

11-20-1991

The Tax Foundation

Max S. Baucus

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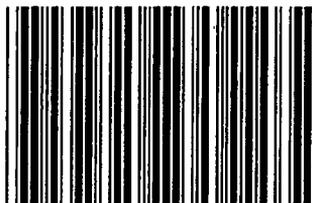
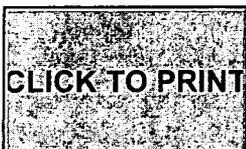
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BAUCUS

ADDRESS TO THE TAX FOUNDATION
BY SENATOR MAX BAUCUS
November 20, 1991

WHERE WE NEED TO BE IN THE WORLD TODAY

First of all, let me thank Dom Tarantino for his kind and gracious introduction. His business sense and leadership, both at Price Waterhouse as well on the Tax Foundation's Policy Council, is an example to all of us that we must share concerns about both the private sector and public policy.

I am honored to be here tonight as the recipient of the Tax Foundation's Distinguished Service Award. Whether it's standing up for the American taxpayer or pursuing sensible economic policies, the Tax Foundation is a strong ally for all of us working to retain America's competitiveness.

Many years ago Daniel Webster, arguing a case before the Supreme Court, said that "the power to tax is the power to destroy." The Tax Foundation has been a leader in the charge to make sure this nation uses the power to tax wisely; that we pursue policies that build, and not destroy.

I extend my deepest thanks and appreciation to the Tax Foundation for their award, and hope to live up to this recognition during my years ahead in the Senate.

Since the autumn of 1989, changes of epic scale have transformed our world. Today, there is one Germany. And no Warsaw Pact.

Today, there are free market economies burgeoning in Poland, Czechoslovakia, and Hungary. And the Soviet republics are no longer a union.

The end of the Cold War is the victory that America has

sought for forty years. So why is it that with world events confirming the triumph of democracy and free enterprise, do we find ourselves today uncertain and apprehensive about our future? And so ill-prepared to take full advantage of it.

In recent surveys, a growing number of Americans -- more than two-thirds as of last month -- believe this country is on the wrong track. And it is not an isolated view. It is broadly shared across the political, racial, gender, and income spectrum.

And if government is the means through which we take collective action for society, then an equally disturbing fact is that only about a third of those same people trust government to do what's right most of the time.

Earlier this month, the voters of Pennsylvania, in returning Harris Wofford to the Senate, sent what is being widely interpreted in Washington as a message that it's time to "take care of our own." That it's time for Congress and the Administration to start focusing on the problems of ordinary, working Americans.

That may be the silver lining of our current economic troubles, our "silent depression" in the words of economist Robert Heilbroner. They may force us to concentrate on those things that really matter to people: jobs, health care, education.

How did we get so far off on the wrong track? Much of the blame can be traced to a high deficit fiscal policy that we pursued during the 1980s, and are maintaining into the 1990s. It is an increasingly costly failure.

So too has been an attitude that looks for short term gain. For quick profit. For consumption today in favor of saving for

tomorrow.

The economic consequences of these policies have by now damaged both the nation's underlying domestic economic well-being and its position in the global economy. The longer they continue unchecked, the more our long-run prospects for recovery, here and abroad will erode.

I was struck the other day by the fact that during the coming twelve months, Washington will borrow nearly \$700,000 every minute. Almost \$1 billion a day. (In fact, before my speech is over the federal government will have borrowed an additional \$14 million -- that's quite an honorarium for one speech.)

To pay the cost of carrying our accumulated debt load, the federal government we will spend \$286 billion just on interest payments. That's the second largest category of government spending. And before long it tops the military spending.

Another, and perhaps more serious consequence of the past decade's fiscal policy has been an increase in consumption beyond the increase in production. When the government, and business, and individuals borrowed, it more often went to finance current consumption, not future investment.

So our public infrastructure is an embarrassment. Our education system produces workers unprepared for their first job. And our manufacturing plants, assuming they have not been moved overseas, are often the same ones we've been using for years.

Our level of debt, and our attitude about it, have resulted in a systemic deterioration of the competitiveness of the economy itself. Investment in the resources needed to support America's competitiveness in the new global economy was squeezed out of the

federal budget.

