How I got here

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OUTLINE OF REMARKS

SOUTH DAKOTA STATE REPUBLICAN CONVENTION

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I. The Budget--Continuing Need for Action

A. Both Houses have finally approved budgets, and it is clear that the cause of deficit reduction is more, not less, urgent. The President agrees with that--the Senate agrees with that--the Speaker agrees with that. That is why there is still reason to be optimistic that we can work out an agreement to tackle the red ink this year.

B. The President stresses maintaining the fundamentals of his program, and there are many ways to increase revenues, deal with entitlements and appropriations, and moderate defense spending without sacrificing those fundamentals. The margin of compromise that is available ought not to be allowed to slip away.

C. Congress cannot evade the fact that it is the source of the main problem--the uncontrolled growth of Federal spending in recent years. That spending momentum, aggravated by past inflation and current recession, is the cause of the record deficits now projected.

D. The Budget Resolution agreed to give us a reconciliation mandate for action. The Finance Committee has already moved ahead to meet that mandate by agreeing to $17 billion in spending cuts--involving Medicare, Medicaid, AFDC, SSI, AFDC. Next week we will work to meet our target of $20.9 billion in Revenues for 1983.

II. The Economic Recovery Program

A. Sticking to Fundamentals

1. The deficits are not a result of the Reagan program, but of deep-rooted economic problems, some of which were underestimated by the administration. But we have to follow through on the administration's fundamentally sound principles of spending reduction, lower taxes to restore incentive, a firm but fair monetary policy, and a strong defense.

2. We must aim at sustaining recovery after the recession. That is what the debate is all about. No one advocates tax increases or further 'drag' on the economy while recession persists.

3. Significant progress is being made on the economy. Inflation in 1981 drooped to 8.9%, the lowest since

1977. Producer prices dropped in both February and March, and in March the CPI declined by three-tenths of a percent--the first such decline since 1965, and the largest drop since 1953. This is dramatic progress on what everyone considered to be our number one economic problem.

4. Interest rates remain too high, but they have come down. 16 1/2 percent is better than 21 percent, and there is reason to expect a continuing, if gradual, downward trend this year.

B. The Recession

1. The recession is the reason our problems are more acute than anticipated. It has driven down revenues in the short run (lower inflation and slower growth) but has a lagged effect on slowing spending, while in the near term unemployment and related costs increase.

2. In 1980 the Carter administration tried to prime the pump after experimenting with monetary restraint--the subsequent clampdown proved that the 'recovery" from that recession was a false one. Only now are the full effects of that same recession being felt. The important thing this time is to ensure a sustained, real recovery.

III. Why We Need to Raise Taxes Now

A. Many people are perplexed at the fact that we are considering sizeable tax increases this year, when we passed a tax reduction program last year that was supposed to restore certainty to the tax laws. The budget deficit problem is one major reason for the shift, of course: but many of the revenue options we are talking about are needed irrespective of the deficit problem. They are needed in the interest of fairness, simplicity, and economic efficiency.

B. We can get more revenue out of the present tax code. By improving compliance--which has dropped off in recent years because of inflation, high marginal rates, and the proliferation of special tax privileges--we can raise about $20 billion over three years. By cutting back on the inefficient tax leasing provision, we can raise a few more that no longer serve an important purpose, and which should be cut back or eliminated: tax breaks for self-employed pension savings, industrial development bonds, and insurance industry loopholes.

C. There is a consensus that we should concentrate on improving our tax laws before we slap on new taxes. This is the

VIII. Balanced Budget Amendment

A. Our acute fiscal imbalance and signs of deterioration in the budget process are increasing support for constitutional restraints on fiscal policy. The Senate will soon have an opportunity to vote on S.J. Res. 58, a proposal the President has endorsed.

B. S.J. Res. 58 requires Congress to adopt a balanced budget unless overridden by 3/5 vote. It also requires an actual majority to raise taxes over the previous year as a percentage of national income. This means we will be obliged to balance and coordinate decisions on spending and taxation--a sort of 'truth in government' provision.

