Originally Processed With FOIA(s): S

FOIA Number: S

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the George Bush Presidential Library Staff.

Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Speechwriting, White House Office of
Series: Speech File Backup Files
Subseries: Chron File, 1989-1993

OA/ID Number: 13663
Folder ID Number: 13663-003

Folder Title:
American Business Conference (ABC) 4/4/89 [OA 6347]

Stack:	Row:	Section:	Shelf:	Position:
G	26	18	7	4

(Lange/Martin)
March 30, 1989
1:30 p.m.

PRESIDENTIAL REMARKS: AMERICAN BUSINESS CONFERENCE
ROOM 450, OLD EXECUTIVE OFFICE BLDG.
TUESDAY, APRIL 4, 1989
2:00 P.M.

I've met with this group three times, over the last eight years -- and every meeting has been a resounding success. So I've got a mind to ask: Why can't we equal or exceed that kind of contact over the _next_ eight years?

Among the many close friends I have in the ABC, I'd like to mention your former vice chairman, now Commerce Secretary, Bob Mosbacher. Like all of you, he knows what it means to take risks, to build a business, and to keep America first. He's already doing a superb job.

To be sitting in this room today, as ABC members, you've had to keep your earnings at three times the growth of the economy, plus inflation. Now, if Bob can just make that happen for _every_ business in America... I'll make him the Business Czar and we can _all_ go fishing.

You run the kind of high-growth businesses that represent the most dynamic, entrepreneurial segment of the American economy. And this government knows better than to fix what's already working.

CM–

I GAVE GARDNER THE THREE COPIES FOR STAFFING -- HERE'S THE REST.

Mark F.

So this afternoon I'm going to address two areas of concern to you: the economics of enterprise -- and the imperative for education reform.

For anyone running a business, sound investment and flexibility in the marketplace are more important than ever. Your concern about a lack of savings is clearly motivated by a lack of domestic investment capital for American industry. Now, the personal savings rate has hit 5.2 percent or better for the past three months. That's good news. But we cannot relax.

The working paper you released last month on overconsumption was another reminder that the deficit must be brought under control. So let me reassure you -- this government will not become the fiscal equivalent of Overeaters Anonymous. Accountability in government demands that we put an <u>end</u> to this spending spiral.

The Little, Brown Book of Anecdotes Clifton Fadiman p.322 #5

You know, when George Kaufman -- that famous wit from the Algonquin Round Table -- was at a party, he heard a self-made millionaire boasting to a circle of people, "I was born into the world without a single penny." And Kaufman answered, "Oh really. When I was born, I owed twelve dollars."

Well, we don't <u>have</u> to let the deficit play a cruel joke on

future generations. Next year alone, federal tax revenues will rise by more than $80 billion. And we're going to use those funds to bring the deficit down below the Gramm-Rudman-Hollings targets.

To spur greater investment in American business, we need to bring our taxation of capital gains down -- in line with that of our trading partners. In the budget we've proposed to Congress, we want to restore the differential to 15 percent on long-held assets.

How many of you, as you built your businesses, were able to just walk up to a bank and get equity? Few, if any. Most of you probably raised capital by offering people a share of the business -- and a stake in the outcome.

Cutting the capital gains rate means more of that can happen. It will give businesses more of the capital they need to grow. It will bring in $4.3 billion more in tax revenues, according to the Treasury. And it will create more new jobs.

That's no tax break for the rich. That's a fair shake for every American.

The budget consultations are being held behind closed doors; so I can't tell you how they're going. But we're determined to

work with this Congress -- we're counting on their cooperation, to find answers we can all live with.

We want to build on the energy and initiative of American business -- and we're determined to avoid burdensome mandates that only enforce solutions of uniform mediocrity. We don't want to limit the flexibility of managers and workers, who are trying to find their own best solutions. And you know, many are already succeeding.

Chamber of Commerce estimates suggest that workers are receiving more fringe benefits than ever before. Total benefits in 1987 were up 163 percent in a decade. And it is the market -- not government -- that is responsible for this growth.

Nearly eighty percent of growth in the fringe share of compensation is due to voluntary action by employers. Only 21 percent is due to government requirements. We want to keep it that way.

A "mandated benefit" is a contradiction in terms. How would you feel if your doctor said, "Well, nothing's broken... but we're going to put you in a full-body cast anyway." No thanks.

A hallmark of this administration will be its focus on the future -- and the importance we attach to making the right kinds

of investment. You don't make your money on short-term, day-to-day trades -- you make it through sound long-term planning.

There can be no investment more urgent -- or more compelling for the future of American business, and this country as a whole, than education. In this, <u>all</u> of us have a stake in the outcome.

As labor markets get tighter in the coming years, many of you are going to be facing shortages of skilled people. Some managers are already worried about a scarcity of science and engineering graduates. And you've all read the surveys that show Pacific Rim students outperforming our own.

Our best students can compete with anyone in the world. We're not on the verge of some intellectual brown-out. But in order to give business more of the people it needs to compete -- to help build America's prosperity -- and to give more of our young people the skills they need to <u>share</u> in that prosperity -- we have made education a national priority.

Tomorrow, I will send to the Congress an education package. We want to reward <u>merit schools</u> that make progress in terms of raising student achievement, and reducing drug use and drop-out rates. We're promoting parental choice and educational quality, through <u>magnet schools of excellence</u>.

We want to provide alternative certification of teachers and principals, to broaden the pool of talent available; President's Awards to outstanding teachers; Urban Emergency Grants to provide comprehensive help in fighting drugs for school districts under seige; a National Science Scholars program for high school seniors; and additional endowment matching grants for historically black colleges and universities, which occupy a unique and vital position in American higher education.

We are committed to a program of education reform that will give our young people a solid foundation for the future. But to make lasting improvements in education, we'll need to get all of the players -- superintendents and administrators, school boards, local business leaders, teachers' unions -- around the table, working together.

This will demand accountability from all of us. It will require the best kind of collective effort, from all directions -- but it holds the promise of real progress.

Many of you have been prime movers, spending a remarkable amount of your own time making good on that promise. More than a third of you serve on local school boards, public or private -- or on the board of a local college or university.

Others among you have established a program with a local community college, or "adopted" a school, or taught part-time, or promoted science education across a school district. That's the kind of involvement that, while it isn't always easy, leads to the kind of educational reform that lasts. Consider yourself one in a thousand -- you know, points of light.

By investing your time and talents toward the education of our young people, you're helping to bring about something vital -- a fundamental cultural shift, that reasserts the value of learning in this country.

You're breathing new life into an idea that has always been a testament to the American spirit: that doing well demands doing good.

Nothing I might tell you would say it better than your own mission statement, which says ABC executives "believe their own business success carries with it a responsibility to help expand economic opportunity throughout the economy."

As business leaders, you understand the power of interests held in common. Education is the one investment that guarantees economic opportunity -- for every individual, and every business in America. Thank you. And God bless you.

(Lange/Martin)
March 29, 1989
4:15 p.m.

PRESIDENTIAL REMARKS: AMERICAN BUSINESS CONFERENCE
[LOCATION] Room 450
TUESDAY, APRIL 4, 1989
[TIME] 2:00 pm

Thank you, ______. Thank you all. It's a real pleasure to be with you today.

Oct '81 March '83 Oct '85

Letter to Bobbie Kiberg from Barry Rogstad 3-24-89

I've met with this group three times, over the last eight years -- and every meeting has been a great success. So I'm inclined to ask, why can't we equal or exceed that kind of contact over the next eight years?

Among the many close friends I have in the ABC, let me mention your former vice chairman, now Commerce Secretary, Bob Mosbacher. Like all of you, he knows what it means to take risks, to build a business, and to keep America first. And he's already doing a superb job.

To be sitting in this room today, as ABC members, you've had to keep your earnings at three times the growth of the economy, plus inflation. Now, if Bob can just make that happen for every business in America... I'll make him the Business Czar and we can all go fishing.

You run the kind of high-growth businesses that represent the most dynamic, entrepreneurial segment of the American economy. And this government knows better than to fix what's already working.

So this [morning] afternoon I want to talk to you about what we're doing to encourage flexibility for the present, and investment for the future.

For anyone running a business, flexibility and sound investment are more important than ever. Your concern about a lack of savings is clearly motivated by a lack of domestic investment capital for American industry. Now, the personal savings rate hit 5.9 percent in February -- nearly a seven-year high. That's good news.

Investment is up because of foreign invest.

5.2% for 3 months April '86

one month 5.9 May '85

CEA Boskin's office x5042 Steve Landefeld

But the working paper you released last month on overconsumption was another reminder that the deficit must be brought under control. So let me reassure you -- this government will not become the fiscal equivalent of Overeaters Anonymous.

Overconsumption: The Challenge to the US Econ Policy ABC + thermo Electron Corp March '89

Spending for all programs can't increase forever. We must choose carefully where we devote our resources. Those words may not be easy for some to hear. But accountability in government demands that we put an end to the kind of ever-increasing spending that puts the "deaf" in deficit.

Next year alone, federal tax revenues will rise by more than $80 billion. And we're going to use those funds to bring the deficit down below the Gramm-Rudman-Hollings targets.

BABA Fact Sheet p. 2

$82 billion

To spur greater investment in American industry, we need to bring our taxation of capital gains in line with that of our trading partners. In the budget we've proposed to Congress, we want to restore the differential to 15 percent on long-held investments.

BABA Fact Sheet p. 3

How many of you, as you built your businesses, were able to just walk up to a bank and get equity? Few, if any. Most of you probably raised capital by offering people a share of the business.

Cutting the capital gains rate means more of that can happen. It will give businesses more of the capital they need to grow. It will bring in $4.3 billion more in tax revenues, according to the Treasury. And it will create more new jobs.

4.8

Department

BABA p. 33

That's no tax break for the rich. That's a fair shake for America.

The budget consultations are being held behind closed doors; so I can't tell you how they're going. Which may strike you like

one of those spy movies where somebody knows a secret, and says, "You know, I'd tell you -- but then I'd have to kill you." But we're determined to work with this Congress -- you know, live and let live -- to find answers we can all live with.

We want to build on the energy and initiative of American business -- and we're determined to avoid burdensome mandates that only enforce solutions of uniform mediocrity. We don't want to limit the flexibility of managers and workers, who are trying to find their own best solutions. Many are already succeeding.

According to Chamber of Commerce estimates, workers are receiving more fringe benefits than ever before. Total benefits in 1987 were up 163 percent in a decade. And it is the market -- not government -- that is responsible for this growth.

Nearly eighty percent of growth in the fringe share of compensation is due to voluntary action by employers. Only 21 percent is due to government requirements. We want to keep it that way.

Martin Leftowitz Chamber of Commerce 659-6000 Fed + State

"Mandated benefits" are a contradiction in terms. How would you feel if your doctor said, "Well, nothing's broken... but we're going to put you in a full-body cast anyway." No thanks.

A hallmark of this administration will be its focus on the future -- and the importance we attach to making the right kinds of investment. You don't make your money on short-term, day-to-day trades -- you make it through sound long-term planning.

There can be no investment more urgent -- or more compelling for the future of American business -- than education.

As labor markets get tighter in the coming years, many of you are going to be facing shortages of skilled people. Some managers are already worried about a scarcity of science and engineering graduates. And you've all read the surveys that show Pacific rim students outperforming our own.

Our best students can compete with anyone in the world. We're not on the verge of some intellectual brown-out. But in order to give business more of the people it needs to compete -- and to give our young people the skills they need to help build America's prosperity -- we've made education a national priority.

