United States Senate

COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

September 13, 1983

TO: Senator Dole

FROM: George Pieler

SUBJECT: Business Roundtable talk: additional issues

Mike Monroney indicated that the Business Roundtable group would basically be interested in your comments about the prospects for a major tax bill this year and its possible contents. He also cited a few particular issues that might be of interest to participants in the Policy Committee meeting.

1. Unitary tax. The so-called unitary system of taxation is applied by a number of States to the taxation of income of multinational corporations that do business in the State. The unitary method compares in-state sales, property, and payroll of the corporation to the worldwide total of these three factors. The resulting ratio is applied to the company's worldwide profits to determine the amount of profits subject to State tax.

The unitary method has been subject to constitutional challenge on the ground that it violates due process and interferes with the Federal power to regulate commerce. But in June the Supreme Court ruled (Container Corporation of America v. Franchise Tax Board) that the system, as utilized by California, was constitutional. Businesses seeking to limit use of the unitary method or eliminate it are seeking legislation to impose a Federal prohibition on it. Senator Mathias has a bill, S. 1225, and Conable is sponsoring similar legislation in the House. The rationale is that States following the unitary method discourage foreign investment and cause problems with our trading partners.

The Reagan administration is shortly expected to take a position on the issue, but reportedly there remain strong differences of opinion that have not yet been resolved. The British in particular have indicated concern about the impact of the unitary method on investment in their country.

2. 861-8 regs. (R & D allocation). Legislation is pending, S. 645, that would make permanent the ERTA rule that requires all research and experimentation expenditures to be deducted against U.S. source income, rather than allocated between U.S. and foreign source income. These rules, which now only apply to the taxpayer's first two taxable years after ERTA, tend to reduce the effect of limits on the foreign tax credit. At our June 17 hearing on the issue, Treasury recommended another two-year extension of the rules rather than making them permanent, to have time to develop a consistent R & D policy.

3. and 4. Fringe benefits and insurance (materials attached).

INSURANCE COMPANY TAX ISSUES

TEFRA

- We made some significant changes in insurance company taxes last year. The major accomplishment was closing the Modco loophole; but we also provided some substantial benefits to the life insurance industry. (If the early post-TEFRA revenue estimates are correct, these benefits may have been too substantial.)

- Many of the life insurance provisions enacted last year expire at the end of this year. The sunset date was designed to give us more time to analyze what a permanent tax structure for life insurance companies should be.

STAFF REPORT

- The Finance Committee and Joint Tax Committee staffs are working on a report on issues and options on insurance company taxation. The report should be ready for publication at the end of this month.

- I have asked them to examine the basic tax policy issues involved when considering the taxation system which should apply to any taxpayer: How do you accurately calculate income earned; are there special public policy issues which should be considered when deciding what the effective tax rate should be? This report will take into consideration the proposal developed by Congressmen Stark and Moore of the House Ways and Means Subcommittee on Select Revenue Measures.

POLICY

- Because many of the TEFRA provisions expire at the end of this year, there is some pressure to act before then.

- However, an extension of the TEFRA rules will have the impact, for budget purposes, of a $1 billion tax cut. We are well aware that the revenues from the life insurance industry are approximately $1 billion less than anticipated when TEFRA was enacted, but there would still be a $1 billion annual reduction in revenues from this lower level if the TEFRA rules are extended without change.

- I also understand that sunset of the TEFRA rules would impact mutual insurance companies more than stock companies, but it was also the large mutual companies who benefitted most from the Modco loophole.

- That doesn't mean that there is no need to revise the insurance company tax rules. It certainly would be preferable to have a simpler and fairer system. But we should not be straying far from a revenue neutral revision.

- o I understand that the Stark-Moore proposal is intended to raise slightly less than the original projection of revenues after expiration of the TEFRA provision at the end of this year ($4.7 billion). While it is unclear what changes will be made in subcommittee and full committee on the House side, it would not seem unfair if the revenue estimate for the new rules when finally enacted were to be nearer the most current estimates under current law.

  *N.B. When industry people talk about the two year TEFRA rules they call them "stopgap" rules. They refer to the old rules which would go back into effect upon expiration of the TEFRA rules as the "'59 Act."

- o However, simplicity and at least revenue neutrality would seem to be important features of any revision of the insurance company tax provisions. If the Internal Revenue Code is as complicated after revision and even less revenue is collected, Congress would not have accomplished very much.

