8-5-1985

Independent Petroleum Association of Mountain States

Max S. Baucus

Let us know how access to this document benefits you.
Follow this and additional works at: https://scholarworks.umt.edu/baucus_speeches

Recommended Citation
https://scholarworks.umt.edu/baucus_speeches/344

This Speech is brought to you for free and open access by the Archives and Special Collections at ScholarWorks at University of Montana. It has been accepted for inclusion in Max S. Baucus Speeches by an authorized administrator of ScholarWorks at University of Montana. For more information, please contact scholarworks@mso.umt.edu.
Senator * or Department*: BAUCUS

Instructions:
Prepare one form for insertion at the beginning of each record series.
Prepare and insert additional forms at points that you want to index.
For example: at the beginning of a new folder, briefing book, topic, project, or date sequence.

Record Type*: Speeches & Remarks

MONTH/YEAR of Records*: August-1985
(Example: JANUARY-2003)

(1) Subject*: Tax
(select subject from controlled vocabulary, if your office has one)

(2) Subject* Independent Petroleum Association of the Mountain States

DOCUMENT DATE*: 08/05/1985
(Example: 01/12/1966)

* "required information"
ADDRESS BY SENATOR MAX BAUCUS
INDEPENDENT PETROLEUM ASSOCIATION OF THE MOUNTAIN STATES
AUGUST 5, 1985

INTRODUCTION

Thank you. It's a pleasure to be with you in such a beautiful setting.

A century ago, my great grandfather risked everything he had to start a ranch outside Helena, Montana.

Because he had the foresight and courage to take that risk, the Sieben ranch flourished. It's become a vital part of the Helena Valley.

You are the cattlemen and sheepmen of our times. Many of you risk everything you have to produce the energy America needs to maintain our national security and fuel our economic strength.
As you know, the oil and gas industry is vital to Montana's economy.

Our future depends in large part on your future.

And that future depends on more than business decisions. It also depends on policy decisions, in Washington.

**TAX REFORM**

Right now, the big decision is what to do about tax reform.

Many of you may think that tax reform is dead.

The situation is a lot like when Mark Twain read a newspaper report that he'd been killed. He wrote the paper a letter saying that "the reports of my death have been greatly exaggerated."

So it is with tax reform.
THE REPORTS OF ITS DEATH HAVE BEEN GREATLY EXAGGERATED. IT'S NOT DEAD. JUST ASLEEP.

BUT NOT DEAD

FOR THE FINANCE COMMITTEE, IT'S BEEN A LONG SUMMER. WE'VE HAD ABOUT 50 HOURS OF HEARINGS. WE'VE HEARD FROM OVER A HUNDRED WITNESSES.

MAN Y OF THESE WITNESSES HAVE POKED HOLES IN THE PRESIDENT'S PROPOSAL. THEY'VE POINTED OUT THAT:

IT'S NOT SIMPLE.

IT'S NOT REVENUE NEUTRAL.

IT WON'T HELP EVERY AVERAGE AMERICAN FAMILY.

AND IT MIGHT RETARD, NOT PROMOTE, ECONOMIC GROWTH.
But politics is a funny business. Despite all this, the process of writing a so-called tax reform bill has developed a momentum of its own.

It's like a runaway train. Nobody likes the direction is heading, but nobody wants to jump off.

So when Congress returns in the fall, tax reform will be reawakened.

Danny Rostenkowski—Chairman of the House Ways and Means Committee—has made a personal commitment to pass a bill. It's his chance to demonstrate his qualifications to succeed Tip O'Neill next year.

Danny's a tough, effective politician. He will pass a bill. Maybe not as soon as he'd like. But sometime this fall.

Be forewarned. The House bill may be more extreme than the President's proposal. For largely political reasons, the House may restore some of the toughest anti-business provisions of
"Treasury I," to provide a bigger tax cut to middle-income taxpayers.

The Finance Committee

When the Finance Committee gets this bill—late this year or early next—the pressure will intensify.

The Finance Committee is conservative, on both sides of the aisle.

We tend to be skeptical about tax reform.

At the same time, the bill will have some attractive features.

We all know the tax code's a mess and needs to be simplified.

And we need to do something about the public perception that the rich escape from paying their fair share, embellished by last week's report that more than 10% of the taxpayers earning
ABOVE $250,000 PAID LESS THAN 5% IN TAXES.

So there's a need for some kind of basic simplification.

And if simplification results in a tax cut, all the better.

In Montana, only 21% of all taxpayers itemize. That's the fourth-lowest percentage in the country. We haven't done the calculations yet. But for most of these non-itemizers, tax reform probably will mean a sizable tax cut.

