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Tax Executives Institute

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04/01/1992
First of all I would like to thank Reg for his generous remarks. Fortunately, early morning introductions are generally immune from the perjury laws so there is little risk of prosecution in this case.

I also would like to thank the Institute for extending an invitation to speak to you this morning.

There are two dates on which I am always reluctant to speak about taxes. The first is April 15. And the second is today -- April Fool's Day.

Tax law can play all kinds of tricks, as all of you know too well. So rather than focus on the foolish, let me talk briefly about where our country should be headed, and the role that tax policy plays.

The tax debate over the past couple of months has left me with a great sense of disappointment and frustration.

Disappointment that what should have been a debate about improving the future competitiveness of our economy instead became a futile exercise of partisan politics.

And frustration over the lack of leadership in Washington and the prevailing influence of polls.

I heard a radio interview yesterday with Lester Thurow. It was about his new book, Head to Head, which I heartily commend to all of you.

But in the interview, Thurow complained that politicians today are too focused on public opinion surveys. They spend too much time looking over their shoulder and not enough time looking ahead. Too much followership and too little leadership.

I think there is much to his observation. Polls can be useful pieces of information. But we should not use them to chart a direction.
There is a sea change brewing in the country. I suspect that historians will look back at the early 1990s and proclaim it a watershed of American political and economic development.

The election this November will be the first since the end of the Cold War. It will be the first since World War II without the unifying influence of the Iron Curtain.

It will be the first in which the preeminent international challenge for our country is economic and not military.

Equally significant, the election comes at a time when Americans feel that Washington doesn't work anymore. At least not for them.

They see special interests, and mismanagement, and political gamesmanship all amidst a $400 billion deficit, and they ask themselves "Where is the leadership?"

Frankly, they have a point. They should be disillusioned and angry. We are not working together. We are bickering.

And that bickering doesn't help people who are hurting from a recession that stubbornly drags on. Or from an economy that has lost its competitive edge.

Let's not delude ourselves. Our economic troubles are more than just the bottom of the normal business cycle.

They are the combination of old mistakes we should have avoided. And new circumstances we cannot ignore.

In the 1980's, we went on a spending binge. Only it wasn't tax and spend, it was charge and spend.

Government, business, individuals. None were immune from this siren call. We didn't invest, we spent. We didn't save, we spent.

And we spent it on some things of pretty dubious value.

If major corporations had managed their financial affairs the way the government has conducted its fiscal policy for the last decade, a meeting of the Fortune 500 companies could probably be held in a phone booth, with room to spare.

The key to our future success isn't mysterious. Let's just look back at some of the fundamentals that established our economic vitality, and can now help restore it.

Many of the people who led this country in the post-war years came prepared because of the GI bill. And it was decades
of scientific investment -- not dumb luck -- that brought us transistors, and computers and revolutionary communications systems.

In fact, every major advance in our history, from the Louisiana Purchase to biomedical research, was the result of one generation having sense enough to leave the keys under the doormat for the next one.

They made investments.

Now, it's our turn. We need a permanent research and development tax credit to expand our scientific base. We need to create incentives for long-term saving to help create capital.

And, yes, we need some form of capital gains tax cut. But it must be one that encourages investments in new, innovative companies, not one that just rewards past decisions.

But while we do these things, we must be mindful of one other issue. The size and complexity of the tax code have made it a metaphor for all the ills that are now visited upon Washington.

It has become so foreign to taxpayers that such simplistic proposals as a flat tax fall on receptive ears. The success of Governor Brown's campaign against the tax code is testament to how unwieldy it is.

I suspect that if you listed in one column our goals and aspirations as a nation, and in another column listed the various provisions of the tax code, you would find very little convergence.

While it may be impossible in this election year, I believe that within the next year or two, there will be a major debate over the form of the current tax code.

1986 was not the end of tax reform, but only a waypoint. I would be greatly surprised if the next debate did not bring a much more far reaching examination of our tax structure than we had in 1986.

A flat tax. A value added tax. A national sales tax. Corporate integration. All will be fair game for the next round.

Our goal must be a tax code that serves our overall economic interests, not one that conspires against them.

Of course the tax code is not the only source of investment. We need to emphasize some spending programs, too.
I am speaking of investments in people through job training, and education. Our children must be better prepared for their first job. And workers need the security that comes from the ability to adapt to changing job opportunities and needs.

We must make a serious investment in our infrastructure. The roads, bridges, transit, and water systems that are the foundation of a strong manufacturing base and sound economy.

Investment means more funds for research and development, especially civilian R&D. But not just through increased federal funding, but through new collaborations between industry and government.

It means fixing our health care system to stop seemingly runaway cost increases and greater restrictions on coverage.

And it means getting our deficit down.

As a country we won the Cold War in the nick of time. We now face a different, but greatly diminished military threat.

And the savings from the defense budget will allow us to make some of those needed investments to win the next big battle -- the battle of the international economy.

If there is one watch word for our economic future it is competitiveness.

It's a common theme these days. "We've got to do better than Japan," some say. "Watch out for the European Community." "We need a level playing field."

Now I don't mean to be immodest when I say that I've spent a lot of effort as Chairman of the International Trade Subcommittee on the Finance Committee on this problem. It is real. And in many areas, it is acute.

But let me tell you something. The playing field isn't our only problem. The practice field is a big problem, too.

Sure nations that sell to us aren't always as willing to buy from us. So we need a serious, aggressive trade policy that will counter the unfair tactics of others, such as the EC's Airbus, or Japan's Keiretsu system.

And we need to ensure that when we make trade agreements, the other countries will live up to them.
But let's be honest with ourselves and acknowledge our own shortcomings. And let's correct them.

We're part of an international economy. How big a part depends on how good we are. How well we produce products that not just the Japanese, but that Americans want to buy.

I think it's very important to the American worker and to our national sense of economic reality to understand than when the idea of competition comes up, we aren't talking just about everybody playing by the same rules. We're talking about improving ourselves.

That's something that has to come from within all of us -- corporate executives, workers, managers, ordinary citizens. It's not something that government can do. But I believe government can help.

Let me give you an example. Last week I introduced a bill based on that very concept. The specifics involve the auto industry and their desire for protection from Japanese imports -- the so-called Voluntary Restraint Agreement.

Previously, such protection was granted and too often some companies just used it as an excuse to raise prices to consumers.

But I propose that in exchange for this protection, the industry must improve its competitiveness. It must improve the quality of its cars.

If the Big Three do not live up to the standards in the bill for product quality, design, engineering, then they lose the protection of the VRA.

And those standards are basically the criteria for the Malcolm Baldridge Award for Quality, awarded each year by the Commerce Department.

The bill is not an attempt to dictate what cars to build. It is a response to a request for a favor.

And when industry wants something from government, government has the right to demand something in return. Something so that what is good for the industry really is good for the country, too.

I think this approach -- a quid pro quo -- may have broader applications than just an auto VRA. For it contains the quality that I find most lacking in Washington today. A foundation of working together to solve our problems for the good of all.
I have appreciated this opportunity to speak with you today. I hope we can continue to discuss issues such as these in an honest and straightforward manner.

We must always be willing to ask ourselves if we are doing the right thing. And if we're not, to change. That's tough.

But achieving the economic future that we all want will be tough, too.

It will take persistence, and courage, and leadership.

But we must do it because it is the right thing to do. Right for our country. Right for ourselves. And, especially, right for our children.

Thank you.