- o I hope that the insurance industry will work with us in an effort to analyze, and revise where necessary, the insurance company tax laws in a manner that is both fair to the industry and consistent with good public policy.

- o I want the insurance industry to remain an important part of the private economy. The capital formation and economic protection functions performed by the industry are vital to our society. But we also have an obligation to assure that life insurance companies are shouldering a fair part of the corporate tax burden.

- o One factor that will be of substantial importance is to make sure that efforts to rationalize the taxation of life insurance companies do not put life insurance companies in a competitively disadvantaged position compared to other financial intermediaries. I am sensitive to the fact that life insurance companies compete, for example, with banks for qualified pension business and with property and casualty insurance companies for group accident and health business. The tax code should be neutral in any decision as to where a customer should go to obtain a similar product.

TIMING

- o During August, staff has been drafting legislation pursuant to the outline Stark-Moore proposal. I have asked the Finance Committee staff to give technical assistance and Treasury has also provided drafting assistance. However, that should not be interpreted as meaning that this proposal will be introduced in the Senate without change or that the proposal will not be carefully scrutinized or substantial changes would not be considered.

- Congressman Stark intends to hold a subcommittee markup at the end of this month.

- If there is substantial agreement in subcommittee, it is likely that a full Ways and Means Committee markup would follow shortly thereafter.

- It is likely that hearings on life insurance taxes would not be held before the last half of October. That would mean that Senate action and and conference could be concluded this year, but it is not a certainty.

- If it seems as though there is substantial agreement on most of the major issues, but that there is insufficient time to resolve the issue this year, it is possible that Chairman Rostenkowski and I would announce an intention to apply a January 1, 1984 effective date to legislation whicih could be concluded in the Spring.

FINANCE COMMITTEE HEARING ON PROPERTY
AND CASUALTY INSURANCE COMPANIES

- On June 13 the Finance Committee heard testimony on the taxation of property and casualty insurance companies. Last fall I asked GAO to study the taxation of property and casualty insurance companies. The June 13 hearing provided GAO an opportunity to provide their preliminary findings and also gave the public an opportunity to discuss the issues.

- GAO told the Committee that the effective tax rate for a representative sample of companies was in the range of one percent, although some people may question their methodology.

- The GAO and Treasury both suggested that the Committee review the issue of how reserves should be calculated and suggested that they should be discounted if the company does not have to pay claims until future years. (The life insurance industry calculates reserves on a discounted basis.)

- There were several other issues discussed at the hearing, and, no doubt, investment in tax exempt obligations accounts for much of the low tax rates. We are continuing to review some of the specific tax provisions applying to property and casualty companies.

- At a minimum, if Congress is going to re-examine life insurance company taxation, it will be important to understand the property and casualty insurance industry, its relationship to the life insurance industry, and the differences in the method of taxation that applies to each.

- I hope that we will be able to conform the life insurance and property and casualty insurance rules sufficiently so that tax consequences will be as neutral as possible when similar business is written in either type of company.

FRINGE BENEFITS

Nonstatutory Fringe Benefits

- In 1978 Congress imposed a moratorium on Treasury regulations concerning nonstatutory fringe benefits. This moratorium was extended in 1981, but it will expire at the end of this year.

- Basically, the issue is whether compensation paid in a form other than cash, such as employee discounts, free parking, personal use of company cars, and company-provided recreational facilities, should be included in taxable income.

- Excluding the most controversial fringe benefits such as airline passes and certain employee discounts, the Congressional Budget Office has estimated that revenues would increase $6.4 billion over the next five years if nonstatutory fringe benefits were included in taxable income.

- Senator Mattingly has introduced legislation to provide a permanent moratorium on fringe benefit regulations are to provide a temporary extension of the current moratorium.

- On July 12, 1983, Congressmen Stark and Conable introduced H.R. 3525, which would generally exclude from the gross income of an employee certain employer-provided fringe benefits: (1) benefits where there is no additional cost service to the employer (i.e., free airline passes on a standby basis), (2) employee discounts that do not exceed 20 percent of retail price or average profit percentage, (3) working condition benefits such as office furniture and supplies, and (4) property or services whose value is very small.

- H.R. 3525 generally would exclude from taxation most current nonstatutory fringe benefits.