This nation's economic gains in productivity since the mid-1970s is the poorest of the G-7 nations. And U.S. per-capita income is dropping in international comparisons. In the latest World Bank tabulation, the U.S. is now in sixth place, where Argentina was at the turn of the century.

Why this dismal performance? Maybe, just maybe, it has something to do with the fact that since 1980, the share of the nation's economy being reinvested in education and training, children's programs, the infrastructure and civilian research and development has dropped 40 percent.

Now changes in real income involve some slippery calculations. But international comparisons of net national savings, net investment, growth of productivity and living standards all deliver a similar, and consistent, story.

Among the world's five major economies, Japan ranks first in all four of these categories. Germany and France are always second and third. And Britain is usually fourth.

Except for growth in consumption, where ever greater borrowing has kept the party going despite the lack of production to support it, the United States is consistently in last place.

Power and influence in world affairs have historically accrued to creditor countries. No one views their debtors in the same light as they do their creditors. It is no accident that the United States emerged as a major world power simultaneously with its transition from a debtor to a creditor nation. From a country dependent on foreign capital for its initial industrialization, to one supplying investment capital to the rest of the world.

The same situation occurred in Spain in the sixteenth century, in Holland in the seventeenth century, and in Britain in the nineteenth century.

But the United States is now a debtor country again, and its future role in world affairs is in question. Japan and Germany are now financing the exciting evolution of Eastern European countries into market economies, for example. They are also the ones more often to intervene to prevent a "dollar crisis".

And in each case, they may do so in ways that promote their own commercial or diplomatic advantage. That is part of the price the United States will have to pay for its high-deficit fiscal policy. Continuing reliance on our military prowess to guarantee international clout, when our underlying economic basis is being dissipated, is a highly risky, and probably increasingly irrelevant, strategy.

At home, to persist in a policy of high deficits and under-investment is to risk the material and the moral basis for what has been unique about the "American Experiment". The ideal of progress, the openness, the social mobility, the commitment to individual opportunity, the tolerance of diversity, are all inseparable from a continually rising living standard.

The reality is simple enough. We need to adopt policies that put the United States once again on a trajectory of fiscal stability, rising productivity, and international competitiveness.

Doing so will not magically erase the damage done by a decade of under-investment at home and excessive borrowing from abroad. But at least it will our economic health back on a path that is both desirable and sustainable in the long run.

Sustainability is really the key. Too often this country has been sidetracked by the lure of a quick buck or an instant fix to an economic problem.

But it doesn't work. And it often it the beginning of the next problem.

Achieving sustained economic growth will require making hard choices. They may well be politically unpopular in the short run. But that does not make them any less compelling. We cannot wait any longer. For now, in addition to the long-term underlying problems, we have a serious short-term hurdle to overcome. Namely, stagnant economic growth that teeters on the brink of another recession.

BAUCUS ECONOMIC GROWTH PACKAGE

With this less than optimistic outlook, let me suggest some steps that should be considered in regaining control of our economic future.

Fundamental to a sustained recovery is a sense of security. A sense that people will be able to provide for themselves and their families; a sense that the job you have today will still be there tomorrow. Without it, no one will take the bold steps that future economic growth demands.

Now there are some in both parties that will try for a short-term solution to give the economy a fast shot in the arm. Get growth going again. Stop the slide in employment.

The lack of any definitive plan from the White House to deal with this critical problem has fostered this approach. But I would caution against political exploitation of our current

situation. Any quick fix to these problems will merely sow the seeds of greater problems as we move down the road.

Now, restoring economic growth and jobs, in the short run need not be at odds with our long-term economic strategy. But we should keep our eye on the ball. And that ball is regaining economic competitiveness.

How do we do it? The good news is that the global changes I spoke of earlier give us the opening. We should look at the blossoming of democracy and free enterprise in Europe and the Soviet Union as a true victory. And, as with any victory, there comes a reward. That reward is the peace dividend.

I won't try to estimate the exact size of the peace dividend. Others are much more qualified than I to determine the extent of military spending commensurate with the greatly reduced nuclear threat.

But whatever the size of the dividend, how can we use it to our advantage?

We can use it as a start down the road to a sound economic future. Let me suggest three ways. These are deficit reduction. Investment in the future. And rewarding those who fought, and won, the cold war.

