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Tax Executives Institute

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Senator * or Department*:  BAUCUS

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Record Type*: Speeches & Remarks

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(2) Subject* Speech to Tax Executives Institute

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* "required information"
Good Morning.

For those of you on your first cup of coffee, who have not yet guessed the topic of my remarks, let me tell you.

I am here today to talk to you about the most important economic problem facing this nation today -- the erosion of our ability to stay ahead of the game in international markets. Our international competitiveness.

Some people around Washington call competitiveness "the C-Word." They say it's meaningless.

Let me tell you what it means.

It means research and development. It means
education and training. It means savings by businesses and households. And it means investment in plant and equipment.

We are falling behind in every one of these areas. Every one of them.

We used to be the world leader in developing and manufacturing high tech products. We already have lost the manufacturing lead to Japan in home electronics. Now we are losing our lead as the originator of new technologies.

For a long time, we were perceived as having one of the best education systems in the world. Now we have reached the point where twenty percent of the entire American work force may be functionally illiterate. The comparable figure in Japan is one percent. Others are surpassing us.

Why, we even have some firms that have to take foremen off the line for remedial arithmetic, so that they can keep accurate production logs.

This tells me that we are doing something wrong. It is high time that we change things.

We have to become more competitive ... And I'm
going to keep talking about "the C word" until we do.

Now, how are we going to straighten things out?

It won't be easy. It will take a good game plan. It will take strong leadership. And it will take team work.

THE GAME PLAN

I see two parts to our game plan. One is short-term and the other is long term.

Every person in this room knows what our most important short-term problem is.

We absolutely, positively, must reduce the federal budget deficit. We are spending more than we raise in revenue. And we are making up the difference by borrowing from our competitors. That just plain doesn't make sense.

Our national debt has doubled in seven years. It is almost 2.5 TRILLION dollars.
That's the largest debt of any nation in history. Last week, the Congressional Budget Office told the Senate Finance Committee that the Bush Budget would add at least $109 billion and possibly $131 billion to the deficit in 1990.

That deficit BLEEDS us of the capital we need to build new plants and upgrade old equipment. Every dollar of that deficit is taken from our future. It means we will be less productive in 1990, in 1995, in 2000, and in 2010.

Yes. We have made some progress in reducing the deficit. But we must buckle down and do more. Even our trading partners tell us that.

It is time for all of us to become fiscal conservatives.

It's not enough for us to stop adding to the deficit. The first step in our game plan to restore our international competitiveness is to make major REDUCTIONS in the deficit.

It is time to abandon the rosy scenarios. It is time to leave the supply side theories behind. It is time to live within our means.
There are only two ways to reduce the deficit. We can cut spending and we can raise revenue.

We have to do both.

SPENDING REDUCTIONS

Most Americans say that the cause of the deficit is too much spending rather than too few taxes. A recent Roper poll found that, by a six-to-one margin, the public cites increased spending as the problem. By a margin of fourteen to one, people said that the deficit should be reduced by holding down spending rather than by raising taxes.

Part of the reason probably is that they don't trust Congress. They think Congress will not use new revenue to reduce the deficit. Seventy percent of the public, according to Roper, believes that new taxes mean new spending—not deficit reduction. That makes our job hard.

But not impossible. Congress has to produce. Just as you have to produce. And just as those who work for you have to produce.
For Congress, the task is to produce a tough, balanced package.

On the spending side, it means that every one of us will have to tighten our belts a notch. My constituents in Montana are willing to do their part. But only if they know that everyone else is contributing to the cause.

President Bush had a golden opportunity to take the lead on this. Instead, he proposed a budget that some analysts and commentators have dubbed the "Black Box Budget." He calls for spending cuts, but he won't say where.

I wish the President well. And I understand his predicament. But that's not leadership. On the spending side, we can and must do better.

For several years, I have proposed a freeze on all federal spending. All spending. Including entitlements. A real freeze would help a lot in the long run.