- The bill would restrict current fringe benefit practices in two areas: (1) reciprocal airline pass arrangements between airlines, educational institutions, and separate trade or businesses owned by the same corporation; and (2) faculty housing.

- Senator Symms introduced a bill on August 4, S. 1817, that is similar to H.R. 3525, except it provides for reciprocal arrangements, faculty housing, and provides different nondiscrimination rules and larger employee discounts in certain cases.

- Both of these bills will have to be carefully examined to balance the certainty they provide employers and employees with the effect on the fairness of our tax code and our voluntary compliance system.

- It probably would make sense if Treasury were allowed to issue regulations to give taxpayers some guidance in this area, but the problem is getting agreement on what should be a taxable fringe benefit.

- Undoubtedly, there is substantial sentiment that certain benefits are so small and difficult to value that they should not be taxed as a matter of administrative convenience. But it is very hard to draw the line.

- In addition, there are some benefits which do not result in economic or financial benefit to the employee and should be excluded from income. Some of these fringe benefits would be items furnished by an employer to an employee to facilitate his job, such as professional books and journals or office furnishing.

- From the standpoint of equity, it is difficult to argue that employees who receive cash compensation should be taxed, but those who receive noncash benefits should not be taxed. It certainly is not fair.

Statutory Fringe Benefits

- From a revenue point of view, however, the statutory fringe benefits have a much greater impact. The Joint Tax Committee estimates that the income tax loss from statutory fringe benefits (other than pensions), such as the exclusion for employer contributions for medical insurance, the partial exclusion for premiums on group term life insurance, the exclusion for employee meals and lodging, and similar items will amount to over $26.4 billion in FY 1984 and over $170 bilion over 5 years. In addition, there is another $8 billion in FICA tax impact in FY 1984 alone.

- Of the statutory fringe benefits, the one with the largest revenue impact is the exclusion for employer-provided medical care. That is estimated by the Joint Tax staff to have a $21.3 billion income tax revenue effect in FY 1984 alone.

- The Administration's proposal to cap the exclusion would reduce this revenue loss by $2.3 billion in FY 1984 and $4.4 billion in FY 1985.

- Congress has a responsibility to periodically review these statutory benefits to determine if social and tax policies still justify their preferential tax treatment and to determine if the tax preferences are achieving their stated objectives at a reasonable revenue cost.

- Congress reviewed the tax preferences for contributions to and benefits under qualified pension plans last year.

OUTLINE OF REMARKS

BUSINESS ROUNDTABLE

September 13, 1983

6:15 p.m.--Links Club--New York City

I. The Need for a Budget Summit

A. Many of you may know that I called the First Concurrent Budget Resolution a dead cat. Very little has changed in recent weeks. In my view, the budget process will not be resurrected and the economic recovery secured until our leaders, from the President and the Congress to our State and local officials and business and civic leaders, pull together in order to safeguard the domestic economy. We cannot allow progress toward recovery to lull us into acquiescence.

B. That is why I have called for a budget summit and one where the President plays a key role. Just as Congress must put spending in order, the President must make clear his priorities on the budget. We need his leadership and his approval, because we know he can get the job done. He has done it before: all he needs is a clear sense of purpose.

C. The summit concept will have to begin with the President and with the Congress, but it should not stop there. All decision-makers in our economy, including business and labor, have a vital stake in what happens. We cannot please everybody, but only if we agree on the absolute priority of cutting the deficit in a way that advances our shared economic goals will we have a fighting chance to succeed. We cannot tax our way out of recession, and we cannot devastate the social and benefit programs that so many Americans depend on. But we can make adjustments on both sides of the ledger that boost the odds in our favor.

II. The Economy

A. Prognosis. We have to realistically assess the state of the economy and the prospects for the next few years. Recovery is well under way, and the groundwork has been laid for stable and lasting growth without renewed inflation. It is absolutely crucial that we proceed with care at this point, and not throw away the gains already made.

No one should doubt that we are making progress. The GNP for the second quarter of 1983 shows growth at a 9.2 percent rate. The index of leading economic indicators has jumped 12 months in a row. Industrial output rose 2.1 percent in April; the highest monthly rise in 8 years, 1.2 percent in May, 1.0 percent in June, and 1.8 percent in July. Economists agree we are in a broad based recovery.