C. No one wants to resort to the Constitution unnecessarily, but Congress has proved too often that it will not maintain long-term fiscal restraint. We need strong measures to redress that balance, and only the Constitution can provide them. We have tried statutory controls: they have not worked.

D. There is no 'perfect amendment' and there are other ideas that merit consideration; a two-year budget cycle, an item veto for the President, and different accounting systems to clarify how we are spending taxpayers' dollars. But S.J. Res. 58 is as good a proposal as we have developed, and it deserves a chance to work. Enforcement legislation, and cooperation between the President and Congress, will be crucial to the success of this fiscal reform.

IX. Summary--Where We Are Now

A. A Watershed Year. The recession makes this a tough year for Congress and the President. There are no easy or palatable options available. That means we have to establish our priorities swiftly but with care: not an easy task. But if we show that we can work together to deal now with problems that have been building over many years, we will have a major breakthrough in favor of economic recovery.

B. Shared Effort. The economic problem can only be addressed by a joint effort all around--Congress and the President, Democrats and Republicans. Those who would seek partisan advantage from our economic dilemma are mistaken. If we hang, we all hang together, regardless of party. The people will not care who prevented action, if nothing is done. What we need are results.

all taxpayers with substantial real income ought to pay some income tax.

3. Revenue Effect

Hopefully we could raise about $4 billion per year from a stronger corporate minimum tax.

D. Leasing

1. Some revenues may be generated by cutting back on the safe-harbor leasing provisions of the 1981 Tax Act. Those provisions are now expected to cost about $30 billion over six years, and the figure may go higher when Treasury analyzes its reports on leasing transactions.

2. Possible options, aside from outright repeal, include offsets in other tax preferences, application of strengthened minimum tax, or direct limits on tax sheltering.

VII. Flat Rate Tax

A. Growing frustration with our complex tax system and desire to ensure fairness are increasing interest in a flat-rate, or low-rate, simplified tax. More people believe that the complexity of the tax law puts a premium on getting sophisticated legal and accounting advice to take advantage of loopholes--and that seems to benefit the wealthy at the expense of the average taxpayer.

B. Several flat tax proposals have been made, and there is no question that in the years ahead we will be working to simplify taxes, eliminate obsolete tax provisions, and bring rates down in exchange. At the same time, there is no comprehensive scheme we could implement right away--we need input from the Treasury, which is reviewing the issue. Most proposals leave some progression in rates, allow for certain highly popular deductions, and exempt low incomes. When it comes to a comprehensive tax base, everyone has their favorite exemption they want to protect.

C. There will always be some complexity: we do have to define "income", and our work with the minimum tax may help us reach a more comprehensive definition. But we can agree on the principles of equity, balance, and simplicity in taxes, and work to improve the system. These are the issues the Finance Committee will review in hearings later this year.

rolled over, tax relief for Americans working abroad, and a charitable deduction for all taxpayers, regardless of whether they itemize. For the first time in years we have a strong pro-taxpayer policy in Washington--that will not change, even though we are obliged to raise significant revenue in the short term to deal with the deficit. Our goal is to maintain tax relief over the long term and improve the fairness of the tax code.

VI. Future Agenda for Tax Policy

A. Revenues in General. Thrust of future tax legislation will be to eliminate abuses and obsolete incentives and improve tax administration and collection. The 1981 Tax Act shows this trend, as in closing the commodity straddle loophole.

B. Underground Economy

The Compliance Gap

The IRS estimates that $100 billion is lost annually though noncompliance with the federal income tax laws and that amount will rise to $133 billion by 1985. The Dole-Grassley bill, with administration support would improve information reporting and add new penalties to ensure everyone pays a fair share. We should not let 44% of capital gains, and 9 to 16% of interest and dividends, continue to go unreported. This could raise $20 billion over 3 years.

C. Minimum Tax

1. Current Law--Need for Change

Current minimum taxes raise only $1.5 billion and still permit significant numbers of taxpayers to pay no tax. We need a stronger provision for corporations that 'zero out' taxes and hopefully one for individuals with a lot of tax preferences as well. The broader the tax base--the more preferences we make subject to a minimum tax--the lower the rate can be and the fairer the proposal will be.