TAX INCREASES
We also are going to have to get serious about revenue.

There is no way to really solve the problem without, at some point, addressing revenue. No way.

I don't care if you call it revenue enhancement, stepped up enforcement, tax reform, loophole closing, user fees, or rate adjustments.

And we might as well talk about it up-front, rather than pretend the issue will go away.

It's not that I want to raise taxes for anyone.

But the alternative is worse.

That's because the alternative is more of the cut and paste, nickel and dime, nip and tuck approach to raising revenue that we have followed in the past few years.

I know that you are concerned about complexity, and that's what this comes down to.

It's not that we want to write complex tax laws. It's because of the politics of taxation.
When the congressional tax committees have to raise revenue—for new programs or extending expiring provisions or reducing the deficit—but must operate under the constraints of "revenue neutrality" and "no new taxes," the result is guaranteed to look like it was drafted by Rube Goldberg.

But look at what those constraints have done to the tax code.

Look at the education assistance provision. It has been chopped and chipped in the name of revenue constraints. That's not tax policy.

Look at what we are doing to the R&D credit. I don't like the deduction disallowance. But I had to come up with a bill that recognizes the reality of the revenue constraints.

And look at section 89. It's hard to criticize the objectives of that provision, but I must say that it is a baby that only its Mother could love. And at this point, no one wants to claim the child. We have to revise that provision.

It seems that every revision that helps some
taxpayers costs Treasury.

And the revenue neutrality constraint means we have to come up with offsetting revenue raisers.

Since the President has opted to continue the Reagan "No New Taxes" theme, it'll be an uphill battle to change the tax laws. Bush has locked himself in and seems determined, come hell or high water, to ride out the storm. At least for the first year.

BUILDING FOR THE FUTURE

Deficit reduction is only the first step in regaining our competitive edge.

We also must review and revise the way we use the Code to encourage research and development, savings and investment, and education and training. And we need a more aggressive and creative trade policy.

This week I will introduce legislation with Sen. Danforth to make the R&D credit permanent. We also will make changes to the current R&D credit so
that many more firms than now use the credit will benefit from this R&D incentive.

Some of those changes will extend the credit to start-up firms. Some will make the credit available to firms that no longer qualify for the credit because they have reached a plateau in their annual R&D spending.

We worked long and hard on this bill, and I hope that we will enact it this year and get the R&D Credit debate behind us. Permanently.

SAVINGS INCENTIVES

I also am working on legislation to restore savings incentives to the Code. Probably through a restored IRA.

There used to be savings incentives in there. But we took them out because some economic studies said they were ineffective and because of revenue constraints.

I say those economic studies were premature. And I already told you how I feel about letting revenue constraints dominate drafting the tax Code.
So it's time to review the effectiveness of IRAs and other savings incentives so that we can reverse the downward trend of our national savings rate.

If we don't save more, we will have to continue relying on foreign investors to finance our economic growth. We cannot risk that.

EDUCATION AND RETRAINING

One of the saddest aspects of our competitive position is the mediocre education of our work force. I fear it will take another Sputnik crisis to wake us up.

You all know the problem. Our students place at the bottom of international comparisons. Lester Thurow has termed it a "national disaster." And so far we are doing next to nothing about it.

Everyone says the right words. But no one pushes the right buttons.

This is one area where the solution really begins at home. Education is a local issue. We have to troop down to the school board and insist on
better results. And we have to be ready to pay for them.

And the business community has to get in the act, too. After all, you are going to be hiring these kids in a few years.

And if they don't learn now in the school system, then you will suffer the immediate consequences.

For some of you, that will mean developing your own education programs—just to teach your employees how to add production runs, how to take inventory, how to write letters, and how to operate simple machines.

It's simply a question of pay now or pay later.

The federal government also has a role in education.

We need to identify critical national problems, like the shortage of qualified engineers and scientists, and we need to come up with money and programs to deal with that shortage.
We also need to look to the future needs of the country. We all know that Treasury is working on the problem of depreciation of equipment that becomes technologically obsolete before it is physically worn out.