The first claim on any peace dividend should be, must be, deficit reduction. Despite repeated efforts to close the gap between spending and revenues, the deficit remains unacceptably high.

The nation's growing mountain of debt has sapped savings and investment. It has made us financially indebted to foreign countries. And it has diverted precious resources from domestic

programs to service that debt.

We must put a stop to it if we are to set a firm foundation for economic growth.

Second, a portion of this dividend we got for winning the Cold War should be used to prepare us for the next competition, an international economic struggle.

Call it an "Invest in America Dividend." But it should be targeted toward investments to make the United States more competitive.

I am speaking of such things as education and job training. Our children must be better prepared for their first job. To ignore them is to ignore our future workforce. And current workers need the security that comes with adaptability to changing situations.

It is investment in infrastructure. The roads, bridges, mass transit, airports, and water systems that are the foundation of a strong economy.

Not only how we produce but also how we move goods and services will determine our success in the global market of the 1990s and beyond. As more companies seek to cut inventories to lower costs, they depend even more on dependable transportation links. We must give American business the right foundation to build upon.

Failure to invest will put us in danger of becoming a service dominated economy. An economy without a strong independent manufacturing base.

It means more direct investment in research and development,

where both Germany and Japan outspend us. And encouraging added R&D by private companies through tax credits.

It means making our financial environment hospitable to long-term investment. We should no longer encourage taking short-term profits at the expense of investing in the long run.

It means encouraging savings to provide the funds for investment from domestic, not foreign sources. As the world's largest debtor, we depend too much on foreign loans. As a result, today's long term interest rates depend less on Federal Reserve policies than on the whims of foreign capital markets.

It also means fixing our health care crisis. Costs are spiraling out of control. Access is denied to too many people. The productivity of workers is compromised. And American business is put at a competitive disadvantage.

The final part of this dividend should go to the people who achieved this victory. The American family. I believe that They deserve a reward for their years of hard work, patience, and perseverance.

There are several proposals in Congress to provide just such a reward, geared mostly to the new forgotten Americans -- the middle class. Targeted to those taxpayers who have been battered by economic forces beyond their control in recent years. I think we will see next year a major battle on the exact shape of such a tax relief bill.

Today, we face a dual challenge. We need to respond to our current economic stagnation. But we also need to agree on some overriding tax policy guidelines that can govern any serious debate.

Reducing complexity must be one. It reduces the cost of compliance and in itself helps make business more competitive.

Adding stability and some certainty to the tax code is another. This is the principle behind several of the simplification proposals I have introduced this year. Especially those involving foreign taxation, tax-exempt bonds, and payroll tax deposits.

CONCLUSION

It is wrong, even in our current economic climate to conclude that there is a historical inevitability to our present course. To do nothing. To appeal only to the vacancy of one's pocket. To retreat behind a budget agreement that is as relevant today as the Berlin Wall, is to close the door on our future.

How will we answer our children when they ask why they are not better off than we are?

How long will it take before social rigidity, political divisiveness, and the acceptance of mediocrity begin to infect our society?

Which of our democratic institutions can survive the fractious disputes over national income that is not growing?

These are the questions that must be answered if we persist with a fiscal policy based on high deficits.

These questions are not going to find easy answers. But the time has come for all of us -- from our elected officials to the CEOs of corporations to the American people -- to work together to find the answer.

If we are to succeed in maintaining our nation's strength, than we must paint a bright picture of America's future. We must strive for an America that is a place where our children can grow up with hope and our elderly can grow old with dignity; a place where people have dreams that are achievable, not goals that are unreachable; a place where a person's health is cared for because of their need, not because of their wealth; a place where a quality education is a right of all; a place where future generations can live a life better than past generations.

Achieving that kind of America will take hard work. The path leading to it will be lined with difficulties that do not always provide for the quickest solutions or the most expedient answers. But it is the kind of America that we must strive for, not because it will be easy, but because it is the right thing to do.

As Thomas Jefferson said: "Democracy is cumbersome, slow and inefficient, but in due time, the voice of the people will be heard and their wisdom will prevail."

It is time that we work together to prove that Thomas Jefferson is right.

Thank you.