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Senate

PRIVATE ENTERPRISE—PROBLEMS AND PROSPECTS

● Mr. BAKER. Mr. President, on October 12 the distinguished gentleman from Maryland, Mr. MATHIAS, addressed the Houston Rotary Club on the problems of and prospects for private enterprise in the United States. I wish to commend Senator MATHIAS on his perceptive insights into the economic difficulties facing every citizen today and his constructive proposals for solving them. I ask that my colleague's speech be printed in the RECORD so that others may benefit from his views.

The address follows:

PRIVATE ENTERPRISE: PROBLEMS AND PROSPECTS

(By Senator CHARLES MCC. MATHIAS, JR.)

A couple of years ago, I was invited to Washington University in St. Louis to talk about American cities. Houston was one of the cities I mentioned in a very positive way. In fact, I think I called Houston "the shiny belt buckle of the Sunbelt." That image was a little strained, but I must say that every time I come back to Houston, the city looks brighter and shinier and better than ever.

Houston stands as living proof that a capitalist system can make things happen. This Rotary Club—the largest in the world—says a lot about the vigor of American business. It is exciting to see Houston's progress continuing. And it is especially exciting these days when so much concern is expressed about the future of our free enterprise system.

The voices of naysayers are loud in the land. And they are having an effect. Americans aren't looking forward to the future. Only Little Orphan Annie is singing, "Tomorrow, tomorrow, I love ya tomorrow." The rest of America is worried. And not without reason.

Productivity is down. So is the dollar. In five years, six million investors have dropped out of the market. Close to half of America's households owned corporate shares in the mid-sixties. Last year only one-quarter did. Ten years ago, 300 new high-technology companies were started. This year none was. Our balance of trade is negative and so is our balance of payments. It's no wonder the American people are feeling negative too.

The only element of the national picture that's up is inflation. And that's the worst news of all.

When President Carter took office, he inherited an overall 4.8 percent annual inflation rate. Last week the President's Council on Wage and Price Stability put the inflation rate for this year at "roughly" 10 percent. According to the non-profit National Center for Economic Alternatives, it is even higher. A study by this group shows that by the second quarter of this year the overall inflation rate stood at 11.2 percent, with the rate for basic necessities—food, shelter, medical care and energy—averaging out at 15 percent. For food alone, the rate was a whopping 20.9 percent.

Obviously, there is reason for concern about the future. But I have left one important fact out of the picture.

We did begin the world over again. We made the individual citizen the center of a new political universe—not the state, not a political party, not a class of group—but the individual citizen. And when we did that, we laid the cornerstone for the freest, most creative society the world has ever known.

Out of our extraordinary freedom, we have devised institutions of government and of commerce that have made the United States the envy of the world. Last month I spoke at the largest naturalization ceremony ever held in the State of Maryland; 873 persons from 77 countries became American citizens that day. This continuing flow of immigrants to the United States proves that, no matter what misgivings we ourselves may have about the future, the rest of the world still sees America as the land of a better tomorrow.

Our private enterprise system—what we used to call "People's Capitalism" during the Eisenhower Administration—deserves much of the credit for this. It has proved to be a remarkably adaptable and durable system. Eric Ashby, the noted British scientist and educator, has written that:

"An institution is the embodiment of an ideal. In order to survive, it must fulfill two conditions. It must be sufficiently stable to sustain the ideal which gave it birth and sufficiently responsible to remain relevant to the society which supports it."

People's capitalism has proved to be such an institution. It still sustains the ideal of freedom while at the same time responding to the complexities of the 20th Century and anticipating those of the 21st Century.

It seems to me that Houston, more than any other American city, symbolizes the future of America. The incredible technological and human feats staged from this city make you the window on our world of tomorrow.

But even a city like Houston is not immune to the forces which threaten our bright future. To get from here to there, we as a nation are going to have to remove some pretty big obstacles from our path. One of them is the much-too-heavy hand of government on our economy.

The United States is a strong and viable country, but the federal government has been doing a pretty bad job lately of preserving our reservoir of strength. Business and industry are the backbone of our national prosperity, yet today they are overregulated, underfunded, frustrated and discouraged.

It's hard to get any agreement among our economists about how to get our sluggish economy moving again. Harry Truman used to say he was looking for a one-armed economist, because whenever he talked to economists they'd always say, "On the one hand this; on the other hand that. . . ."

But, we don't need economists to tell us that we've got to make America a great place to do business again. We must get back to the day when all over the world people could say "sound as a dollar."

Our tax policy, which discourage capital formation, is one place to begin. Recent U.S. performance in meeting the nation's need for capital has been poor, at best. A

policy, is that their basic premise is wrong. As my colleague Senator Russell Long of Louisiana says, they seem to think that ". . . all income belongs to the government, except to the extent that the government allows the taxpayer to keep some of it."

In 1940, a friend of mine joined his father's chicken business on Maryland's Eastern Shore. They had one employee back then, but some good ideas and a lot of drive. Today, the family operation employs 3,800 people and feeds millions of others tender Maryland chicken.