But we also need to work on the problem of people whose skills become obsolete because of technological advances. What are we supposed to do? How many of your firms are developing solutions to that problem?

Obviously employers need to encourage continuing education or retraining so that U.S. workers are prepared for jobs that change with technological advances. And the government's role is to encourage employers to do just that.

TRADE

A strong, aggressive, creative international trade policy is also necessary for the U.S. to be competitive.

Now, Congress is often accused of working from the premise that other nation's trade barriers are
the only reason we have difficulty competing in foreign markets.

Take it from the Chairman of the International Trade Subcommittee, that is simply not true. I understand full-well that the solution begins in our own schools, factories, and boardrooms.

But there IS a trade problem. Unless we knock down foreign trade barriers, it doesn't matter how competitive we are. We'll never even get onto the playing field.

That's why we need to make the first priority of our trade policy opening markets for U.S. exports.

That means doing three things.

First, we must use the tools created by the trade bill to open closed foreign markets, like Japan and Korea.

Second, we must work to get international trading rules to protect intellectual property and open new markets for our services and agricultural exports in the GATT Round.
In this respect, I believe that we must be more creative. We should not put all of our eggs in the GATT basket. We should also use bilateral agreements, like the Canadian Trade Agreement, to open markets for our exports.

Finally, we have got to watch our flank. We need to make sure that Europe does not slap up new trade barriers as it proceeds with Europe 1992.

EC 92 is a double-edged sword.

On the positive side, we're talking about a single market of 320 million consumers. It's like adding another U.S. market, with an extra California, New York, Texas, and Pennsylvania besides.

As this market becomes more integrated, new opportunities will arise, especially for U.S. multinationals that are accustomed to operating across borders. And it could jolt other companies out of their complacency, and raise their sights beyond their own backyard and across the Atlantic.

So EC 92 creates a profound opportunity. But it also creates danger. The danger can be described
different ways. But it comes down to this: the risk of a new breed of Euro-protectionism—a kind of Fortress Europe mentality.

So we must be on guard. We must monitor the new product standards, customs regulations, content requirements, and procurement regulations. And we must assure that "reciprocity" not be invoked to discriminate against U.S. competition.

As Trade Subcommittee Chairman, I'll be monitoring the development of EC closely, and welcome your suggestions.

STRONG LEADERSHIP

The game plan requires that we abandon business as usual and adopt new policies.

This won't happen without strong leadership.

That leadership has to come from two places. The private sector and the government.

The private sector has at least equal responsibility with the government for leading American business to greater productivity.
I am concerned that in recent years American business has devoted too much time and too many resources to financial transactions that produced LBOs and junk bonds, but very little that we can sell in international markets.

It created large profits for a few. But it created very few jobs. And it created very little that we can sell to Japan, Korea, or the European Community.

So the gurus of high finance have been called on the carpet by the Congress. And if they don't start behaving, they may find Congress in the mood to push a bit harder next time.

I am not yet ready to push legislation to halt LBOs. I'd rather keep the Tax Code out of it.

Instead, I hope that market forces and a little political arm twisting will bring the private sector around.

At the government level, we need a bipartisan effort led by the White House to push our competitiveness effort.
For several years, the Congressional Competitiveness Caucus has been working to increase awareness of the problem, and build support for solutions.

Recently, President Bush appointed Vice President Quayle to head the Administration's competitiveness council.

I wish the vice president well, and hope he makes the issue a priority.

This issue is too important to relegate to the back burner.

TEAM WORK

The good part of this story is that it can have a happy ending. If we work together. And when we all recognize the problem, I have no doubt that we will start working together to solve it.

We are a strong nation. We are a creative nation. We rise to challenges. We can turn this thing around.
I want to see newspapers and magazines write articles on how Japan and West Germany lost their edge over us. But if those articles are going to be written, then there is lots of work to do.

And it is up to us. To me, and to you.

Thanks for your attention.