Given these features, and the fact that nobody wants to be the first one to jump off the tax reform train, the Finance Committee will almost certainly report a bill.

The question is what kind of bill. Here's my guess.
We'll consider ways to retain basic capital formation incentives that have been effective and haven't been heavily abused.

And we'll reject any House attempt to single out the oil industry as some kind of symbolic "bogeyman." That's simply not true. When you look at the whole picture, the industry pays plenty of taxes.

To accomplish these objectives and keep the overall package revenue-neutral, we'll need to add some revenue raisers. A value-added tax and an oil import fee are both possibilities.

But that doesn't mean the industry is home free.

If you go through the arithmetic, you see that we'll have to prune away some of the $380 billion worth of tax expenditures.

We'll have to establish priorities, and decide exactly what we can and cannot accomplish through the tax code.
LIKE OTHER INDUSTRIES, THE OIL INDUSTRY MAY ULTIMATELY HAVE TO MAKE SOME SACRIFICES.

But I'LL WORK HARD WITH YOU TO MAKE SURE THAT WE DON'T ENACT SO-CALLED REFORMS THAT DO MORE HARM THAN GOOD. BECAUSE THE WORST RESULT OF THIS AGONIZING PROCESS WOULD BE AN ELEGANT TAX CODE BUT A LOUSY ECONOMY.

THE TRADE ISSUE

THIS BRINGS ME TO ANOTHER ISSUE.

AS I SIT THROUGH THESE INTERMINABLE TAX REFORM HEARINGS, I CAN'T HELP THINKING THAT WE'RE MISSING THE REAL POINT.

WE'RE ARGUING BITTERLY ABOUT WHO GETS WHICH TAX BREAK. WE'RE LIKE PASSENGERS ON A SHIP, ARGUING ABOUT WhOSE DECK CHAIR WILL BE IN THE SUN AND WHOSE IN THE SHADE.

THE REAL QUESTION IS WHICH DIRECTION THE SHIP IS HEADING.
I think we're heading into a gale, without a rudder.

In our hyper-competitive world, a nation's trade balance may be the best indication of its fundamental strength.

If that's true, we're in big trouble.

The first six months of this year, we had a $70 billion trade deficit.

To put it another way, for every $2 worth of U.S. products going out, there were more than $3 worth of foreign products coming in.

As a result, millions of jobs have shifted overseas.

The 3-Part Response

So what should we do about it?
WE HAVE TO WALK A RAZOR'S EDGE.

ON ONE SIDE IS SIMPLE-MINDED, DO-NOTHING LAISSEZ-FAIRE

THAT'S THE POLICY WE'VE HAD UNTIL NOW.

IF THE TRADE DEFICIT FIGURES TELL US ANYTHING, THEY TELL US THAT THIS POLICY HAS FAILED DISMALLY.

BUT THE OTHER SIDE OF THE RAZOR'S EDGE IS JUST AS DANGEROUS.

THAT OTHER SIDE IS STARK PROTECTIONISM.

BUILD A WALL AROUND AMERICA. STOP THE IMPORTS.

SOUNDS SIMPLE.

BUT, AS H.L. MENCKEN USED TO SAY, "FOR EVERY PROBLEM THERE'S A SIMPLE SOLUTION. AND IT'S USUALLY WRONG."
Ultimately, protectionism will shrink the world economy and leave everyone worse off.

So what's the alternative? How do we balance along the razor's edge?

First of all, we have to reduce the value of the dollar.

Over the past few weeks, the international value of the dollar has fallen.

But it still constitutes at least a 35% surtax on U.S. exports and a 35% subsidy for U.S. imports.

We need to do more.

I was appalled that the budget talks collapsed last week. Instead of boldly slashing the budget, we've surrendered and accepted a half-hearted "Baby budget."
WE NEED TO REVIVE SERIOUS DEFICIT REDUCTION EFFORTS AND GET THE DEFICIT REDUCED ONCE AND FOR ALL.

BUT EVEN THAT WILL NOT BE ENOUGH TO BRING THE DOLLAR UNDER CONTROL.

WE'LL STILL NEED TO ESTABLISH SOME MECHANISM FOR COORDINATING INTERNATIONAL MONETARY POLICY, TO FORCE THE DOLLAR GRADUALLY DOWN.

THIS IS A TRICKY BUSINESS.

BUT THERE ARE 123,000 PEOPLE WORKING IN THE TREASURY DEPARTMENT. SOMEONE DOWN THERE OUGHT TO BE ABLE TO COME UP SOMETHING.

WE ALSO NEED A NEW APPROACH TO TRADE POLICY.

AMERICA HAS BECOME AN INTERNATIONAL PATSY.