1. Inflation was cut to 3.9 percent in 1982, from 12.4 percent in 1980. This is the lowest inflation rate since 1972.

Consumer prices rose just 2.4 percent in the 12-month period ending July 1983, the lowest since 1966. Inflation in 1983 so far is running at annual rate of 3.2 percent. Even with an upward "blip" in producer prices, the inflation picture remains very good.

2. Interest rates are down. Although the prime rate is at 11 percent, it is still way down from the 21 percent that prevailed when President Reagan took office. Home mortgage rates are down since last year. Long-term rates for business loans are off about 3 points from a year ago.

3. Lower taxes with major improvements in tax equity will help buoy the recovery, both on the consumer side and on the investment side. The combined effect of the 1981 and 1982 tax bills has been to lower individual taxes over 3 years by $344 billion, as well as improve compliance and tax fairness. Lower individual rates boost personal income and restore incentive, while favorable capital cost recovery rules should spur investment.

4. Housing starts are up. At an annual rate of about 1.7 million in June and July, down slightly from May, new housing starts are the highest in 3 years.

o Sales of new one-family houses in June were at an annual rate of 638,000. While this is slightly below the May rate, it is up 73 percent from a year ago. Following a surge in the latter half of 1982, sales activity has moderated in the last 6 months.

o During the first 6 months of 1983, 326,000 houses were sold, up 68 percent from same period in 1982. About 56,000 new houses were sold in June.

B. Unemployment. The July unemployment rate fell from 10.0 percent to 9.5 percent, the largest monthly decline since December 1959. Total civilian employment now stands at 101.3 million, the highest level in our history. These figures indicate that the recovery is anything but anemic--if there are any doubters remaining after last quarter's real growth rate of 9.2 percent. According to Janet Norwood, Commissioner of the Bureau of Labor Statistics, the growth in employment at this point in the recovery is stronger than in any of the previous six recoveries.

o High unemployment has to come down and stay down without inflationary stimulus--that is what we have failed to do in the past. Clearly there is a bipartisan consensus for more jobs. But resuming the inflationary policies of the past will not create lasting jobs, just an illusion of prosperity that leaves us worse off the next time we try to get "off the wagon."

o That means the most important thing we must do is judge carefully the degree of stimulus the economy can and should take, consistent with a firm anti-inflation policy. The Federal Reserve will play a key role, and has already shown a willingness to adjust its short-term goals based on its assessment of the economy. We will not allow the recession to continue, but we will not reinflate the economy, either.

In addition, constructive steps have been taken:

- A new Federal supplemental unemployment compensation program was passed with the 1982 tax bill, providing additional unemployment benefits to almost 3 million workers. This program will extend through September 30.

- The new Job Training Partnership Act emphasizes training for permanent employment rather than make-work jobs.

- The targeted jobs tax credit, which was extended for 2 years by the 1982 tax bill, gives employers an incentive to hire the disadvantaged--about 500,000 workers are certified under the program.

- The administration's enterprise zone legislation, which was approved by the Senate, could provide us with an experiment in private-sector job creation in depressed areas, through a combination of Federal tax incentives and State and local efforts to target an area for development with regulatory and tax relief, neighborhood participation, and capital and other improvements. House hearings have been promised.

C. The Deficit and Interest Rates.

1. All our economic difficulties are, of course, related--high interest rates and slow growth boost the deficit, and higher deficits create greater uncertainty in the business community as to our future course; will there be more inflation, or less credit available for business expansion?

2. Because of this, it makes sense first of all to chart a path that is most likely to bring stable growth without inflation. Higher growth boosts revenues and cuts unemployment costs, thereby reducing the deficit as well: already, upward revisions of growth estimates are being made in light of our economic progress and indications of further improvements.

3. Continued efforts to restrain the deficit by controlling Federal spending will give the Federal Reserve a bit more room to accommodate the potential for real growth that exists in the economy without inflationary pump-priming. But restraint in both fiscal and monetary policy is crucial if we want to maintain long-term confidence in the economic program. The reappointment of Chairman Volcker at the Federal Reserve is a good move towards maintaining public confidence.

III. The Budget Resolution

A. Conference Agreement. The conferees on the budget resolution tried hard to reach a reasonable agreement, but it is not clear that the result is the best way to reduce the deficit, or even that it will bring significant deficit reduction. Of the proposed deficit-reduction measures, 88 percent is within the jurisdiction of the Finance Committee--and 86 percent is due to proposed tax increases, not to spending restraint. The resolution proposes a $73 billion tax increase over three years, $12 billion in 1984, $15 billion in 1985, and $46 billion in 1986.

