1981

Luncheon Talk - Senator Harry F. Byrd, Jr.

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LUNCHEON TALK — SENATOR HARRY F. BYRD, JR.

It is a pleasure to speak before such a distinguished group in such a historic setting.

Our complicated and highly technical tax law requires, today, more than ever, a sophisticated and competent community of tax professionals to understand and interpret it.

Your efforts in advising and counseling clients are an important part of the self-assessment tax system.

You perform a vital service not only to your clients but to the general public.

Our self-assessment tax system depends upon the willingness of taxpayers to report and pay taxes in accordance with the law.

Unfortunately, the tax laws are, today, too complex and too technical.

They need to be simplified, and I have worked to achieve this objective.

However, your competence and professionalism in interpreting the tax code as it exists today is an essential element in insuring that the law is obeyed.

As participants in this tax conference, I am sure you are receiving a great deal of detailed information about the new tax law.

I would like to discuss with you my perceptions of the general situation in Washington — perhaps I should say a Byrd's eye view of today's Washington.

Today, vast changes are being wrought in Washington. We have a President in the White House who actually has converted the rhetoric of budget cutting, tax reduction and deregulation into action.

The great excesses of the federal government are excessive spending, excessive regulation and excessive centralization of power — all of which President Reagan is attacking, and with remarkable success so far.

The changes taking place now are undoubtedly the most profound to occur in the nation's capital since 1932.

The most significant development has been enactment by the Congress in late July of two of the major elements of President Reagan's economic program: fiscal restraint and lower individual and business taxes.

Passage of the President's tax and spending proposals was a major accomplishment.

The economic recovery program is a carefully designed package of tax and spending cuts aimed towards returning more capital and decisions to the private sector.

As far as taxes are concerned, for individuals, through 1984, there will be a cumulative 23% across-the-board tax cut. The high 70% marginal tax rate is cut to 50%. For capital gains transactions, this reduction has already taken effect.

To encourage business capital formation and investment of new plant and equipment, antiquated and complicated depreciation schedules have been replaced with a simplified so-called "10-5-3" capital cost recovery system.

This, combined with the investment tax credit, will provide businesses with the working capital which is needed to replace outmoded equipment and plant.

The law contains powerful savings incentives including the expansion of IRA and Keogh accounts, a limited tax-free dividend reinvestment measure, and the All-Savers' Ceretificate with which all of you are familiar.

This reduction in individual tax rates was necessary to compensate for unlegislated, inflation-created tax increases which had placed the federal tax burden at record high levels — more than one-fifth of the gross national product.

Without a reduction in taxes over the next three years, federal tax revenues were scheduled to increase by more than $300 billion.

The thrust of these tax reductions was to return more capital to the private sector.

This is very different from past tax measures which were designed to provide more fiscal stimulus through more consumer spending.

Instead, the new law is directed towards providing the necessary foundations for sustained real economic growth — savings, capital investment and productivity.

Today, the ink is barely dry on the new tax law, and there is already talk about measures to increase taxes.

In the Congress, the proposals to increase taxes have come from many different quarters. Those who did not like the idea of cutting individual income taxes are talking about deferring or reducing the individual income tax cuts. Others, including some Republicans, have mentioned some form of national sales tax.

I do not see much merit in such proposals. They would keep individual taxes at current high levels and add additional new taxes for individuals to pay. From an economic perspective, at a time when we face a recession, tax increases of this nature make little sense.

One of the most dangerous proposals which I have heard is to eliminate or curtail the home interest deduction.

I can't think of any way to do more damage to the nation's economy than to deny homeowners the right to deduct mortgage interest and property taxes.

If such a proposal were enacted, the American dream of homeownership would be out of the window and homebuilders would be out of business.

The philosophy underlying such a proposal is the so-called tax expenditures concept.

Under this view, the federal government is entitled to all income with the beleaguered taxpayer being allowed to keep only what the federal government allows.

In my judgment, such a view is pure bunk.

I am opposed to any such change and have joined with my colleagues in the Senate in sponsoring a resolution opposing any such change.

The pronouncements that the President's tax proposals are a failure and the rush to think of new taxes to impose on an already overburdened American taxpayer ignore the fact that the tax program has just begun to take effect.

Many features of the tax law will be phased in over the next several years. It will take some time for its full effects to be tested and for individuals and businesses, battered by years of high taxes and inflation, to realize that there are rewards for savings and investment.

Therefore, it is premature to make a judgment, today, on its ultimate success.

I shall oppose any changes which would seek to undo the essential elements of the tax package.

It is, however, important to remember that the initial proposal was a simple, across-the-board individual income tax cut, combined with depreciation changes for businesses.

As the tax bill worked its way through the Congress, costly add-ons were made. In particular, there was an $11 billion reduction in the windfall profits tax on oil, which may need to be reconsidered.

Another part of the bill, the equipment leasing provisions, permits a company to sell unneeded tax deductions and credits to another company, to reduce its tax at the expense of the U.S. Treasury.

The Administration recommended this provision near the end of congressional action.

Its full implications were never adequately examined, and it is estimated to be very costly — in excess of $20 billion over the next five years.

Equipment leasing is a very generous tax break on top of other business tax breaks.

It should be looked at closely in view of the prospects of a much larger than anticipated budget deficit.

In the months ahead, it may be necessary to reevaluate these costly add-ons.

In addition, the Administration has indicated, in a general way, several tax changes which it is reviewing. These include user fees for some government services, revision in energy tax credits, and a modification of tax-exempt industrial development bond provisions.