Next week I will be sending to Congress a package of education legislation. We want to reward merit schools that make progress in terms of raising student achievement, and reducing drug use and drop-out rates. We're promoting parental choice and educational quality, through magnet schools of excellence.

We want to provide alternative certification of teachers and principals, to broaden the pool of talent available; President's Awards to outstanding teachers; Urban Emergency Grants to provide comprehensive help in fighting drugs for school districts under seige; a National Science Scholars program for high school seniors; and additional endowment matching grants for historically black colleges and universities, which occupy a unique and vital position in American higher education.

We are committed to a program of education reform that will give our young people a solid foundation for the future. But to make lasting improvements in education, we'll need to get all of the players -- superintendents and adminstrators, school boards, local business leaders, teachers' unions -- around the table.

This will demand accountability from all of us. It will require the best kind of collective effort, from all directions -- but it holds the promise of real progress.

Many of you have been prime movers, spending a remarkable amount of your own time making good on that promise. More than a third of you serve on either a local school board, public or private -- or on the board of a local college or university.

FAXed memo from John Erdean to Mark Lange (202) 822-9300

FAXed Memo

Others have established a program with a local community college, or created Montessori schools, or taught part-time, or promoted science education across an entire school district. That's the kind of involvement that, while it isn't always easy, can lead to the kind of educational reform that lasts. Consider yourself one in a thousand -- you know, points of light.

By investing your time and talents toward the education of our young people, you're helping to bring about something vital -- a fundamental cultural shift, that reasserts the value of learning in this country.

You're breathing new life into an idea that has always been a testament to the American spirit: that doing well demands doing good.

Nothing I might tell you would say it better than your own mission statement: "ABC executives believe their own business success carries with it a responsibility to help expand economic opportunity throughout the economy."

letter to Bobbie Kilberg from Barry Rogstad

You understand the power of interests held in common. And education is the one investment that guarantees economic opportunity, for every individual and every business in America.

Thank you. And God bless.

PRESIDENTIAL REMARKS: AMERICAN BUSINESS CONFERENCE
ROOM 450, OEOB
TUESDAY, APRIL 4, 1989
2:00 P.M.

I'VE MET WITH THIS GROUP THREE TIMES, OVER THE LAST EIGHT YEARS -- AND EVERY MEETING, FOR ME AT LEAST, HAS BEEN WORTHWHILE AND PRODUCTIVE. I AM GLAD TO BE BACK.

AMONG THE MANY CLOSE FRIENDS I HAVE IN THE ABC, I'D LIKE TO MENTION YOUR FORMER VICE CHAIRMAN, NOW COMMERCE SECRETARY, BOB MOSBACHER. LIKE ALL OF YOU, HE KNOWS WHAT IT MEANS TO TAKE RISKS, TO START A BUSINESS, MAKE IT GROW, AND KEEP IT COMPETITIVE. HERE IN WASHINGTON, HE IS PUTTING HIS EXPERIENCE TO WORK.

- 3 -

BOB IS ON THE CUTTING EDGE OF OUR NATIONAL EFFORT TO BUILD A BETTER AMERICA.

TO BE SITTING IN THIS ROOM TODAY, AS ABC MEMBERS, YOU'VE HAD TO KEEP YOUR EARNINGS AT THREE TIMES THE GROWTH OF THE ECONOMY, PLUS INFLATION.

- 4 -

NOW, IF BOB CAN JUST MAKE THAT HAPPEN FOR <u>EVERY</u> BUSINESS IN AMERICA... I'LL MAKE HIM THE BUSINESS CZAR AND WE CAN <u>ALL</u> GO FISHING.

YOU RUN THE KIND OF HIGH-GROWTH BUSINESSES THAT REPRESENT THE MOST DYNAMIC, ENTREPRENEURIAL SEGMENT OF THE AMERICAN ECONOMY. AND THIS GOVERNMENT KNOWS BETTER THAN TO FIX WHAT'S ALREADY WORKING.

SO THIS AFTERNOON I'M GOING TO ADDRESS TWO AREAS OF CONCERN TO YOU: THE ECONOMICS OF ENTERPRISE -- AND THE IMPERATIVE FOR EDUCATION REFORM.

YOU FOLKS KNOW THE SAME LESSON THAT I LEARNED AS A BUSINESSMAN. YOU NEED CAPITAL TO GROW.

WHAT YOU DON'T NEED IS HIGHER TAXES ON YOUR EARNINGS, OR HIGHER TAXES ON YOUR WORKERS, OR HIGHER TAXES ON THOSE WHO INVEST THEIR MONEY IN YOUR FIRM.

RIGHT NOW THE GOVERNMENT IS MAKING TOO BIG A CLAIM ON AMERICA'S CAPITAL TO COVER OUR DEFICIT. THAT'S CAPITAL THAT SHOULD BE INVESTED IN AMERICA'S BUSINESSES.

THE BEST WAY TO CHANNEL MORE CAPITAL INTO PRODUCTIVE INVESTMENT IS NOT HIGHER TAXES. IT'S SPENDING RESTRAINT.

THE WORKING PAPER YOU RELEASED LAST MONTH WAS ANOTHER REMINDER THAT THE DEFICIT MUST BE BROUGHT UNDER

CONTROL. ACCOUNTABILITY IN GOVERNMENT DEMANDS THAT WE PUT AN <u>END</u> TO THIS SPENDING SPIRAL.

YOU KNOW, WHEN GEORGE KAUFMAN -- THAT FAMOUS WIT FROM THE ALGONQUIN ROUND TABLE -- WAS AT A PARTY, HE HEARD A SELF-MADE MILLIONAIRE BOASTING TO A CIRCLE OF PEOPLE, "I WAS BORN INTO THE WORLD WITHOUT A SINGLE

PENNY." AND KAUFMAN ANSWERED, "OH REALLY. WHEN I WAS BORN, I OWED TWELVE DOLLARS."

WELL, WE DON'T HAVE TO LET THE DEFICIT PLAY A CRUEL JOKE ON FUTURE GENERATIONS. NEXT YEAR ALONE, FISCAL YEAR 1990 FEDERAL REVENUES WILL RISE BY MORE THAN $80 BILLION -- WITH NO TAX INCREASE. AND WE'RE GOING TO MEET OR BEAT THE GRAMM-RUDMAN-HOLLINGS TARGETS.

OUR BUDGET CONSULTATIONS WITH CONGRESS SO FAR HAVE BEEN GOING WELL. WE'RE DETERMINED TO WORK WITH THIS CONGRESS -- WE'RE COUNTING ON THEIR COOPERATION, TO FIND ANSWERS WE CAN ALL LIVE WITH.

TO SPUR GREATER INVESTMENT IN AMERICAN BUSINESS, WE NEED TO BRING OUR TAXATION OF CAPITAL GAINS DOWN -- IN LINE WITH THAT OF OUR TRADING PARTNERS.

IN THE BUDGET WE'VE PROPOSED TO CONGRESS, WE WANT TO RESTORE THE DIFFERENTIAL TO 15 PERCENT ON LONG-HELD ASSETS.

HOW MANY OF YOU, AS YOU BUILT YOUR BUSINESSES, WERE ABLE TO JUST WALK UP TO A BANK, AND GET A LOAN TO COVER YOUR START-UP COSTS? FEW, IF ANY.

MOST OF YOU PROBABLY RAISED CAPITAL BY OFFERING PEOPLE A SHARE OF THE BUSINESS -- AND A STAKE IN THE OUTCOME.

CUTTING THE CAPITAL GAINS RATE MEANS MORE OF THAT CAN HAPPEN. IT WILL GIVE BUSINESSES MORE OF THE CAPITAL THEY NEED TO GROW. IT WILL BRING IN $4.8 BILLION MORE IN TAX REVENUES IN 1990, ACCORDING TO THE TREASURY. AND IT WILL CREATE MORE NEW JOBS.

THAT'S NO TAX BREAK FOR THE RICH. THAT'S A FAIR SHAKE FOR EVERY AMERICAN.

WE WANT TO BUILD ON THE ENERGY AND INITIATIVE OF AMERICAN BUSINESS -- WITHOUT BURDENSOME MANDATES THAT ONLY ENFORCE SOLUTIONS OF UNIFORM MEDIOCRITY. WE DON'T WANT TO LIMIT THE FLEXIBILITY OF MANAGERS AND WORKERS, WHO ARE TRYING TO FIND THEIR OWN BEST SOLUTIONS.

AND YOU KNOW, MANY ARE ALREADY SUCCEEDING.

CHAMBER OF COMMERCE ESTIMATES SUGGEST THAT WORKERS ARE RECEIVING MORE FRINGE BENEFITS THAN EVER BEFORE. TOTAL BENEFITS IN 1987 WERE UP 163 PERCENT IN A DECADE. AND IT IS THE MARKET --NOT GOVERNMENT -- THAT IS RESPONSIBLE FOR THIS GROWTH.

- 15 -

NEARLY SEVENTY PERCENT OF GROWTH IN BENEFITS IS DUE TO VOLUNTARY ACTION BY EMPLOYERS. ONLY THIRTY PERCENT IS DUE TO GOVERNMENT REQUIREMENTS. WE WANT TO KEEP IT THAT WAY.

OUR FRIENDS IN EUROPE HAVE TRIED MANDATED BENEFITS -- AND THEY HAVEN'T HAD MUCH SUCCESS.

- 16 -

THEY'RE NOW LOOKING FOR WAYS TO FREE UP ENTERPRISE, AMERICAN STYLE -- AND MAKE IT MORE FLEXIBLE, NOT LESS. FOR US TO GO TOWARD MANDATED BENEFITS WOULD BE, AS YOGI BERRA PUT IT, LIKE "DEJA VU ALL OVER AGAIN."

AMERICA WILL BE MORE COMPETITIVE IF WE CONTINUE TO RESIST THE TEMPTATION TO HEAP BURDENSOME MANDATES ON THE PRODUCTIVE PRIVATE SECTOR.

A HALLMARK OF THIS ADMINISTRATION WILL BE ITS FOCUS ON THE FUTURE -- AND THE IMPORTANCE WE ATTACH TO MAKING THE RIGHT KINDS OF INVESTMENT. THERE CAN BE NO INVESTMENT MORE URGENT -- OR MORE COMPELLING FOR THE FUTURE OF AMERICAN BUSINESS, AND THIS COUNTRY AS A WHOLE, THAN EDUCATION. IN THIS, ALL OF US HAVE A STAKE IN THE OUTCOME.

AS LABOR MARKETS CONTINUE TO GET TIGHTER IN THE COMING YEARS, MANY OF YOU ARE GOING TO BE FACING SHORTAGES OF SKILLED PEOPLE. SOME MANAGERS ARE ALREADY WORRIED ABOUT A SCARCITY OF SCIENCE AND ENGINEERING GRADUATES. AND YOU'VE ALL READ THE SURVEYS THAT SHOW MANY FOREIGN STUDENTS OUTPERFORMING OUR OWN.

ALTHOUGH OUR BEST STUDENTS CAN COMPETE WITH ANYONE IN THE WORLD, THE CHALLENGE WE FACE IS TO ADAPT OUR EDUCATIONAL SYSTEM SO THAT ALL OF OUR STUDENTS RECEIVE THE SKILLS THEY NEED TO SHARE IN THAT PROSPERITY -- MY ADMINISTRATION HAS MADE EDUCATION A NATIONAL PRIORITY.