B. Real Choices. Because so much in the way of spending programs is left out-of-bounds, the real choice proposed for us is to raise taxes or accept for now the high deficits that result from our spending decisions. That is not an agreeable choice to make, particularly when the budget resolution provides a so-called "contingency fund" to allow for new spending if Congress decides it is needed--to the tune of $8.5 billion. In addition, this puts the Budget Committee in the position of determining specific spending policies, not just overall targets.

C. Implementation. One relevant question in evaluating the budget agreement is whether the votes exist to implement it. Many members who supported the resolution might not be as willing to vote for the tax increases needed to implement the conference agreement. If so, it does not help financial markets to propose a resolution that will not be acted on in any event.

D. Domestic spending. While we cannot let the burden of deficit reduction fall on benefits for lower-income Americans, we should not assume that domestic spending is untouchable. Even the budget conferees agree that, for example, Medicare is a proper source for savings. Certainly we have to acknowledge that Federal health program costs are out of control, and that changes are very much in order. (The resolution proposes about $1.7 billion in Medicare savings). If the contingency fund is included, domestic spending would be up $10 billion next year.

E. Alternatives. Even if we fail to implement the resolution, that does not mean the fight against the deficit is over. I have proposed that we try to work out a $70-$80 billion deficit reduction package, balanced between spending and revenue changes, and will try to work towards some common ground with Chairman Rostenkowski.

IV. Taxes: Third Year and Indexing

A. The President has said time and time again that he will fight to retain tax indexing, and many of us will continue to support him, even if a veto is required. Thirty-four Senate Republicans and 146 House Republicans have signed letters to that effect. The reasons are quite simple: these measures are good for the economy, they are fair, and they give long-needed real tax relief to the hard-pressed middle income American.

B. Third year. Why was the third year of the 1981 tax cuts so important? First, most economists agree that the timing of this last stage of President Reagan's individual tax program is excellent in terms of giving the economy a boost on the consumption side as we emerge from recession. This is a sharp contrast with the past, when tax changes to counter recession were too little and too late.

Equally important, the third year was needed in the interest of fairness. Only the third year gives a full measure of tax relief to working people. For taxpayers with incomes $10,000 or less, repeal of the third year means a tax increase averaging 13.9 percent. For those between $20,000 and $30,000 in income it means a 12 percent jump in taxes. 72 percent of the benefit goes to Americans making $50,000 or less.

In dollar terms, repealing the third year would have cost a taxpayer at $15,000 income $112 in FY 1984; at $20,000 income, it would cost $203 in 1984; at $30,000 income, taxes would be $410 higher in 1984.

C. Indexing. Indexing is crucial not just because it provides tax relief, but because it insures truth in government: tax changes will have to be voted on openly and directly, rather than having Congress rely on inflation to raise revenues through the deception of bracket creep. Whatever attitude you take on the question of generating new revenues, it makes sense to keep indexing in place.

In addition, indexing is an important symbol of our commitment to fight inflation. Repealing it only generates significant revenues if you assume inflation will persist at fairly high levels. If we de-index, we send a signal that we are not committed to beating inflation--and that means bad news for financial markets, for interest rates, and for consumers and investors alike.

Finally, the tax relief provided by indexing is real and sustained. Indexing means $98 billion in tax relief between 1985 and 1988, assuming modest inflation. $78 billion of that goes to taxpayers earning under $50,000. This group now pays about 66 percent of taxes, but will get 80 percent of the benefit--proving that indexing is a truly progressive tax reform.

A median income family of four would pay $1,000 in additional taxes between 1985 and 1988 if indexing were repealed (assuming they earn $24,000 in 1982). Remember that consumers are homebuyers as well, and their after-tax income is as important as interest rates in determining whether they will buy.

V. Other Tax Issues

A. Mortgage Revenue Bonds. The Finance Committee held hearings on proposals to eliminate the scheduled sunset of single-family issues at the end of this year. Some continued availability of these bonds after this year is likely at least for lower-income single family housing. I have proposed legislation to give states the option to issue tax credits for first time home buyers, rather than issue mortgage bonds.