At this time, these changes have not been presented to the Congress in any detail. And, until we have a clearer picture of the direction of the economy and the federal budget, I do not foresee serious consideration of such measures.

At this point, as Congress nears the end of its activity for 1981 and looks ahead to 1982, the most important job it faces is to control spending.

I am confident that this nation's economy can have an early and strong recovery from the present slowdown.

The danger is that the liberals have hauled out their rusty bugles and are sounding their old call for reckless spending.

If Congress responds to that false trumpet, we will be in big trouble.

Inflation has moderated but is still high. Interest rates, while still very high, have eased from the peaks of a few months ago.

But if we fail in the fight to control government spending, inflation will take off again in a hurry. And as they always do, interest rates will follow the inflation rate up to new highs.

This is no time to push the panic button. It is time for a steady course.

It would be tragic if the momentum for controlling spending and taxes were to be lost. And that is a genuine threat.

I was deeply disappointed when the President, after moving so forcefully for economy in government, signaled a retreat from his goal of a balanced budget in 1984.

In my view, it is *not* impossible to achieve a balanced budget two years from now.

Difficult, yes — no one denies that — but not impossible.

I am concerned about abandonment of the balanced budget target because experience in Washington has taught me that the temptation to spend is very nearly overpowering.

The remarkable cutbacks of early 1981 represent the only resistance of that temptation I have seen in over 16 years in the Senate. If the President eases up, the spending virus once again will spread on Capitol Hill.

The liberal contingent in Congress already is pressing for spending increases.

Even in the Senate, controlled by the President's own party, appropriations bills are being passed which exceed the budget ceilings he called for in September.

It does not have to be that way.

As I said a moment ago, moving toward a balanced budget in 1984 is difficult but not impossible.

What is needed is a strong commitment on the part of both the President and the Congress.

For example:

Recently the Senate approved a bill authorizing a 17 percent *increase* in foreign aid. That is totally out of line.

In the area of foreign aid, neither the administration nor the Congress has come to grips with the need for drastic reductions.

Foreign aid spending is running about $10 billion a year. I would cut it substantially.

Since World War II, this nation has sent more than $200 billion in aid to countries all around the world — 100 different countries — and we have fewer friends today than when we began this vast giveaway.

So foreign aid is a prime target for reductions.

But it's not the only target.

The Administration has made a beginning in the drive to eliminate waste, fraud and abuse in government programs — but it is *only* a beginning. Billions more can be saved by pursuing this effort with vigor and determination.

Furthermore, the Congress must make a reduction in the huge projected increase in military spending.

It is true, of course, that the Soviet Union in recent years has engaged in the most massive arms buildup in human history. We must strengthen our own defenses to insure that we can deter Russian aggression.

I support a building up of our armed forces.

At the same time, we must remember that arms *alone* do not insure a nation's security. A healthy economy is also essential to our strength.

That means that we cannot afford any *non*essential expenditures for defense, any more than we can afford them in any other branch of government.

National security cannot be measured in dollars spent by the Pentagon. It must be measured in actual capabilities.

There can be no blank checks for the Pentagon.

At the same time, it should be remembered that over the years the biggest growth in the budget has not been in defense, but in social programs. These programs — about 10,000 of them! — have been the favorites of the big spenders.

This year the spenders have been in retreat, but they are re-grouping for a new assault.

They are beginning with the appropriations bills now being passed in the Congress, and they will continue with the congressional budget resolution in a few weeks.

With each week that passes, it will get tougher to hold the line on spending.

It would be tragic if the great victories for fiscal responsibility which were won in the spring and the summer should turn to defeats in the winter.

Great progress has been made.

One measure of the progress is this: in the last full year under Jimmy Carter, government spending rose by 17 percent; in the first full year under Ronald Reagan, it will rise by 7 percent.

I cite that cut in spending growth for a particular reason: I am convinced that reckless deficit spending, over a period of years, is at the heart of our present difficulties.

This long-term spending spree has had many effects, all of them bad.

First, it has piled up a mountain of debt. The national debt is now in excess of one trillion dollars.

One trillion dollars. That is one thousand billion dollars. The mind boggles at a number like that.

Just the *interest* on the debt is a staggering figure — it will exceed one hundred billion dollars this year. That is over one-half the total cost of our entire national defense.

At the same time, huge deficits — and the need to refinance old debt — force the government into the money market on a grand scale.

Massive government borrowing has been a major force pushing up interest rates. High rates not only slow economic growth but also, in a vicious circle, raise the government's own borrowing costs. The government itself must pay 11 percent or more to borrow operating funds, and that represents a big decline from levels of up to 17 percent earlier in the year.

Speaking of interest rates, I am deeply concerned about the effect that their high levels have had on young families seeking homes, small businesses trying to grow and indeed nearly all consumers in the country.

But as we seek solutions to the interest rate problem, let us beware of cures that could be worse than the disease.

There have been measures proposed to the Senate which would involve the Congress in setting the policies of the Federal Reserve Board — in other words, they would put politicians in charge of the money supply.

If you think we have problems *now* with interest rates, just wait until you put 535 politicians in charge of monetary policy.

The fact of the matter is that you cannot legislate lower interest rates.

The only way interest rates can be brought down is to get federal spending under control. Congress must eliminate the crushing deficits of the government, and reduce the tremendous impact of government borrowing in the money market.

As I said a few moments ago, great progress has been made in getting spending under control. We must not lose the momentum we have gained.

The President and the Congress must work together to bring an end to irresponsible spending and gigantic deficits.

If we persevere, we *can* and we *will* win the battle against more and more government spending, more and more government regulation, and more and more centralization of power in Washington, D.C.