OUR PROGRAM IS BASED ON FOUR PRINCIPLES: IT REWARDS EXCELLENCE, HELPS THOSE MOST IN NEED, DEMANDS ACCOUNTABILITY, AND SUPPORTS GREATER FLEXIBILITY AND CHOICE.

TOMORROW, I WILL SEND TO THE CONGRESS OUR EDUCATION PACKAGE.

- 21 -

WE WANT TO REWARD MERIT SCHOOLS THAT MAKE PROGRESS IN TERMS OF RAISING STUDENT ACHIEVEMENT, AND REDUCING DRUG USE AND DROP-OUT RATES. WE'RE PROMOTING PARENTAL CHOICE AND EDUCATIONAL QUALITY, THROUGH MAGNET SCHOOLS OF EXCELLENCE.

- 22 -

WE WANT TO PROVIDE ALTERNATIVE CERTIFICATION OF TEACHERS AND PRINCIPALS, TO BROADEN THE POOL OF TALENT AVAILABLE; PRESIDENT'S AWARDS TO OUTSTANDING TEACHERS; URBAN EMERGENCY GRANTS TO PROVIDE COMPREHENSIVE HELP IN FIGHTING DRUGS FOR SCHOOL DISTRICTS UNDER SIEGE; A NATIONAL SCIENCE SCHOLARS PROGRAM FOR HIGH SCHOOL SENIORS;

- 23 -

AND ADDITIONAL ENDOWMENT MATCHING GRANTS FOR HISTORICALLY BLACK COLLEGES AND UNIVERSITIES, WHICH OCCUPY A UNIQUE AND VITAL POSITION IN AMERICAN HIGHER EDUCATION.

WE ARE COMMITTED TO A PROGRAM OF EDUCATION REFORM THAT WILL GIVE OUR YOUNG PEOPLE A SOLID FOUNDATION FOR THE FUTURE.

- 24 -

BUT TO MAKE LASTING IMPROVEMENTS IN EDUCATION, WE'LL NEED TO GET ALL OF THE PLAYERS -- ADMINISTRATORS, SCHOOL BOARDS, LOCAL BUSINESS LEADERS, PARENTS, TEACHERS' UNIONS -- AROUND THE TABLE, WORKING TOGETHER.

THIS WILL DEMAND ACCOUNTABILITY FROM ALL OF US.

IT WILL REQUIRE THE BEST KIND OF COLLECTIVE EFFORT, FROM ALL DIRECTIONS -- BUT IT HOLDS THE PROMISE OF REAL PROGRESS.

MANY OF YOU HAVE BEEN PRIME MOVERS, SPENDING A REMARKABLE AMOUNT OF YOUR OWN TIME MAKING GOOD ON THAT PROMISE.

MORE THAN A THIRD OF YOU SERVE ON LOCAL SCHOOL BOARDS, PUBLIC OR PRIVATE --OR ON THE BOARD OF A LOCAL COLLEGE OR UNIVERSITY.

OTHERS AMONG YOU HAVE ESTABLISHED A PROGRAM WITH A LOCAL COMMUNITY COLLEGE, OR "ADOPTED" A SCHOOL, OR TAUGHT PART-TIME, OR PROMOTED SCIENCE EDUCATION ACROSS A SCHOOL DISTRICT.

THAT'S THE KIND OF INVOLVEMENT THAT, WHILE IT ISN'T ALWAYS EASY, LEADS TO THE KIND OF EDUCATIONAL REFORM THAT LASTS. IT PLACES YOU AMONG THE "THOUSAND POINTS OF LIGHT" THAT SPREAD HOPE AND OPPORTUNITY. YOU ARE PART OF WHAT MAKES AMERICA SPECIAL.

BY INVESTING YOUR TIME AND TALENTS TOWARD THE EDUCATION OF OUR YOUNG PEOPLE, YOU'RE HELPING TO BRING ABOUT SOMETHING VITAL -- A FUNDAMENTAL CULTURAL SHIFT, THAT REASSERTS THE VALUE OF LEARNING IN THIS COUNTRY. YOU'RE BREATHING NEW LIFE INTO AN IDEA THAT HAS ALWAYS BEEN A TESTAMENT TO THE AMERICAN SPIRIT: THAT DOING WELL DEMANDS DOING GOOD.

NOTHING I MIGHT TELL YOU WOULD SAY IT BETTER THAN YOUR OWN MISSION STATEMENT, WHICH SAYS ABC EXECUTIVES "BELIEVE THEIR OWN BUSINESS SUCCESS CARRIES WITH IT A RESPONSIBILITY TO HELP EXPAND ECONOMIC OPPORTUNITY THROUGHOUT THE ECONOMY."

AS LEADERS -- NOT ONLY IN BUSINESS BUT IN EVERY SECTOR OF OUR SOCIETY -- YOU KNOW THAT THE NATIONAL INTEREST REQUIRES US TO INVEST IN THE FUTURE. EDUCATION IS THE BEST INVESTMENT WE CAN MAKE, IF WE WANT TO BUILD A BETTER AMERICA.

THANK YOU. AND GOD BLESS YOU ALL.

(Lange/Martin)
March 31, 1989
6:30 p.m.

PRESIDENTIAL REMARKS: AMERICAN BUSINESS CONFERENCE
ROOM 450, OLD EXECUTIVE OFFICE BLDG.
TUESDAY, APRIL 4, 1989
2:00 P.M.

I've met with this group three times, over the last eight years -- and every meeting has been a resounding success. So I've got a mind to ask: Why can't we equal or exceed that kind of contact over the <u>next</u> eight years?

Among the many close friends I have in the ABC, I'd like to mention your former vice chairman, now Commerce Secretary, Bob Mosbacher. Like all of you, he knows what it means to take risks, to start a business, make it grow, and keep it competitive. Here in Washington, he is putting his experience to work. Bob is on the cutting edge of our national effort to Build a Better America.

To be sitting in this room today, as ABC members, you've had to keep your earnings at three times the growth of the economy, plus inflation. Now, if Bob can just make that happen for <u>every</u> business in America... I'll make him the Business Czar and we can <u>all</u> go fishing.

You run the kind of high-growth businesses that represent the most dynamic, entrepreneurial segment of the American

economy. And this government knows better than to fix what's already working.

So this afternoon I'm going to address two areas of concern to you: the economics of enterprise -- and the imperative for education reform.

You folks know the same lesson that I learned as a businessman. You need capital to grow. What you don't need is higher taxes on your earnings, or higher taxes on your workers, or higher taxes on those who invest their money in your firm.

Right now the government is making too big a claim on America's capital to cover our deficit. That's capital that should be invested in America's businesses. The best way to channel more capital into productive investment is not higher taxes. It's spending restraint.

The working paper you released last month was another reminder that the deficit must be brought under control. So let me reassure you -- this government will not become the fiscal equivalent of Overeaters Anonymous. Accountability in government demands that we put an end to this spending spiral.

You know, when George Kaufman -- that famous wit from the Algonquin Round Table -- was at a party, he heard a self-made

millionaire boasting to a circle of people, "I was born into the world without a single penny." And Kaufman answered, "Oh really. When I was born, I owed twelve dollars."

Well, we don't have to let the deficit play a cruel joke on future generations. Next year alone, federal revenues will rise by more than $80 billion -- with no tax increase. And we're going to use those funds to bring the deficit down below the Gramm-Rudman-Hollings targets.

To spur greater investment in American business, we need to bring our taxation of capital gains down -- in line with that of our trading partners. In the budget we've proposed to Congress, we want to restore the differential to 15 percent on long-held assets.

How many of you, as you built your businesses, were able to just walk up to a bank, and get a loan to cover your start-up costs? Few, if any. Most of you probably raised capital by offering people a share of the business -- and a stake in the outcome.

Cutting the capital gains rate means more of that can happen. It will give businesses more of the capital they need to grow. It will bring in $4.8 billion more in tax revenues in

1990, according to the Treasury. And it will create more new jobs.

That's no tax break for the rich. That's a fair shake for every American.

Our budget consultations with Congress are going well. We're determined to work with this Congress -- we're counting on their cooperation, to find answers we can _all_ live with.

We want to build on the energy and initiative of American business -- without burdensome mandates that only enforce solutions of uniform mediocrity. We don't want to limit the flexibility of managers and workers, who are trying to find their _own_ best solutions. And you know, many are already succeeding.

Chamber of Commerce estimates suggest that workers are receiving more fringe benefits than ever before. Total benefits in 1987 were up 163 percent in a decade. And it is the _market_ -- not government -- that is responsible for this growth.

Nearly eighty percent of growth in benefits is due to voluntary action by employers. Only 21 percent is due to government requirements. We want to keep it that way.

A "mandated benefit" is a contradiction in terms. How would you feel if your doctor said, "Well, nothing's broken... but we're going to put you in a full-body cast anyway." No thanks. Mandated benefits are really mandated burdens. We cannot expect America to be more competitive if we continue to heap burdensome mandates on the productive private sector -- no matter how well-intentioned those mandates are.

A hallmark of this administration will be its focus on the future -- and the importance we attach to making the right kinds of investment. There can be no investment more urgent -- or more compelling for the future of American business, and this country as a whole, than education. In this, all of us have a stake in the outcome.

As labor markets continue to get tighter in the coming years, many of you are going to be facing shortages of skilled people. Some managers are already worried about a scarcity of science and engineering graduates. And you've all read the surveys that show Pacific Rim students outperforming our own.

Our best students can compete with anyone in the world. We're not on the verge of some intellectual brown-out. But in order to give business more of the people it needs to compete -- to help build America's prosperity -- and to give more of our

young people the skills they need to <u>share</u> in that prosperity -- my Administration has made education a national priority.

Our program is based on four principles: it rewards excellence, helps those most in need, demands accountability, and supports greater flexibility and choice.

Tomorrow, I will send to the Congress an education package. We want to reward <u>merit schools</u> that make progress in terms of raising student achievement, and reducing drug use and drop-out rates. We're promoting parental choice and educational quality, through <u>magnet schools of excellence</u>.

We want to provide <u>alternative certification</u> of teachers and principals, to broaden the pool of talent available; <u>President's Awards</u> to outstanding teachers; <u>Urban Emergency Grants</u> to provide comprehensive help in fighting drugs for school districts under siege; a <u>National Science Scholars</u> program for high school seniors; and additional endowment matching grants for <u>historically black colleges and universities</u>, which occupy a unique and vital position in American higher education.

We are committed to a program of education reform that will give our young people a solid foundation for the future. But to make lasting improvements in education, we'll need to get <u>all</u> of the players -- administrators, school boards, local business

leaders, parents, teachers' unions -- around the table, working together.

This will demand accountability from all of us. It will require the best kind of collective effort, from all directions -- but it holds the promise of real progress.

Many of you have been prime movers, spending a remarkable amount of your own time making good on that promise. More than a third of you serve on local school boards, public or private -- or on the board of a local college or university.

Others among you have established a program with a local community college, or "adopted" a school, or taught part-time, or promoted science education across a school district. That's the kind of involvement that, while it isn't always easy, leads to the kind of educational reform that lasts. It places you among the "thousand points of light" that spread hope and opportunity. You are part of what makes America special.

By investing your time and talents toward the education of our young people, you're helping to bring about something vital -- a fundamental cultural shift, that reasserts the value of learning in this country. You're breathing new life into an idea

that has always been a testament to the American spirit: that doing well demands doing good.

Nothing I might tell you would say it better than your own mission statement, which says ABC executives "believe their own business success carries with it a responsibility to help expand economic opportunity throughout the economy."

