACTUALLY, I BELIEVE THAT THE CASH MARKET EFFICIENCY IS BEING IMPROVED. CHANGES IN THE FUTURES PRICES FOR THE MOST PART ARE A COUNTERPART OF CHANGES IN CASH MARKET PRICES. OVER TIME FUTURES TRADING ENHANCES GENERAL LIQUIDITY, THUS HELPING TO STABILIZE CASH PRICES AND REDUCING THE TREASURY'S FINANCING COSTS. THEY SERVE THE PUBLIC INTEREST.

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THE MIRACULOUSLY EFFICIENT SYSTEM WHICH FREE ENTERPRISE HAS DEVELOPED FOR PRODUCTION, MARKETING, DISTRIBUTION AND PROCESSING IS A REAL TRIBUTE TO WHAT FREE MEN IN A FREE SOCIETY CAN DO. YOU SHOULD BE PROUD OF YOUR SHARE IN THESE ACCOMPLISHMENTS. IT IS ESSENTIAL THAT AS FREE MEN WE SEEK TO EXPAND THE OPPORTUNITIES FOR THE PRODUCTION AND MARKETING SYSTEM TO WORK EQUITABLY. ONLY THEN CAN WE MAKE THE GREATEST OVERALL CONTRIBUTION TO OUR SOCIETY.