They claim it takes a tough man to raise a tender chicken, and I think they're right.

But my friend says that if he were starting out in business today, even with good ideas and drive, he'd never make it. Today, he says, a young farmer can't get enough capital to survive the first few lean years. The bootstrap operation never gets out of first gear before it stalls.

There is no way the federal government can spend enough money, without going into bankruptcy, to provide jobs for all of the people.

Unless we adopt a tax policy that encourages private enterprise to make jobs by creating new business or by expanding, our country will end up with a different form of economy, and a different social structure.

Former Federal Reserve Board Chairman Arthur Burns explains the businessowner's dilemma this way:

"In an inflation-ridden environment, businessmen have no good way of judging what their costs of production may turn out to be, or what prices they may be able to charge, or what profits if any, will accrue when they undertake new investments."

Think back 20 years or 30 years, to when you were just getting your start. Would you have taken the risk, would you have survived such odds?

How many of you would have risked your life's savings, if the cards had been stacked so heavily against you?

We've got to improve these odds, if the free enterprise system is to function properly.

In writing our tax laws, we've got to keep in mind the young men and women who want the same reasonable chance to be successful that all of you had.

Sound business planning requires a long lead time. People who want to start businesses have to make market surveys and often prepare environmental impact statements. They have to arrange long-term leases or build plants and offices. All of this takes time. But most important of all—before they can do anything—they need an accurate estimate of their cash flow once they're in business. If they can't get that, they can't get financing.

To help them make that estimate, the Senate Finance Committee recommended that the 10 percent investment tax credit be made permanent and this Tuesday night that provision was included in the tax cut bill passed by the Senate. So was a Committee recommendation to raise from 50 percent to 90 percent the amount of investment in excess of $25,000 the business owner can use to compute his total tax credit. The bill also allows investment with a new law that allows every French taxpayer to write off all money invested in the stock market up to $1,100. Predictably, prices on the stock market have jumped and investment has increased.

We have much to learn from our friends and allies. It is striking that the nations with the highest rate of capital investment in the late 1960s and early 1970s—Japan and Germany—also had the highest economic growth rates. Japan invests 35 percent of its gross national product in fixed capital and West Germany 25 percent. The United States invests only 17.5 percent.

Among the major industrial nations, the United States and the United Kingdom invested the least and had the lowest growth rates. Capital ivestment also provides the means for more efficient production—greater output with no increase in human effort. And the efficiencies that result from investment in modern equipment help to hold down the costs of production and thus constitute a first line of defense against inflation.

Of course, Japan and West Germany have no capital gains tax, while the United States has the highest capital gains tax in the industrialized world. We also have the highest percentage of outmoded factories.

Until we make capital investment more attractive, people will not put their money into high risk ventures. Without such investment, new and creative ideas will never see the light of day and the economy will continue to stagnate.

The almost punitive capital gains tax enacted in the United States in 1969 practically dried up investment funds for new companies. Senator Charles Percy tells a horror story about a small Illinois computer firm with a big future. It seems they had to go to Japanese and West German investors because they couldn't find a single American investor to participate. This kind of tax policy is counterproductive. It cuts off our nose to spite our face.

Such experiences convinced me to sign on as one of the original cosponsors of Senator Clifford Hansen's bill to roll back the capital gains tax to the pre-1969 level. (You may also know it as the Steiger Amendment in the House.) The tax cut bill, which the Senate passed two days ago, does not go quite as far in lowering the capital gains tax rate as I wanted. It lowers the rate to 35 percent but that's still a big improvement.

President Carter called this adjustment in the capital gains tax, "A huge tax windfall for millionaires." Sylvia Porter shot back that the President's reaction was, "startlingly misinformed, even reckless. . . ."

I too think the Administration is way off base on this. Almost everyone, either directly or indirectly, has a stake in the success of American business. If you are not a shareholder yourself, you probably belong to a pension fund that is. Most of our major pension systems are funded largely by investment in income stocks.

In view of the President's statement, I think it's worth noting here that labor has been one of the strong advocates for tax reforms to encourage investment. Labor realizes that growth in real wages and in productivity are closely related and that capital formation and capital investment are not sufficient. The National Association for the Advancement of Colored People (NAACP) has also taken the position that the jobs and opportunity it seeks must come from growth in the economy stimulation of the private sector.

The Treasury Department opposes this reduction in the capital gains tax, claiming that it would decrease tax revenues. But the Treasury Department has been wrong about this tax before. In 1969 they thought revenues would increase, if the capital gains tax were increased. The opposite happened. Revenues fell by 40 percent the first year and they have only now returned to the 1968 level.

In a recent study of the economic impact of a capital gains tax reduction, Merrill, Lynch predicted that a roll-back to 25 percent would:

Improve the average rate of growth of real GNP to 3.5 percent as compared with the 3.3 percent rate forecast under the current tax law,

Reduce the unemployment rate from 5.7 percent through the creation of 205,000 ad-

Another problem for our economy is overregulation of business. I'm not going to get into a lot of detail on this—that's another whole speech. About all you really need to know is that the cost of federal, state and local regulation in 1977, according to a report of the Chase Manhattan Bank Economics Group, was over $103 billion. Bureaucracies everywhere are just spinning out regulations and tying business up the way the Lilliputians got Gulliver.