As leaders -- not only in business but in every sector of our society -- you know that the national interest requires us to invest in the future. Education is the best investment we can make, if we want to Build a Better America.

Thank you. And God Bless you all.

GREAT - WHY DON'T YOU SAY UPFRONT THAT "I'M GOING TO ADDRESS TWO AREAS OF CONCERN TO YOU - THE ECONOMICS OF ENTERPRISE AND EDUCATION. THE LATTER IS OF DIRECT CONCERN, FOR W/OUT A SKILLED WORKFORCE, AMER. ENTREPRENEURSHIP WILL BE A RELIC OF the past" (i.e. WARN AUDIENCE IN ADVANCE THAT This is A 2-part speech

(Lange/Martin)
March 30, 1989
9:30 a.m.

PRESIDENTIAL REMARKS: AMERICAN BUSINESS CONFERENCE
ROOM 450, OLD EXECUTIVE OFFICE BLDG.
TUESDAY, APRIL 4, 1989
2:00 P.M.

I've met with this group three times, over the last eight years -- and every meeting has been a ~~great~~ RESOUNDING success. So I've got a mind to ask: Why can't we equal or exceed that kind of contact over the next eight years?

will this be taken AS A DECLARATION TO RUN AGAIN?

Among the many close friends I have in the ABC, I'd like to mention your former vice chairman, now Commerce Secretary, Bob Mosbacher. Like all of you, he knows what it means to take risks, to build a business, and to ~~keep~~ put America first. ~~And h~~He's already doing a superb job.

To be sitting in this room today, as ABC members, you've had to keep your earnings at three times the growth of the economy, plus inflation. Now, if Bob can just make that happen for every business in America... I'll make him the Business Czar and we can all go fishing.

great ✓

You run the kind of high-growth businesses that represent the most dynamic, entrepreneurial segment of the American economy. And this government knows better than to fix what's already working.

So this afternoon I want to talk to you about what we're doing to encourage flexibility for the present -- and investment for the future.

For anyone running a business, flexibility and sound investment are now more important than ever. Your concern about a lack of savings is clearly motivated by a lack of domestic investment capital for American industry. Now, the personal savings rate ~~hit 5.9 percent in February -- nearly a seven-year high.~~ 5.2 percent or better for past 3 months. That's good news. ~~But we can, and must, support this trend.~~ But we cannot relax. We must continue to support savings and investment.

~~But~~ The working paper you released last month on overconsumption was another reminder that the deficit must be brought under control. So let me reassure you -- this government will not become the fiscal equivalent of Overeaters Anonymous. Accountability in government demands that we put an end to this spending spiral.

You know, when George Kaufman -- that famous wit from the Algonquin Round Table -- was at a party, he heard a self-made millionaire boasting to a circle of people, "I was born into the world without a single penny." And Kaufman answered, "Oh really. When I was born, I owed twelve dollars." A child born today will owe $____ over his lifetime.

Well, we don't have to let the deficit play a cruel joke on

future generations. Next year alone, federal tax revenues will rise by more than $80 billion. And we're going to use those funds to bring the deficit down *below* the Gramm-Rudman-Hollings targets.

To spur greater investment in American business, we need to bring our taxation of capital gains *down* -- in line with that of our trading partners. In the budget we've proposed to Congress, we want to restore the differential to 15 percent on long-held assets.

How many of you, as you built your businesses, were able to just walk up to a bank and get equity? Few, if any. Most of you probably raised capital by offering people a share of the business -- and a stake in the outcome.

Cutting the capital gains rate ~~means more of that can happen~~. It will give businesses more of the capital they need to grow. It will bring in $4.3 billion *more* in tax revenues, ~~according to~~ the Treasury. And it will create more new jobs.

That's no tax break for the rich. That's a fair shake for every American.

The budget consultations are being held behind closed doors; so I can't tell you how they're going. ~~Which~~ may strike you like

from my days in the CIA

questionable

one of those spy movies where somebody knows a secret, and says, "You know, I'd tell you -- but then I'd have to kill you." But we're determined to work with this Congress -- ~~you know~~, live and let live -- and I'm sure they feel the same way. We need to find answers we can all live with.

weak

We want to build on the energy and initiative of American business -- and we're determined to avoid burdensome mandates that only enforce solutions of uniform mediocrity. We don't want to limit the flexibility of managers and workers, who are trying to find their own best solutions. And you know, many are already succeeding.

Chamber of Commerce estimates suggest that workers are receiving more fringe benefits than ever before. Total benefits in 1987 were up 163 percent in a decade. And it is the market -- not government -- that is responsible for this growth.

Nearly eighty percent of growth in the fringe share of compensation is due to voluntary action by employers. Only 21 percent is due to government requirements. We want to keep it that way.

"Mandated benefits" are a contradiction in terms. How would you feel if your doctor said, "Well, nothing's broken... but we're going to put you in a full-body cast anyway." No thanks.

SPRUCE UP

What about m.b.s killing jobs (as they've done in Europe?)
"MANDATED bennys are great, if your job hasn't been eliminated to pay for them.

(Just like you,) ~~A hallmark of~~ this administration ~~will be its focus on~~ look to the future -- and the importance we attach to making the right kinds of investment. You don't make your money on short-term, day-to-day trades -- you make it through sound long-term planning.

There can be no investment more urgent -- or more compelling for the future of American business, and this country as a whole, than education.

As labor markets get tighter in the coming years, many of you are going to be facing shortages of skilled people. Some managers are already worried about a scarcity of science and engineering graduates. And you've all read the surveys that show Pacific Rim students outperforming our own.

Our best students can compete with anyone in the world. We're not on the verge of some intellectual (brown-out). [RACIAL DOUBLE-entendre] But in order to give business more of the people it needs to compete, -- to help build America's prosperity -- and to give more of our young people the skills they need to share in that prosperity -- ~~we have made~~ education MUST BE AN URGENT ~~a~~ national priority.

Tomorrow, ~~Next week~~ I will ~~be~~ send~~ing~~ to the Congress an education ~~legislation~~ package. We want to reward merit schools that make progress in terms of raising student achievement, and reducing

drug use and drop-out rates. We're promoting parental choice and educational quality, through magnet schools of excellence.

We want to provide alternative certification of teachers and principals, to broaden the pool of talent available; President's Awards to outstanding teachers; Urban Emergency Grants to provide comprehensive help in fighting drugs for school districts under seige; a National Science Scholars program for high school seniors; and additional endowment matching grants for historically black colleges and universities, which occupy a unique and vital position in American higher education.

We are committed to a program of education reform that will give our young people a solid foundation for the future. But to make lasting improvements in education, we'll need to get all of the players -- superintendents and administrators, school boards, local business leaders, teachers' unions -- around the table. working together

This will demand accountability from all of us. It will require the best kind of collective effort, from all directions -- but it holds the promise of real progress.

Many of you have been prime movers, spending a remarkable amount of your own time making good on that promise. More than a third of you serve on local school boards, public or private -- or on the board of a local college or university.

Others among you have established a program with a local community college, ~~or created Montessori schools~~, or taught part-time, or promoted science education across a school district. That's the kind of involvement that, while it isn't always easy, leads to the kind of educational reform that lasts. Consider yourself one in a thousand -- you know, points of light.

By investing your time and talents toward the education of our young people, you're helping to bring about something vital -- a fundamental cultural shift, that reasserts the value of learning in this country.

You're breathing new life into an idea that has always been a testament to the American spirit: that doing well demands doing good.

Nothing I might tell you would say it better than your own mission statement, which says ABC executives "believe their own business success carries with it a responsibility to help expand economic opportunity throughout the economy."

As business leaders, you understand the power of interests held in common. Education is the one investment that guarantees economic opportunity -- for every individual, and every business in America. Thank you. And God bless you.

(Lange/Martin)
March 30, 1989
1:30 p.m.

PRESIDENTIAL REMARKS: AMERICAN BUSINESS CONFERENCE
ROOM 450, OLD EXECUTIVE OFFICE BLDG.
TUESDAY, APRIL 4, 1989
2:00 P.M.

I've met with this group three times, over the last eight years -- and every meeting has been a resounding success. So I've got a mind to ask: Why can't we equal or exceed that kind of contact over the <u>next</u> eight years?

Among the many close friends I have in the ABC, I'd like to mention your former vice chairman, now Commerce Secretary, Bob Mosbacher. Like all of you, he knows what it means to take risks, to build a business, and to keep America first. He's already doing a superb job.

To be sitting in this room today, as ABC members, you've had to keep your earnings at three times the growth of the economy, plus inflation. Now, if Bob can just make that happen for <u>every</u> business in America... I'll make him the Business Czar and we can <u>all</u> go fishing.

You run the kind of high-growth businesses that represent the most dynamic, entrepreneurial segment of the American economy. And this government knows better than to fix what's already working.

Mark –

Just some comments –

How long will he

speak – ?

J.V.

7983

p.3 on

So this afternoon I'm going to address two areas of concern to you: the economics of enterprise -- and the imperative for education reform.

For anyone running a business, sound investment and flexibility in the marketplace are more important than ever. Your concern about a lack of savings is clearly motivated by a lack of domestic investment capital for American industry. Now, the personal savings rate has hit 5.2 percent or better for the past three months. That's good news. But we cannot relax.

The working paper you released last month on overconsumption was another reminder that the deficit must be brought under control. So let me reassure you -- this government will not become the fiscal equivalent of Overeaters Anonymous. Accountability in government demands that we put an <u>end</u> to this spending spiral.

You know, when George Kaufman -- that famous wit from the Algonquin Round Table -- was at a party, he heard a self-made millionaire boasting to a circle of people, "I was born into the world without a single penny." And Kaufman answered, "Oh really. When I was born, I owed twelve dollars."

Well, we don't <u>have</u> to let the deficit play a cruel joke on

future generations. Next year alone, federal tax revenues will rise by more than $80 billion. And we're going to use those funds to bring the deficit down <u>below</u> the Gramm-Rudman-Hollings targets.

To spur greater investment in American business, we need to bring our taxation of capital gains <u>down</u> -- in line with that of our trading partners. In the budget we've proposed to Congress, we want to restore the differential to 15 percent on long-held assets.

How many of you, as you built your businesses, were able to just walk up to a bank and get equity? Few, if any. Most of you probably raised capital by offering people a share of the business -- and a stake in the outcome.

Cutting the capital gains rate means more of that can happen. It will give businesses more of the capital they need to grow. It will bring in $4.3 billion <u>more</u> in tax revenues, according to the Treasury. And it will create more new jobs.

That's no tax break for the rich. That's a fair shake for every American.

The budget consultations are being held behind closed doors; so I can't tell you how they're going. But ~~we're~~ determined to

We are encouraged by our progress on the budget negotiations. Dick Darman & I are

work with this Congress -- we're counting on their cooperation, to find answers we can all live with.

We want to build on the energy and initiative of American business -- and we're determined to avoid burdensome mandates that only enforce solutions of uniform mediocrity. We don't want to limit the flexibility of managers and workers, who are trying to find their own best solutions. And you know, many are already succeeding.

Chamber of Commerce estimates suggest that workers are receiving more fringe benefits than ever before. Total benefits in 1987 were up 163 percent in a decade. And it is the market -- not government -- that is responsible for this growth.

Nearly eighty percent of growth in the fringe share of compensation is due to voluntary action by employers. Only 21 percent is due to government requirements. We want to keep it that way.

A "mandated benefit" is a contradiction in terms. How would you feel if your doctor said, "Well, nothing's broken... but we're going to put you in a full-body cast anyway." No thanks.