WHILE WE'VE PLAYED BY THE RULES, OTHER COUNTRIES HAVE PRACTICED A KIND OF "NEW
Mercantilism," protecting their own markets and subsidizing the invasion of ours.

For example, Canada subsidizes the production of softwood lumber by selling cutting rights dirt cheap, driving perfectly efficient U.S. timbermen out of their own market.

For another example, Mexico and Saudi Arabia subsidize the production of natural gas, causing processed products to stream in.

Similar fates have befallen other key U.S. industries.

Enough is enough.

It's time to follow the advice of Thomas Jefferson, who said that "free commerce is not to be given in exchange for restrictions and vexations."

We have given our trading partners free commerce.
THEY HAVE RESPONDED WITH RESTRICTIONS AND VEXATIONS.

IT'S TIME TO GET TOUGHER.

NOT BY ERECTING MASSIVE IMPORT BARRIERS.

BUT BY TIGHTENING-UP OUR TRADE LAWS TO COVER MERCANTILISTIC PRACTICES LIKE INDUSTRIAL TARGETING AND NATURAL RESOURCE SUBSIDIES.

AMERICAN PRODUCTIVITY

THEN IT WILL BE UP TO US.

IN THE END, WE MUST PRODUCE OUR WAY OUT OF THE TRADE CRISIS.

LET'S FACE IT. IN SOME RESPECTS, WE'VE BECOME COMPLACENT. WE'VE ASSUMED THAT AMERICA WOULD REMAIN THE NUMBER ONE ECONOMIC POWER AUTOMATICALLY.
But there's no such guarantee. We have to work hard to maintain our position.

But lately we've been falling behind.

Our competitors have been increasing their productivity faster than we have:

--Germany twice as fast;

--France five times as fast;

--and Japan six times as fast.

Why has this happened? Why are we losing our edge?

Simple. Our competitors have adapted better to the hyper-competitive global economy.

Let me give one small example.

For years, the Japanese government has been translating U.S. scientific journals into Japanese
AND CIRCULATING THEM TO JAPANESE BUSINESSES, SO THAT THEY CAN KEEP UP WITH U.S. RESEARCH DEVELOPMENTS.

IN CONTRAST, WE HAVE VIRTUALLY IGNORED THE 10,000 JAPANESE SCIENTIFIC AND TECHNICAL JOURNALS, THINKING THAT THE JAPANESE WERE IMITATORS, NOT INNOVATORS.

WHETHER THAT BELIEF WAS JUSTIFIED ONCE, IT'S NOT JUSTIFIED NOW. JAPAN IS THIRD IN OVERALL SCIENTIFIC RESEARCH, AND LEADS IN MANY ASPECTS OF PROCESS TECHNOLOGY.

WE SHOULD BE WORKING JUST AS HARD TO LEARN FROM THE JAPANESE AS THEY HAVE BEEN WORKING TO LEARN FROM US.

THIS IS JUST ONE SMALL EXAMPLE. WE NEED TO MAKE MANY OTHER CHANGES.

WE NEED TO IMPROVE THE QUALITY OF "INPUTS" INTO OUR ECONOMY BY IMPROVING PUBLIC EDUCATION AND TRAINING.
WE NEED TO IMPROVE OUR MANAGEMENT AND LABOR POLICIES TO ENCOURAGE COOPERATION RATHER THAN CONFRONTATION AND LONG-TERM PLANNING RATHER THAN SHORT-SIGHTED FINANCIAL GAMESMANSHP.

AND WE NEED TO IMPROVE OUR TAX SYSTEM.

THIS BRINGS ME BACK TO THAT SAME OLD SUBJECT—TAX REFORM.

AT A TIME LIKE THIS, WE NEED TAX REFORMS THAT IMPROVE OUR INTERNATIONAL COMPETITIVENESS, NOT THAT UNDERMINE IT.

OTHERWISE, WE'LL END UP WITH AN ELEGANT TAX SYSTEM BUT A LOUSY ECONOMY. AND THAT'S A BAD DEAL.

CONCLUSION

I APPRECIATE THE OPPORTUNITY TO ADDRESS YOU TODAY.
I get the sense that the industry sees the tax reform debate as a crisis.

You may be right.

But remember, a crisis isn't all bad.

In fact, the Chinese symbol for "crisis" is a combination of two other symbols.

One is "danger."

The other is "opportunity."

Tax reform certainly creates a danger.

But it also creates an opportunity.

It creates an opportunity to fashion a tax code that improves our international competitiveness.

That will be good for the oil and gas industry.
AND IT WILL BE GOOD FOR THE COUNTRY AS A WHOLE.

I LOOK FORWARD TO WORKING WITH YOU.