Admittedly, many regulations are necessary, but many are not. To get a handle on the problem, Congress has begun to require regulatory impact statements with all new legislation and the President has ordered the Executive Branch not only to cut down on existing régulations but to see that all regulations are written in simple, clear language.

Compliance with some of our most important regulations, as you know, is very costly. For example, the Council on Environmental Quality reports that private capital outlays for pollution control were $3.8 billion higher in 1975 than they would have been without federal regulation.

The required rate of capital investment today too is greater than it once was because of mandated investments to meet environmental, health and safety standards. Clean air and water and a healthy work environment do not come cheaply. McGraw-Hill, which has studied business investment closely in the past three decades, estimates that about 10 percent of all spending for new plants and equipment is now devoted to meeting these standards, as compared with about half that amount 10 years ago.

Now, I don't think any of us would want to turn the clock back, but it does seem to me that we should have a full investment tax credit for business outlays for pollution control. When you consider that it only costs $13,000 to create a new job, you can see how many jobs we're losing this way.

In the Senate, we are very aware of the need to economize and to get federal spending under control. In fact, as former Senator Norris Cotton used to say: "The boys are in such a mood that if someone introduced the Ten Commandments, they'd cut them down to eight."

This fall we took an important step in the right direction, when we adopted the Second Concurrent Budget Resolution for 1979 which establishes new, substantially lower ceilings for Congressional spending. The new ceilings set the deficit for FY 1979 at $38.8 billion which is $21.7 billion below the deficit anticipated in the President's budget for FY 1979, and almost $30 billion below the deficit set for FY 1978. I am happy to say Congress also wound up this fiscal year $10 billion below the budget ceiling set last year. So we are moving in the right direction.

We also have before us Sunset legislation which is a logical, responsible and orderly response to public concern over rising inflation. This bill would commit Congress to reexamining every cent we now spend to make sure every federal dollar is being used as effectively and efficiently as possible.

It provides for automatic termination of federal programs unless Congress determines, through a review process, that they should be reauthorized or reenacted. The bill, which I have cosponsored, would allow us to shift resources away from programs we no longer need or from those that are not working well. We need to free-up those resources and to put them to work in new, more effective ways. If we succeed in enacting this legislation this year, I think it will eventually be regarded as the most significant accomplishment of the 95th Congress.

These are all things that need to be done and that will help get our economy moving in the right direction again. Much more needs doing, especially to strengthen our position internationally. But right now I think we should get our house in order—we should stimulate a business renaissance in the United States—so that we can confront our international trade problems with some confidence.

But, if we are to have a national business renaissance, then I think we must have uniform labor laws throughout the country. As a Marylander, I am particularly aware of pressures on industry to leave our State and to move to another in search of labor laws more favorable to business. This is an area

Elbert Gary, President of U.S. Steel, testified before the Congress that he "would be very glad if we knew exactly where we stand . . . and if we had somewhere we could go, to a responsible governmental authority and to say to them, 'here are our facts and figures . . . now you tell us what we have the right to do and what prices we have the right to charge.' "

Government was invited to take a hand in the game. Economist Robert Heilbroner maintains that government has actually prolonged the life of capitalism by stepping in. He writes: "The political apparatus within capitalism is steadily growing, enhancing its power and usurping functions formerly delegated to the economic sphere—not to undo, but to preserve the economic sphere."

Mr. Heilbroner foresees a day when this political expansion will be "a major factor in the extinction of the business civilization . . ."

I am not so pessimistic. I believe the commitment to freedom which underpins our political and our economic system is so strong that we will be able to maintain a healthy balance between the economic and political forces at work in our society.

As the winds of Proposition 13 blow across the land, however, it is important also to remember that every government spending program on the books has a large vocal constituency pushing for it. So, if you want the federal government to balance the budget and to eliminate the defict, ask yourself, "Which of the federal programs that benefit me, am I willing to eliminate?"

We won't make any impression on inflation at all, until we all curb our appetites for more government services. We all must help to restrain government spending by restraining the demand for government services. We've got to face the fact that the federal government cannot singlehandedly get inflation under control. To do that, we need the active participation of corporate executives, small business owners and labor unions. And we need the participation of all other governmental units, from the states down to the smallest towns and villages from President Carter to Mayor Henry of Muleshoe Texas.

And, we must form what Arthur Burns calls a "national constituency" that will fight for the paramount interest we as a people have in a stable dollar. This will require leadership at the highest level.

President Franklin Roosevelt said that: "The greatest responsibilitity of the president is moral leadership." What he meant was that in our pluralistic, competitive society only the President could induce the people to fix their ideas and goals on the great purposes of the nation, thus requiring the subordination of purely selfish purposes not in harmony with the general welfare.

The time to subordinate our selfish purposes to the general welfare is now. We still have it in our power to begin the world over again. It is up to each one of us whether or not we will.●