A hallmark of this administration will be its focus on the future -- and the importance we attach to making the right kinds

today to deliver the dividends of enhancing competitiveness and productivity tomorrow.

of investment. You don't make your money on short-term, day-to-day trades -- you make it through sound long-term planning.

There can be no investment more urgent -- or more compelling for the future of American business, and this country as a whole, than education. In this, all of us have a stake in the outcome.

Each of us has a stake ...

As labor markets get tighter in the coming years, many of you are going to be facing shortages of skilled people. Some managers are already worried about a scarcity of science and engineering graduates. And you've all read the surveys that show Pacific Rim students outperforming our own.

Our best students can compete with anyone in the world. We're not on the verge of some intellectual brown-out. But in order to give business more of the people it needs to compete -- to help build America's prosperity -- and to give more of our young people the skills they need to share in that prosperity -- we have made education a national priority.

Tomorrow, I will send to the Congress an education package. We want to reward merit schools that make progress in terms of raising student achievement, and reducing drug use and drop-out rates. We're promoting parental choice and educational quality, through magnet schools of excellence.

We want to provide <u>alternative certification</u> of teachers and principals, to broaden the pool of talent available; <u>President's Awards</u> to outstanding teachers; <u>Urban Emergency Grants</u> to provide comprehensive help in fighting drugs for school districts under seige; a <u>National Science Scholars</u> program for high school seniors; and additional endowment matching grants for <u>historically black colleges and universities</u>, which occupy a unique and vital position in American higher education.

We are committed to a program of education reform that will give our young people a solid foundation for the future. But to make lasting improvements in education, we'll need to get <u>all</u> of the players -- superintendents and administrators, school boards, local business leaders, teachers' unions -- around the table, working together.

This will demand accountability from all of us. It will require the best kind of collective effort, from all directions -- but it holds the promise of real progress.

Many of you have been prime movers, spending a remarkable amount of your own time making good on that promise. More than a third of you serve on local school boards, public or private -- or on the board of a local college or university.

Others among you have established a program with a local community college, or "adopted" a school, or taught part-time, or promoted science education across a school district. That's the kind of involvement that, while it isn't always easy, leads to the kind of educational reform that lasts. Consider yourself one in a thousand -- you know, points of light. It is the kind of involvement the challenges of the ~~future~~, global marketplace demand

By investing your time and talents toward the education of our young people, you're helping to bring about something vital -- a fundamental cultural shift, that reasserts the value of learning in this country.

You're breathing new life into an idea that has always been a testament to the American spirit: that doing well demands doing good.

Nothing I might tell you would say it better than your own mission statement, which says ABC executives "believe their own business success carries with it a responsibility to help expand economic opportunity throughout the economy."

As business leaders, you understand the power of interests held in common. Education is the one investment that guarantees economic opportunity -- for every individual, and every business in America. Thank you. And God bless you.

K. More pre-slits

(Lange/Martin)
March 30, 1989
1:15 p.m.

PRESIDENTIAL REMARKS: AMERICAN BUSINESS CONFERENCE
ROOM 450, OLD EXECUTIVE OFFICE BLDG.
TUESDAY, APRIL 4, 1989
2:00 P.M.

I've met with this group three times, over the last eight years -- and every meeting has been a resounding success. So I've got a mind to ask: Why can't we equal or exceed that kind of contact over the next eight years?

Among the many close friends I have in the ABC, I'd like to mention your former vice chairman, now Commerce Secretary, Bob Mosbacher. Like all of you, he knows what it means to take risks, to build a business, and to keep America first. He's already doing a superb job.

To be sitting in this room today, as ABC members, you've had to keep your earnings at three times the growth of the economy, plus inflation. Now, if Bob can just make that happen for every business in America... I'll make him the Business Czar and we can all go fishing.

You run the kind of high-growth businesses that represent the most dynamic, entrepreneurial segment of the American economy. And this government knows better than to fix what's already working.

So this afternoon I'm going to address two areas of concern to you: the economics of enterprise, and education.

For anyone running a business, flexibility and sound investment are now more important than ever. Your concern about a lack of savings is clearly motivated by a lack of domestic investment capital for American industry. Now, the personal savings rate has hit 5.2 percent or better for the past three months. That's good news. But we cannot relax.

The working paper you released last month on overconsumption was another reminder that the deficit must be brought under control. So let me reassure you -- this government will not become the fiscal equivalent of Overeaters Anonymous. Accountability in government demands that we put an end to this spending spiral.

You know, when George Kaufman -- that famous wit from the Algonquin Round Table -- was at a party, he heard a self-made millionaire boasting to a circle of people, "I was born into the world without a single penny." And Kaufman answered, "Oh really. When I was born, I owed twelve dollars."

Well, we don't have to let the deficit play a cruel joke on future generations. Next year alone, federal tax revenues will rise by more than $80 billion. And we're going to use those

funds to bring the deficit down below the Gramm-Rudman-Hollings targets.

To spur greater investment in American business, we need to bring our taxation of capital gains down -- in line with that of our trading partners. In the budget we've proposed to Congress, we want to restore the differential to 15 percent on long-held assets.

How many of you, as you built your businesses, were able to just walk up to a bank and get equity? Few, if any. Most of you probably raised capital by offering people a share of the business -- and a stake in the outcome.

Cutting the capital gains rate means more of that can happen. It will give businesses more of the capital they need to grow. It will bring in $4.3 billion more in tax revenues, according to the Treasury. And it will create more new jobs.

That's no tax break for the rich. That's a fair shake for every American.

The budget consultations are being held behind closed doors; so I can't tell you how they're going. Which may strike you like one of those spy movies where somebody knows a secret, and says, "You know, I'd tell you -- but then I'd have to kill you." But

we're determined to work with this Congress -- we're counting on their cooperation, to find answers we can all live with.

We want to build on the energy and initiative of American business -- and we're determined to avoid burdensome mandates that only enforce solutions of uniform mediocrity. We don't want to limit the flexibility of managers and workers, who are trying to find their own best solutions. And you know, many are already succeeding.

Chamber of Commerce estimates suggest that workers are receiving more fringe benefits than ever before. Total benefits in 1987 were up 163 percent in a decade. And it is the market -- not government -- that is responsible for this growth.

Nearly eighty percent of growth in the fringe share of compensation is due to voluntary action by employers. Only 21 percent is due to government requirements. We want to keep it that way.

"Mandated benefits" are a contradiction in terms. How would you feel if your doctor said, "Well, nothing's broken... but we're going to put you in a full-body cast anyway." No thanks.

A hallmark of this administration will be its focus on the future -- and the importance we attach to making the right kinds

of investment. You don't make your money on short-term, day-to-day trades -- you make it through sound long-term planning.

There can be no investment more urgent -- or more compelling for the future of American business, and this country as a whole, than education.

stake in outcome

As labor markets get tighter in the coming years, many of you are going to be facing shortages of skilled people. Some managers are already worried about a scarcity of science and engineering graduates. And you've all read the surveys that show Pacific Rim students outperforming our own.

Our best students can compete with anyone in the world. We're not on the verge of some intellectual brown-out. But in order to give business more of the people it needs to compete -- to help build America's prosperity -- and to give more of our young people the skills they need to <u>share</u> in that prosperity -- we have made education a national priority.

Tomorrow, I will send to the Congress an education package. We want to reward <u>merit schools</u> that make progress in terms of raising student achievement, and reducing drug use and drop-out rates. We're promoting parental choice and educational quality, through <u>magnet schools of excellence</u>.

We want to provide alternative certification of teachers and principals, to broaden the pool of talent available; President's Awards to outstanding teachers; Urban Emergency Grants to provide comprehensive help in fighting drugs for school districts under seige; a National Science Scholars program for high school seniors; and additional endowment matching grants for historically black colleges and universities, which occupy a unique and vital position in American higher education.

We are committed to a program of education reform that will give our young people a solid foundation for the future. But to make lasting improvements in education, we'll need to get all of the players -- superintendents and administrators, school boards, local business leaders, teachers' unions -- around the table, working together.

This will demand accountability from all of us. It will require the best kind of collective effort, from all directions -- but it holds the promise of real progress.

Many of you have been prime movers, spending a remarkable amount of your own time making good on that promise. More than a third of you serve on local school boards, public or private -- or on the board of a local college or university.

Others among you have established a program with a local community college, or "adopted" a school, or taught part-time, or promoted science education across a school district. That's the kind of involvement that, while it isn't always easy, leads to the kind of educational reform that lasts. Consider yourself one in a thousand -- you know, points of light.

By investing your time and talents toward the education of our young people, you're helping to bring about something vital -- a fundamental cultural shift, that reasserts the value of learning in this country.

You're breathing new life into an idea that has always been a testament to the American spirit: that doing well demands doing good.

Nothing I might tell you would say it better than your own mission statement, which says ABC executives "believe their own business success carries with it a responsibility to help expand economic opportunity throughout the economy."

As business leaders, you understand the power of interests held in common. Education is the one investment that guarantees economic opportunity -- for every individual, and every business in America. Thank you. And God bless you.

(Lange/Martin)
March 30, 1989
9:30 a.m.

PRESIDENTIAL REMARKS: AMERICAN BUSINESS CONFERENCE
ROOM 450, OLD EXECUTIVE OFFICE BLDG.
TUESDAY, APRIL 4, 1989
2:00 P.M.

I've met with this group three times, over the last eight years -- and every meeting has been a great success. So I've got a mind to ask: Why can't we equal or exceed that kind of contact over the next eight years?

Among the many close friends I have in the ABC, I'd like to mention your former vice chairman, now Commerce Secretary, Bob Mosbacher. Like all of you, he knows what it means to take risks, to build a business, and to keep America first. And he's already doing a superb job.

To be sitting in this room today, as ABC members, you've had to keep your earnings at three times the growth of the economy, plus inflation. Now, if Bob can just make that happen for every business in America... I'll make him the Business Czar and we can all go fishing.

You run the kind of high-growth businesses that represent the most dynamic, entrepreneurial segment of the American economy. And this government knows better than to fix what's already working.

So this afternoon I want to talk to you about what we're doing to encourage flexibility for the present -- and investment for the future.

For anyone running a business, flexibility and sound investment are now more important than ever. Your concern about a lack of savings is clearly motivated by a lack of investment capital for American industry. Now, the personal savings rate hit 5.9 percent in February -- nearly a seven-year high. That's good news.

But the working paper you released last month on overconsumption was another reminder that the deficit must be brought under control. So let me reassure you -- this government will not become the fiscal equivalent of Overeaters Anonymous. Accountability in government demands that we put an end to this spending spiral.

You know, when George Kaufman -- that famous wit from the Algonquin Round Table -- was at a party, he heard a self-made millionaire boasting to a circle of people, "I was born into the world without a single penny." And Kaufman answered, "Oh really. When I was born, I owed twelve dollars."

Well, we don't have to let the deficit play a cruel joke on

future generations. Next year alone, federal tax revenues will rise by more than $80 billion. And we're going to use those funds to bring the deficit down below the Gramm-Rudman-Hollings targets.

To spur greater investment in American industry, we need to bring our taxation of capital gains down -- in line with that of our trading partners. In the budget we've proposed to Congress, we want to restore the differential to 15 percent on long-held investments.

How many of you, as you built your businesses, were able to just walk up to a bank and get equity? Few, if any. Most of you probably raised capital by offering people a share of the business -- and a stake in the outcome.