B. Individual Housing Accounts. There have been suggestions that Congress adopt an IRA-type approach to encouraging savings for purchase of a principal residence through a tax deduction or deferral. This was the subject of Dole legislation in the 96th and 97th Congresses. The idea still has appeal both from the standpoint of encouraging savings and stimulating home ownership. Again, the cost to the Treasury will be a major issue--but if that can be kept under control, the idea could gain support.

C. Flat Rate Tax. The idea of a flat-rate or greatly simplified tax system continues to be quite attractivce, as we see continued taxpayer frustration with the complexity of our system and with the idea that special exemptions or credits enable the well-to-do to 'game' the system in their favor. Walter Mondale has endorsed the Bradley-Gephardt so-called "Fair Tax," so at least some believe the idea has political appeal.

The issues remain difficult to resolve, because any major changes in the tax burden or in basic tax incentives mean taking from one group and giving to another--always a tough thing for Congress to do. The Bradley proposal is a careful political compromise desigined to keep the most popular deductions and roughly duplicate the present distribution of the tax burden--but it is not clear whether this less-graduated system would stay that way (particularly when it is not indexed, and liable to bracket creep). What we need to do is continue to build towards consensus on a simpler system by better-informing the public and testing their attitudes. But everyone does seem to agree that we need to move toward lower rates and a broader base--the direction marked out by the 1981 and 1982 tax bills.

VI. Trade

A. Trade deficit is too large. The size of our trade deficit (which is now projected at $60 billion or more in merchandise trade and $30 billion in current account) alone means Congress will continue to look hard for ways to reform our trade policy. The system of multilateral arrangements has been called into serious question as many believe it fails to meet our needs. Many voters and members of Congress will want to see us approach more of our trade problems on a bilateral basis. The average American simply does not understand why Japanese cars and TV's sell well here but American cigarettes, beef, baseball bats, and cosmetics cannot be sold in Japan. Remedies for this type of situation are certain to be a major focus of attention in this Congress.

B. Export issues. Unfortunately, the GATT ministerial failed to make progress on the question of foreign subsidies for agricultural exports. This will continue if pressure from Congress to resolve this situation through negotiation or for other export promotion actions like the recent wheat flour sale to Egypt. S. 822, recently passed by the Agricultural Committee, would establish several export promotion activities.

I support efforts to equalize the rules under which trade is conducted. This does not mean trade war, but does mean seeking to expand East-West trade, developing a viable substitute for DISC, utilizing Ex-Im Bank resources more adeptly, and enacting the trade reciprocity bill that the Senate approved. Fair access to markets must be a two-way street, and Congress will be under considerable pressure to see that that is so.

C. Import issues. As you know, the House passed "local content" legislation at the end of the last Congress. That is a drastic proposal and likely to be counterproductive in the long run if our goal is to increase access to markets and to gain maximum benefit from the mutual advantages of international trade. There may be other areas, however, where we might make adjustments: in considering extension of the Generalized System of Preferences, there may be an interest on the part of some members of the Finance Committee to seek some reciprocal benefits from the major GSP beneficiaries. The enactment of the President's Caribbean Basin Initiative partly reflects the fact that those countries offer U.S. exporters a potentially strong market. It may be difficult to renew the President's general authority to negotiate tariff reductions on a limited basis. It is a good sign that the Japanese have agreed to continue voluntarily to restrain their automobile imports to this market for a third year until the domestic industry has had an adequate time to get back on its feet, although the question of whether there will be negotiations for a fourth year is a matter of concern.

D. Clearly the heat is on when it comes to seeing that American producers get fair treatment under our system of international trade. If we choose our battles carefully to secure an appropriate response from our trading partners, we have an opportunity to making trade freer and fairer, to the advantage of everyone. But we must avoid the two extremes of allowing the world to think only the U.S. will play by the rules of free trade, regardless of disadvantage to our citizens; or, on the other hand, taking extreme unilateral actions that may look good politically but that, in the long run, will provoke severe reaction and deprive us of market opportunities. We need just the right amount of leverage to open more doors, not have them slammed in our face.

VII. Conclusion

The months and years ahead must not be dominated by rigid ideologies on either side--but neither can the President or the Republican leadership be expected to cast aside the principles of

Government the American people so soundly endorsed in 1980. Those principles--a more restrained Government, a freer economy, greater accountability to the American people--are as valid today as they ever were, and there is no indication that the people have changed their commitment to these same principles. Guided by these principles, we will try to work together to build on the sound foundation for recovery that has already been laid.