2. Corporations

Corporations' tax base could begin with taxable income and add-back similar preference items of accelerated depreciation, certain deferred income, and excluded items. The minimum tax is fully consistent with the 1981 tax cut, which cut marginal tax rates. The marginal tax rate of a minimum tax could be quite low:

Increased savings due to tax changes and the drop in inflation should ease pressure in financial markets. We must do more to ease that pressure without undermining the economic program.

C. Many provisions of the tax act aid capital formation and innovation: R & D tax credits, capital gains reduction to 20%, IRA and other savings incentives. These coupled with rate cuts and accelerated depreciation, form the framework for regeneration of business activity.

D. Tax Indexing. Indexing is the major tax reform of 1981, and it is here to stay. It is also the most progressive change, and the most meaningful for working Americans. Indexing just means that congress is accountable for tax increases--we cannot rely on tax inflation to keep the budget afloat to the tune of $1.7 billion or more per point of inflation. In Senate consideration of the budget resolution we defeated a move to repeal indexing by 56-34. Repealing tax indexing would risk signaling we intend to reinflate the economy.

E. Major Benefits in ERTA. With all the talk about deficits and tax increases, some have lost sight of the major--in some cases revolutionary--tax relief and incentives we provided in the 1981 tax cut.

1. Marrriage penalty relief. A 10% deduction for the lower-earning spouse's income eases the tax burden on working couples.

2. Estate tax relief. The credit against estate and gift tax will rise to $600,000 by 1986: this will free many small and medium-size family estates from any tax, and greatly reduce the burden on all estates. An unlimited marital deduction forever eliminates the 'widow's tax'--there is not tax now on transfers between spouses. In addition, special use valuation for farm property was greatly expanded, easing the burden on family farms and the maximum estate tax rate drops from 70% to 50% over four years.

3. IRA incentives. Every taxpayer can now deduct up to $2,000 per year in contributions for individual retirement. This helps the small saver, can help boost the savings rates, and eases pressure on other private and government retirement programs.

4. Other provisions that provide significant help to the individual taxpayer include an expanded child care credit, an increase to $125,000 of the amount of gain on sale of a principal residence that can be

approach the Reagan Administration has taken in proposing revenue options. Everyone must pay fair share of tax: it is hard to justify new taxes, or cutting back the tax cut for working people, while we continue to let special exceptions turn out tax base into swiss cheese.

D. Once we have done all we can to increase revenues within our present tax structure, we can turn to additional taxes if necessary to reach our targets. But we should remember that our committment to individual rate reduction and capital investment incentives should not be undermined.

IV. The 1983 Tax Cut

A. There has been a lot of talk about using the 1983 tax cut to raise revenue because that is "the path of least resistance." The President disagrees, and I disagree. That cut is needed to help American workers--it is needed to offset bracket creep and payroll tax hikes. And it is a firm promise we made to the American people.

B. Who is helped. There has also been a lot of criticism of the individual tax cut on the grounds it helps the rich at the expense of the average worker. There are even some reports that the Deomocratic Party, at its upcoming mini-convention, will attack the tax cut on these grounds, while shying away from attacking the third year. Maybe the word is getting around that the American people want to keep their tax cut. In any event, the 'rich man' allegation is false. 36.6% of the 1983 cut goes to people with incomes between $10 thousand and $30 thousand. 53.7% of the tax cut goes to Americans earning $20 thousand to $50 thousand. 70% goes to those under $50,000.

C. In addition, it is worth noting who would be hurt worst by tampering with the third year. The group whose tax liability would rise the MOST is that $20-$30 thousand income class--in other words, the average working American. If this is a rich man's tax cut, explain it to the working man.

V. 1981 Tax Act and the Deficit

A. The 1981 Tax Act, though the largest tax cut in history, just stabilizes the tax burden. Revenues still will rise from about $600 billion in 1981 to about $800 billion in 1985. Receipts by 1987 should be 18.7% of GNP--the same as the average between 1963 and 1973. Without action, receipts would have been a crushing 24% of GNP in 1987.

B. The question is how high a deficit can be tolerated without "crowding out" or threatening a resurgence of inflation.