Cutting the capital gains rate means more of that can happen. It will give businesses more of the capital they need to grow. It will bring in $4.3 billion more in tax revenues, according to the Treasury. And it will create more new jobs.

That's no tax break for the rich. That's a fair shake for every American.

The budget consultations are being held behind closed doors; so I can't tell you how they're going. Which may strike you like

one of those spy movies where somebody knows a secret, and says, "You know, I'd tell you -- but then I'd have to kill you." But we're determined to work with this Congress -- you know, live and let live -- to find answers we can all live with.

We want to build on the energy and initiative of American business -- and we're determined to avoid burdensome mandates that only enforce solutions of uniform mediocrity. We don't want to limit the flexibility of managers and workers, who are trying to find their own best solutions. And you know, many are already succeeding.

Chamber of Commerce estimates suggest that workers are receiving more fringe benefits than ever before. Total benefits in 1987 were up 163 percent in a decade. And it is the market -- not government -- that is responsible for this growth.

Nearly eighty percent of growth in the fringe share of compensation is due to voluntary action by employers. Only 21 percent is due to government requirements. We want to keep it that way.

"Mandated benefits" are a contradiction in terms. How would you feel if your doctor said, "Well, nothing's broken... but we're going to put you in a full-body cast anyway." No thanks.

A hallmark of this administration will be its focus on the future -- and the importance we attach to making the right kinds of investment. You don't make your money on short-term, day-to-day trades -- you make it through sound long-term planning.

There can be no investment more urgent -- or more compelling for the future of American business, and this country as a whole, than education.

As labor markets get tighter in the coming years, many of you are going to be facing shortages of skilled people. Some managers are already worried about a scarcity of science and engineering graduates. And you've all read the surveys that show Pacific rim students outperforming our own.

Our best students can compete with anyone in the world. We're not on the verge of some intellectual brown-out. But in order to give business more of the people it needs to compete -- to help build America's prosperity -- and to give more of our young people the skills they need to share in that prosperity -- we have made education a national priority.

~~Next week~~ Tomorrow, I will ~~be~~ send~~ing~~ to Congress an education legislation package. We want to reward merit schools that make progress in terms of raising student achievement, and reducing

drug use and drop-out rates. We're promoting parental choice and educational quality, through magnet schools of excellence.

We want to provide alternative certification of teachers and principals, to broaden the pool of talent available; President's Awards to outstanding teachers; Urban Emergency Grants to provide comprehensive help in fighting drugs for school districts under seige; a National Science Scholars program for high school seniors; and additional endowment matching grants for historically black colleges and universities, which occupy a unique and vital position in American higher education.

We are committed to a program of education reform that will give our young people a solid foundation for the future. But to make lasting improvements in education, we'll need to get all of the players -- superintendents and administrators, school boards, local business leaders, teachers' unions -- around the table working together.

This will demand accountability from all of us. It will require the best kind of collective effort, from all directions -- but it holds the promise of real progress.

Many of you have been prime movers, spending a remarkable amount of your own time making good on that promise. More than a third of you serve on local school boards, public or private -- or on the board of a local college or university.

Others among you have established a program with a local community college, or ~~created Montessori~~ "adopted" a school~~s~~, or taught part-time, or promoted science education across a school district. That's the kind of involvement that, while it isn't always easy, leads to the kind of educational reform that lasts. Consider yourself one in a thousand -- you know, points of light.

By investing your time and talents toward the education of our young people, you're helping to bring about something vital -- a fundamental cultural shift, that reasserts the value of learning in this country.

You're breathing new life into an idea that has always been a testament to the American spirit: that doing well demands doing good.

Nothing I might tell you would say it better than your own mission statement, which says ABC executives "believe their own business success carries with it a responsibility to help expand economic opportunity throughout the economy."

As business leaders, you understand the power of interests held in common. Education is the one investment that guarantees economic opportunity -- for every individual, and every business in America. Thank you. And God bless you.

Try to work in a little humor or an anecdote 2/3 rd of way through — even a Yogi-ism!!

THE PRESIDENT HAS SEEN
4/3/89

(Lange/Martin)
March 31, 1989
6:30 p.m.

PRESIDENTIAL REMARKS: AMERICAN BUSINESS CONFERENCE
ROOM 450, OLD EXECUTIVE OFFICE BLDG.
TUESDAY, APRIL 4, 1989
2:00 P.M.

I've met with this group three times, over the last eight years -- and every meeting [for me at least] has been ~~a resounding success. So I've got a mind to ask: Why can't we equal or exceed that kind of contact over the next eight years?~~ worthwhile and productive. I'm glad to be back.

Among the many close friends I have in the ABC, I'd like to mention your former vice chairman, now Commerce Secretary, Bob Mosbacher. Like all of you, he knows what it means to take risks, to start a business, make it grow, and keep it competitive. Here in Washington, he is putting his experience to work. Bob is on the cutting edge of our national effort to Build a Better America.

To be sitting in this room today, as ABC members, you've had to keep your earnings at three times the growth of the economy, plus inflation. Now, if Bob can just make that happen for <u>every</u> business in America... I'll make him the Business Czar and we can <u>all</u> go fishing.

You run the kind of high-growth businesses that represent the most dynamic, entrepreneurial segment of the American

economy. And this government knows better than to fix what's already working.

So this afternoon I'm going to address two areas of concern to you: the economics of enterprise -- and the imperative for education reform.

You folks know the same lesson that I learned as a businessman. You need capital to grow. What you don't need is higher taxes on your earnings, or higher taxes on your workers, or higher taxes on those who invest their money in your firm.

Right now the government is making too big a claim on America's capital to cover our deficit. That's capital that should be invested in America's businesses. The best way to channel more capital into productive investment is not higher taxes. It's spending restraint.

The working paper you released last month was another reminder that the deficit must be brought under control. So let me reassure you -- this government will not become the fiscal equivalent of Overeaters Anonymous. Accountability in government demands that we put an end to this spending spiral.

You know, when George Kaufman -- that famous wit from the Algonquin Round Table -- was at a party, he heard a self-made

millionaire boasting to a circle of people, "I was born into the world without a single penny." And Kaufman answered, "Oh really. When I was born, I owed twelve dollars."

Well, we don't have to let the deficit play a cruel joke on future generations. Next year alone, FY 1990 federal revenues will rise by more than $80 billion -- with no tax increase. And we're going ~~to use those funds to bring the deficit down below~~ to meet or beat the Gramm-Rudman-Hollings targets.

Our budget consultations with Congress ~~are~~ so far have been going well. We're determined to work with this Congress -- we're counting on their cooperation, to find answers we can all live with.

To spur greater investment in American business, we need to bring our taxation of capital gains down -- in line with that of our trading partners. In the budget we've proposed to Congress, we want to restore the differential to 15 percent on long-held assets.

How many of you, as you built your businesses, were able to just walk up to a bank, and get a loan to cover your start-up costs? Few, if any. Most of you probably raised capital by offering people a share of the business -- and a stake in the outcome.

Cutting the capital gains rate means more of that can happen. It will give businesses more of the capital they need to grow. It will bring in $4.8 billion <u>more</u> in tax revenues in 1990, according to the Treasury. And it will create more new jobs.

That's no tax break for the rich. That's a fair shake for every American.

We want to build on the energy and initiative of American business -- without burdensome mandates that only enforce solutions of uniform mediocrity. We don't want to limit the flexibility of managers and workers, who are trying to find their <u>own</u> best solutions. And you know, many are already succeeding.

Chamber of Commerce estimates suggest that workers are receiving more fringe benefits than ever before. Total benefits in 1987 were up 163 percent in a decade. And it is the <u>market</u> -- not government -- that is responsible for this growth.

Nearly ~~eighty~~ 70 percent of growth in benefits is due to voluntary action by employers. Only ~~21~~ 30 percent is due to government requirements. We want to keep it that way.

Our friends in Europe have tried mandated benefits -- and ~~have since found little~~ ~~have found that such rigidities~~ they haven't had much success. They're now looking for ways to free up enterprise, American style -- and make it more flexible, not less. For us to go toward mandated benefits would be, as Yogi Berra put it, like "deja vu all over again."

European tried

deja vu all over again

A "mandated benefit" is a contradiction in terms. How would you feel if your doctor said, "Well, nothing's broken... but we're going to put you in a full-body cast anyway." No thanks. Mandated benefits are really mandated burdens. America will be more competitive if we continue to resist the temptation to heap burdensome mandates on the productive private sector.

A hallmark of this administration will be its focus on the future -- and the importance we attach to making the right kinds of investment. There can be no investment more urgent -- or more compelling for the future of American business, and this country as a whole, than education. In this, all of us have a stake in the outcome.

As labor markets continue to get tighter in the coming years, many of you are going to be facing shortages of skilled people. Some managers are already worried about a scarcity of science and engineering graduates. And you've all read the surveys that show many foreign students outperforming our own.

Although our best students can compete with anyone in the world, the challenge we face is to adapt our educational system so that all of our students receive the skills they need to share in that prosperity -- my Administration has made education a national priority.

Our program is based on four principles: it rewards excellence, helps those most in need, demands accountability, and supports greater flexibility and choice.

Tomorrow, I will send to the Congress our education package. We want to reward merit schools that make progress in terms of raising student achievement, and reducing drug use and drop-out rates. We're promoting parental choice and educational quality, through magnet schools of excellence.

We want to provide alternative certification of teachers and principals, to broaden the pool of talent available; President's Awards to outstanding teachers; Urban Emergency Grants to provide comprehensive help in fighting drugs for school districts under siege; a National Science Scholars program for high school seniors; and additional endowment matching grants for historically black colleges and universities, which occupy a unique and vital position in American higher education.

We are committed to a program of education reform that will give our young people a solid foundation for the future. But to make lasting improvements in education, we'll need to get all of the players -- administrators, school boards, local business leaders, parents, teachers' unions -- around the table, working together.

This will demand accountability from all of us. It will require the best kind of collective effort, from all directions -- but it holds the promise of real progress.

Many of you have been prime movers, spending a remarkable amount of your own time making good on that promise. More than a third of you serve on local school boards, public or private -- or on the board of a local college or university.

Others among you have established a program with a local community college, or "adopted" a school, or taught part-time, or promoted science education across a school district. That's the kind of involvement that, while it isn't always easy, leads to the kind of educational reform that lasts. It places you among the "thousand points of light" that spread hope and opportunity. You are part of what makes America special.

By investing your time and talents toward the education of our young people, you're helping to bring about something vital -- a fundamental cultural shift, that reasserts the value of learning in this country. You're breathing new life into an idea that has always been a testament to the American spirit: that doing well demands doing good.

Nothing I might tell you would say it better than your own mission statement, which says ABC executives "believe their own

business success carries with it a responsibility to help expand economic opportunity throughout the economy."

As leaders -- not only in business but in every sector of our society -- you know that the national interest requires us to invest in the future. Education is the best investment we can make, if we want to Build a Better America.

Thank you. And God Bless you all.

FRINGE BENEFITS FOR AMERICAN WORKERS

Workers are Receiving More Fringe Benefits than Ever Before

- According to Chamber of Commerce estimates, total benefits reached $813.9 billion in 1987, up 163 percent in a decade.

- In 1987, total benefits reached a record 36.2 percent of wages and salaries. That is more than twice the share wages in the late 1950s.

Non-Cash Fringes, Especially Time Off, Is Rising Most Rapidly

- Payment for Time Off amounted to 11 percent of payroll in 1987, equivalent to 28.6 days off. Of this:

    - 14.8 days (or 3 weeks) were paid vacation
    - 8.6 days were paid holidays
    - 3.6 days were paid sick days
    - 1.6 days were for other reasons, including parental leave

- Twenty years ago, time off amounted to 20.5 days per year. Ten years ago it was 25.5 days.

