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## Kiwanis-Rotary-Chamber of Commerce

Max S. Baucus

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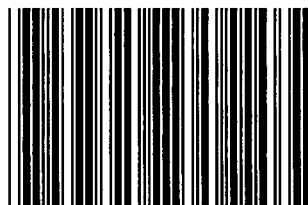
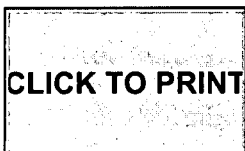
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BAUCUS

Congressman Max Baucus, Kiwanis-Rotary-Chamber of Commerce speech

Thank you very much.

I know the people in a group like this have a lot of interests but there is one thing that affects all of you, and that's the tax burden.

I intend to talk to you today about tax cuts. But first I am going to discuss cutting government spending. As you know, the two have to go hand in hand. Unfortunately, in politics, they sometimes don't.

The Senate passed a landmark tax proposal recently. This amendment, sponsored by Senator Nunn, was similar to a proposal I introduced earlier in the House.

The Nunn amendment calls for a big tax cut. But -- and this is critically important -- the tax cut is tied to spending cuts.

Everybody wants their taxes cut. That includes me, and since I've been in Congress I've voted for five bills to reduce and reform taxes. But this election year there is a tendency for politicians to abandon reason and logic altogether.

My opponent supports the Kemp-Roth proposal. As you know, this is a promise to cut taxes by 33 percent over a three year period, but it does not require any cuts in federal spending.

That is a sure-fire recipe to win votes. Maybe I should support a 50 percent cut in taxes over a three year period.

Unfortunately, like Kemp-Roth, that would be a sure-fire recipe for economic disaster.

When Mr. Kemp testified in favor of his proposal before the House Ways and Means Committee he said that the plan would unlock private incentives and thereby increase productive capacity so much that the tax cut would actually increase, rather than decrease federal revenues. <sup>P</sup> But, he also testified that the federal budget deficit would rise to \$90 billion -- that's 3.5 percent of GNP -- by 1980.

Paragraphs  
I studied the Kemp-Roth proposal closely. My conclusion was that GNP would have to grow by 20 percent above normal to generate enough national income to recoup revenue losses. This would require an ~~enormous~~ increase in plant and equipment and additional labor that is just not possible. <sup>P</sup> The end result of Kemp-Roth could only be a massive federal deficit and ~~result in inflation~~ <sup>explosive inflation</sup>. <sup>P</sup> I think Herb Stein, who was Richard Nixon's Chairman of Economic Advisors, sums it up best. Stein said, <sup>P</sup> "It may turn out that such a tax cut would raise the revenue, just as it may turn out that there is human life on Mars. But I would not invest much in a MacDonald's franchise on that planet and I wouldn't bet the nation's economy on the assumption that the tax cut will increase revenues."

What I am trying to point out is that proposals to cut taxes should be accompanied by solid proposals to cut spending. And I'd like to talk for just a couple of minutes about some of my proposals to cut spending.

When I first went to Washington and became a member of the Appropriations Committee, I started taking walks down through the federal agencies unannounced. The bureaucrats were real surprised to see me. I guess not very many Congressmen do that.

I was appalled not only by the size of the bureaucracy, but by the waste that I found.

I did some investigating and found out that the federal government consists of eleven cabinet level departments, plus 44 independent agencies, plus 1,240 advisory boards, committees, commissions, and councils.

There are something like 1200 different <sup>federal</sup> spending programs. And the shocking thing is that 800 are permanently authorized. That means they never come up for review or reconsideration by Congress.

I attached the first sun-set amendment that had ever been put on a House bill. A sun-set provision specifies that a program will go out of business automatically after a certain period of time. ~~And I'm convinced that every program should be subject to sun-set.~~

*expanded the sunset concept by introducing*

In 1975, Congressman Blanchard and I ~~introduced~~ a bill we called the Government Economy and Spending Reform Act. That bill divided all federal programs into five groups. Each year,

Congress would examine one of the groups.

And unless Congress specifically voted to continue each specific program, it would automatically expire.

Senator Muskie later introduced a similar bill in the Senate and managed to get it passed in the last moments of this Congress. Unfortunately, my colleagues in the House have chosen to sit on this bill.

Another solid plan for cutting down spending is the Nunn amendment that was attached to the tax bill in the Senate. I had cosponsored a similar bill in the House and supported an effort in the House to accept the Nunn amendment.

That proposal is a landmark in federal tax legislation. It ties tax reductions to specific cuts in spending. The amendment calls for a roughly 5 percent tax cut each year. This would amount to \$142 billion in reduction by 1983.

For each of the years though, if federal outlays increased by more than one percent above the inflation rate or if federal outlays did not decline as a percentage of GNP, the tax cuts would not go in effect. Also, the tax cuts would not go in effect unless a balanced budget was achieved by 1982.

A Congressional Budget Office analysis shows that this proposal would indeed result in a balanced budget by 1982. And I think that's essential.

Cutting spending is not easy. Every program has its constituency, both public and private. When you have seen Congress at work, you can understand why it is far easier -- and far more politically attractive -- to promise huge tax cuts

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than it is to get into the trenches over the size of the budget.

The National Taxpayers Union analysis of spending votes last year showed that I was in the six percent of most frugal Congressmen. I intend to keep up my proven record.

You did not get where you are as business people by making foolish investments based on false advertising. I hope you will keep your business sense when it comes to the federal government.

Thank you very much.