Total Cash Fringes are Rising But Declining as a Percent of Payroll

- Total Cash Fringes reached $652 billion in 1987, up 141 percent in a decade.

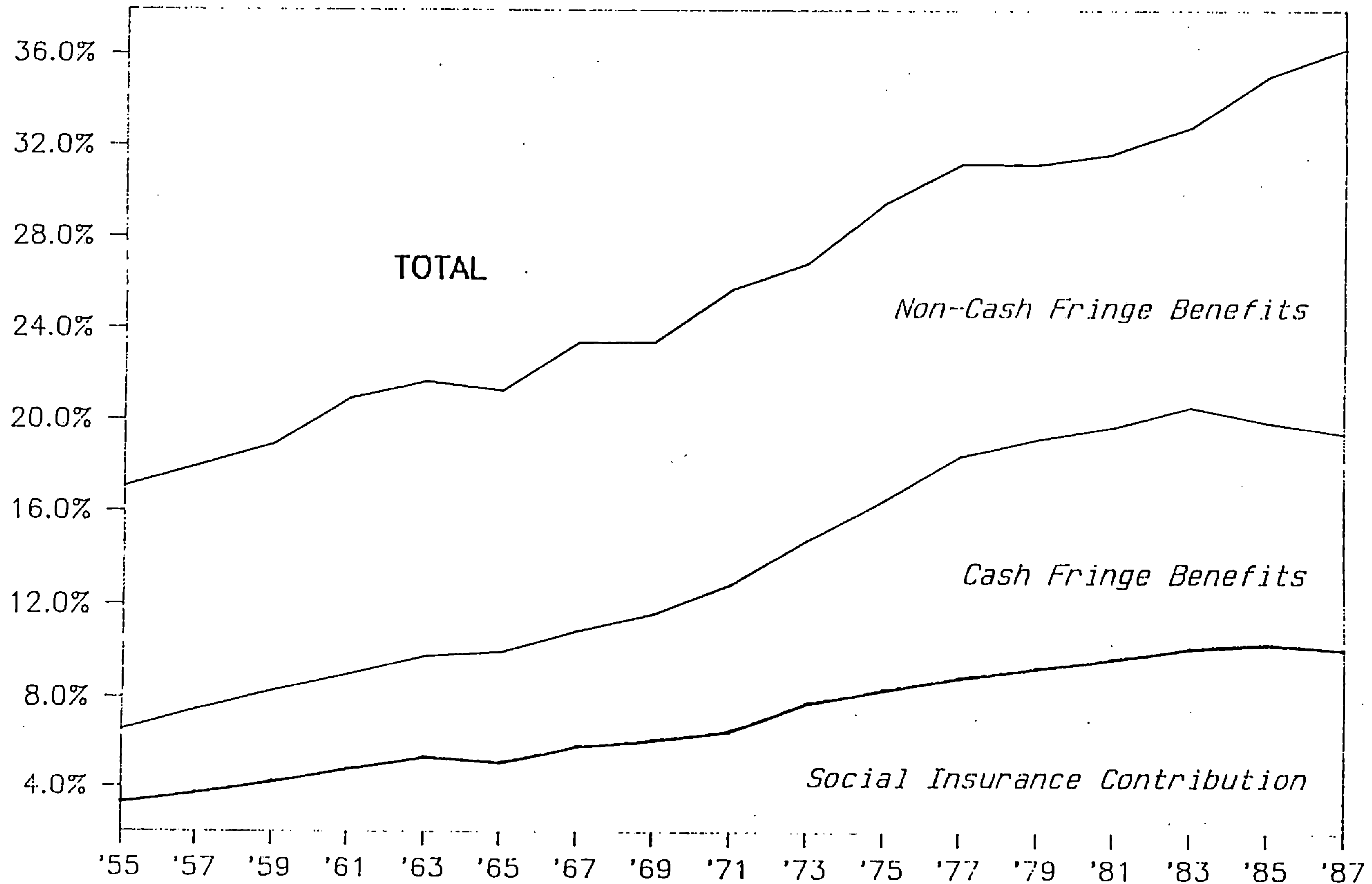
- This was 19.3 percent of payroll, down from a peak of 20.6 percent in 1983, but still higher than the 18.4 percent of a decade ago. Possible reasons for this:

    - With lower tax rates, cash fringes are less attractive relative to wages than they used to be.

    - The rising stock market has meant that companies need to contribute less new money to fund their pension plans.

The Market, Not Government Is Responsible For Rising Fringes

- 79 percent of the growth in the fringe share of compensation is due to voluntary action by employers. Only 21 percent is due to government requirements.


BENEFITS AS A PERCENTAGE OF WAGES
ODD YEARS 1955 - 1987
36.0%
32.0%
28.0%
24.0%
20.0%
16.0%
12.0%
8.0%
4.0%
TOTAL
Non-Cash Fringe Benefits
Cash Fringe Benefits
Social Insurance Contribution
'55
'57
'59
'61
'63
'65
'67
'69
'71
'73
'75
'77
'79
'81
'83
'85
'87

About ABC

Since its inception in 1981, the American Business Conference has served as the voice of the midsize, high-growth sector of the economy. Comprising one hundred chief executive officers of high growth companies with revenues over $25 million, ABC works to create policies which promote fundamental economic growth and new opportunities for entrepreneurship.

Copyright © 1989

George N. Hatsopoulos
Thermo Electron Corporation
101 First Avenue
P.O. Box 9046
Waltham, MA 02254-9046

Overconsumption:
The Challenge to U.S. Economic Policy

George N. Hatsopoulos, Paul R. Krugman,
and James M. Poterba

Jointly sponsored by the
American Business Conference and
Thermo Electron Corporation

Table of Contents

Acknowledgement 3

Foreword 4

Executive Summary 5

Overconsumption:
The Challenge to U.S. Economic Policy 6

- Introduction 6
- The Bottom Line 6
- Short-run Risks of Low National Saving 7
- Long-run Consequences of Low National Saving 8
- The Rise of Personal Consumption 9
- A Strategy to Raise National Saving 11
- Reducing the Federal Deficit 12
- Inducing Voluntary Increases in Personal Saving 13
- Slowing Down the Leveraging of U.S. Corporations 14
- A Possible Alternative 16
- Conclusion 16

Appendices:

I. Determinants of Consumer Spending 17

- Consumption Function Estimates 17
- Explaining Consumption Growth, 1970 to 1988 20
- Sensitivity Analysis 21

II. Why Has Leverage Increased? 23

III. Potential Effects of Saving Incentives 26

IV. Effect of Revenue-Neutral Changes In Corporate Taxation on the Cost of Capital 26

Acknowledgement

This work benefited greatly from discussion and criticisms from many economists, engineers, and business executives. We are particularly grateful to Martin Feldstein, Dale Jorgenson, Lawrence Summers, and Paul Volcker for their time in reviewing this document and for their constructive suggestions. We also thank the economists of the Federal Reserve Bank of Boston for their input and contribution.

We are particularly indebted to the members of the American Business Conference, and especially to Barry Rogstad, for the interest in the subject of national saving. The impetus emerged from discussions of ABC chief executives during task force meetings on economic policy.

Finally, we wish to recognize the tireless and extraordinary staff support provided by Linda Nordberg of Thermo Electron Corporation.

Foreword

Overconsumption: The Challenge to U.S. Economic Policy is one in a series of working papers sponsored by the American Business Conference. These working papers advance innovative ideas on issues relating to economic growth and capital formation. Deliberately provocative, they are intended to spark discussion and debate regarding how best the United States can stimulate new investment, job creation, and greater international competitiveness.

George Hatsopoulos, the lead author of this working paper, is a founding member of the American Business Conference, chairman and president of Thermo Electron Corporation, and the author of numerous economic monographs including an ABC sponsored ground-breaking study of comparative capital costs. In *Overconsumption: The Challenge to U.S. Economic Policy,* Dr. Hatsopoulos and his collaborators, Professor Paul Krugman and Professor James Poterba of the Massachusetts Institute of Technology, examine one of the most troubling economic phenomena of recent years—the low level of savings in the American economy. They analyze the sources and consequences of the problem and suggest some highly intriguing policy options to address it.

Their paper could not be more timely. Our anemic national savings threatens the nation's capacity to generate sufficient investment necessary to remain competitive in a global market. Indeed, the members of the American Business Conference— the chief executives of one hundred fast-growing, midsize businesses—regard the low level of national savings, which includes government dissaving in the form of chronic federal budget deficits, as the single greatest economic problem confronting the country.

We would like to thank Dr. Hatsopoulos and his co-authors for their efforts. Their paper has already ignited a lively exchange among ABC members and will, we believe, similarly enrich the ongoing dialogue on fiscal issues within the economic policy-making community at large.

Arthur Levitt Jr., Chairman
Barry K. Rogstad, President

American Business Conference
New York and Washington, March 1989

Executive Summary

Overconsumption: The Challenge to U. S. Economic Policy

For the first time in America's history, the prosperity of its people is supported not by its production, but by the selling of assets that took many generations to create. The federal budget deficit is widely perceived as the central problem. The deficit is, however, only a contributing factor to a more fundamental problem: excessive consumption relative to output.

The United States is currently consuming a higher fraction of its national income than any other industrialized nation and a far higher fraction than in any comparable period of our history. Our high consumption rate (or equivalently, our low saving rate) is the single most important cause of both unprecedented trade deficits and inadequate domestic investment during the mid-1980s. Restoring national saving at least to the level of the 1970s should be the central goal of national economic policy.

The Costs of Overconsumption

High current consumption poses many threats to the U.S. economy. One is that our dependence on foreign capital and the growing overhang of debt expose the United States to short-run risks. More fundamentally, our high current consumption mortgages our future. Increasingly, the U.S. economy has been attracting the capital it needs by selling our assets cheaply. Foreign investors have been induced to buy up U.S. land, corporations, and securities by a low dollar that makes these assets inexpensive in foreign currency. This process cannot continue indefinitely; ultimately, inadequate national saving must translate into reduced investment. During the late 1980s, the United States had the lowest rate of net investment, as well as the lowest rate of productivity growth, of major industrial countries. The principal long-run cost of overconsumption is a gradual slowing down of the growth of living standards.

The Causes of Overconsumption

The sharp fall in national saving during the 1980s has many sources. The most popular villain – the federal budget deficit – accounts for less than half of the decrease. Reduced private saving bears more of the responsibility. Together these factors account for a decline in national saving from 8 percent of national income in the 1970s, to barely 2 percent of national income today.

Our investigation suggests that four basic factors have played a central role in the decline in saving, or equivalently, the growth of consumption:

- Growth of the federal deficit,
- Changes in the demographic structure of the U.S. population,
- Increased personal wealth, and
- Increased cash payout from firms to investors.

The last factor reflects both the substitution of high-interest-yield debt for low-dividend-yield equity in corporate capital structures, as well as the forced realization of capital gains resulting from debt-financed takeovers and leveraged buy outs.

Solutions to Overconsumption

Slowing the growth of consumption relative to the growth of national income requires prompt action on several fronts:

- *Reducing the Federal Deficit.* Lowering government consumption is the most direct method of attacking the overconsumption problem. Raising taxes, thereby lowering private consumption, will also increase national saving although the net effect is less certain. The differential effect of various tax changes on private saving, and thus national saving, should be recognized.
- *Improving Incentives for Private Saving.* Introducing a national campaign to promote saving and issuing "Super-saver" bonds to encourage households to save for the long-run could bolster the falling private saving rate.
- *Eliminating Incentives for Corporate Leverage.* Equal tax treatment of debt and equity would slow the growth of corporate leverage and thereby reduce the trend toward higher cash payout to shareholders, and bondholders.

Overconsumption:
The Challenge to U.S. Economic Policy

Introduction

The single greatest problem of the U.S. economy in the late 1980s is its extremely low level of national saving. The current low national saving rate – the lowest rate we have ever had except in times of war or depression, less than half the rate in the severe recession year of 1982, and by far the lowest rate in the industrial world – lies at the root of both our unprecedented trade deficits and our inadequate level of domestic investment, which in turn is a major cause of low U.S. productivity growth.

Low U.S. national saving is usually blamed primarily on the federal budget deficit. *While the budget deficit was an important contributory factor to the decline in national saving in the 1980s, it was far from the whole story: declining private saving was more important.* Eliminating the budget deficit, therefore, will not eliminate the national saving problem.

From 1985 to 1987 the federal deficit declined substantially. Yet private saving declined even more and, as a result, national saving declined. It therefore appears that there are important factors depressing national saving other than the budget deficit. In other words, a commitment by the United States to eliminate the federal deficit, important as this goal is, is not sufficient. *We need a national policy that focuses on the real bottom line: restoring national saving to at least the level of ten years ago.*

The purpose of this paper is to review the causes and consequences of the low U.S. national saving rate and to propose some policy changes that could help to reverse its alarming decline.

The Bottom Line

Saving for the nation has the same definition as saving for an individual: the excess of income over expenditure for current consumption. For the nation as a whole, saving is defined as the difference between national income and national consumption. National income, in turn, is simply net national product – the value of goods and services produced in the economy, less depreciation of the national capital stock – while national consumption is the sum of private consumption and consumption by the public sector.[1]

Table I shows the relation between national saving, net domestic investment, and net U.S. investment abroad (the current account balance) in the period 1985 to 1987 compared to the period 1970 to 1979, all expressed as a percent of national income.

During the 1970s the United States saved on average 7.9 percent of its national income. Of that, 7.6 percent was invested domestically and 0.3 percent abroad. In the mid-1980s (1985 to 1987) the United States experienced a dramatic decline of its national saving to an average of 2.1 percent of national income. Such a low rate of national saving is unprecedented for periods of economic expansion, not only for the United States but for all industrialized nations.

The decline in national saving has forced the United States to borrow massively from foreigners ($417 billion from 1985 to 1987) and to reduce net domestic investment by 2 percentage points relative to the 1970s, which included two recessions.[2] From 1985 to 1987, 60 percent of net national investment was financed by borrowing abroad.

Table I
Saving and Investment
(percent of national income)

	1985–1987	1970-1979	Difference
Net National Saving	2.1	7.9	(5.8)
Equals: Net Domestic Investment	5.7	7.6	(1.9)
Plus: Net U.S. Investment Abroad	(3.6)	0.3	(3.9)

1. Strictly speaking, national income as usually defined differs slightly from net national product because of an adjustment for indirect taxes on business. This technical distinction is of no importance to our discussion and in what follows, we will use the concepts of national income and net national product interchangeably.

There is another measurement issue that we should note. Both national income and the saving rate are somewhat incorrectly measured because of failure to take account of the fact that part of government expenditure is actually investment. For this reason national saving is typically somewhat higher than measured; while national income is actually somewhat lower because of depreciation on government capital. However, the decline in national saving is almost certainly larger than measured because of cutbacks in government investment.

2. A rate of national saving that is inadequate to support net domestic investment results in high real interest rates that depress the rate of capital formation.

Our continued dependence on foreigners to finance most of our net investment not only poses serious short-term risks, but undermines the prospects for growth of the U.S. standard of living. The low rate of net investment during the mid-1980s is inconsistent with sustained economic growth and international competitiveness. In fact, it has been argued[3] that a rate of net investment far greater, not less, than that of the past is needed for our country to compete and prosper over the remainder of the century.

Since national saving is the difference between income and consumption, the decline in the national saving rate is equivalent to a rise in the share of output that is consumed. Table II shows what happened in the 1985 to 1987 period as compared to the average between 1970 and 1979. The share of output consumed by the federal government, that is, government purchases, increased by only one percentage point.[4] Consumption by state and local governments remained unchanged. The problem of low national saving is therefore *primarily a problem of high personal consumption.*[5]

As discussed later, the escalation of personal consumption in the mid-1980s was primarily the result of four factors: large federal budget deficits, changing demographics, increases in personal wealth, and the financial restructuring of the corporate sector through debt-financed takeovers and leveraged buy outs. Before describing in more detail what caused the rise in personal consumption, however, we shall address the short-term risks and long-term damage to our economy that result from sustained low rates of national saving.

Short-run Risks of Low National Saving

National saving can be used for two purposes: to invest in the growth of domestic capacity, or to accumulate net claims on foreigners, which will yield income in the future. The decline in U.S. national saving in the 1980s has been met primarily by a shift of the United States from a balance of payments surplus, in which we were gradually increasing our stock of overseas assets, to a balance of payments deficit, in which 60 percent of net investment in the United States is financed by borrowing abroad. America has also experienced a decline in the rate of domestic investment.

Some people have argued that the dependence of the United States on capital inflows is not a problem, but a sign of strength: it shows the willingness of foreigners to invest here. This argument tries to make a parallel between U.S. experience in the 1980s and our experience in the 19th century when large capital inflows helped to finance a high rate of investment. The parallel is, however, a false one. The United States has not been borrowing in order to invest. In fact, our investment rate is well below its level of the 1960s and 1970s, and the lowest in the industrial world. We are borrowing to consume.

What this means is that the United States is not repeating its own history, or emulating rapidly growing economies like South Korea that have borrowed heavily in order to finance high investment that leads to high productivity growth. Instead, we are following the example of the nations of Latin America, who borrowed heavily on world

Table II
Consumption and Net National Saving
(percent of national income)

	1985–1987	1970–1979	Difference
National Income	100.0	100.0	-
Less: Personal Consumption	74.1	69.3	4.8
Less: Federal Government Purchases	10.6	9.6	1.0
Less: State & Local Government Purchases	13.2	13.2	-
Equals Net National Saving	2.1	7.9	(5.8)

3. G.N. Hatsopoulos, P.R. Krugman, L.H. Summers, "U.S. Competitiveness: Beyond the Trade Deficit," *SCIENCE*, 15 July 1988, Volume 241, pp. 299-307.

4. The term government purchases means only direct spending by government, for example, purchases of supplies and compensation of government employees. These numbers do not include government transfers to individuals of which the Social Security program is the largest component. We have included government payments to foreigners with government purchases. The increase in government purchases between the 1970s and the mid-1980s was solely due to defense spending. In spite of these increases, federal purchases were a smaller share of national income for the 1985 to 1987 period than during the 1960s.

5. Some have argued that the recent growth in consumption is partly due to higher outlays for durables which should in part be considered investment rather than consumption. Even consumption of nondurables and services as a share of national income increased by 4 percentage points between the 1970s and the mid-1980s.

markets but failed to use the foreign capital to expand their productive capacity.

What happened to the Latin nations was that it eventually became obvious that their dependence on foreign capital was unsustainable. When this happened, they experienced a loss of foreign confidence, and the capital inflows on which they had become dependent were suddenly cut off with devastating economic effects. At the moment the creditworthiness of the United States is still regarded as strong, because our foreign debt is still small compared to the size of our economy; but the risk of a loss of confidence and a cutoff of capital flows cannot be ruled out.

If such a cutoff of capital flows were to occur, the ensuing reduction in national income could be substantial. Most estimates suggest that capital inflows are currently allowing the U.S. economy to live 5 percent or more beyond its means.[6] That means that a cutoff of capital flows would force the United States to make a sudden adjustment comparable in size to that forced by the energy crises of 1973 and 1979 combined. The result could easily be a recession induced by the efforts of the Federal Reserve to control inflation, with an associated loss to the economy considerably greater than 5 percent.[7]

These risks do not seem pressing at the present time, but for a very unfortunate reason: The low value of the dollar makes the purchase of U.S. assets by foreigners very advantageous to them. As a result, net U.S. wealth is being transferred to foreigners. If this transfer continues for a prolonged period, the long-run consequences for the well-being of the American people will be onerous.

Long-run Consequences of Low National Saving

Low national saving must eventually translate into low domestic investment. While it is possible to finance investment for a time through foreign borrowing, eventually the U.S. economy must pay its own way, which means that the ability to invest is constrained by the willingness to save. The problem is that investment is the single most important factor in determining the economy's rate of productivity growth. The United States already has the lowest rate of net investment and, not coincidentally, the lowest rate of long-term productivity growth (measured as the percentage change in real GDP per employed person, 1979 to 1986) among the major industrial countries. A squeeze on investment will further accelerate our relative decline.

This investment squeeze can be postponed for a time to the extent that the United States is able to attract inflows of foreign capital. However, these inflows carry their own cost: an increasing share of U.S. assets end up being foreign-owned, implying that in the future a growing share of U.S. output will be claimed by foreigners.

There is a tendency on the part of most Americans to regard the issue of foreign ownership as marginal; we find it hard to imagine that an economy as large as that of the United States could be in the process of seriously mortgaging its future. Yet the numbers do not support such complacency. The market value of all U.S. corporations, public and private, large and small, is only $2,400 billion; foreign claims on the United States are already more than $1,000 billion, and because of our dependence on foreign financing, net foreign claims are increasing at a rate of between $120 and $160 billion a year. Admittedly, most foreign investment in the United States is in interest-bearing assets, not corporate equities, and corporate assets are only one fifth of U.S. wealth. Nonetheless, foreigners could have a large stake in the U.S. economy, including control of a number of corporations, by early in the next century.[8]

Such a prospect might be viewed with equanimity if foreign investment in the United States were attracted by the strength of our economy and were helping to finance a high rate of investment. But this is not the case. We are in effect selling U.S. assets to pay for consumption, not to finance creation of productive capacity. And since 1985, we have been able to attract foreign capital only by making U.S. assets progressively cheaper in terms of foreign currencies, through a continually depreciating dollar.

The need to attract foreign financing by depreciating the dollar, of course, adds to the eventual cost of our dependence on foreign funds. *To a certain extent the U.S. is not only mortgaging its future through foreign borrowing, but holding a "fire sale" of its assets at bargain prices in order to raise funds.*

It is important to emphasize that there is nothing wrong per se with foreigners buying U.S. assets. If Americans were to buy foreign assets of the same long-term value as those foreigners bought in the United States, the transaction could be beneficial to both. This would happen if the U.S. current account were balanced and if the exchange

6. The 5 percent number may seem surprising, given that the current account deficit is only approximately 3 percent of gross national product. The larger number results from observation of two main points. First, net national product is somewhat smaller than GNP, so the ratio of the current deficit to this number is larger. Much more important, in order to bring its trade quickly into balance, the United States would have to depreciate the dollar sharply. This dollar depreciation would drive up the price of imports, reducing U.S. real income and requiring a larger contraction in real spending.

7. The recent growth in corporate leverage which we discuss in more detail in Appendix II, could magnify the effects of a cutoff of foreign capital. Highly leveraged firms are particularly vulnerable during periods of recession and high interest rates.

8. Net foreign investment in the United States between 1985 and 1987 was $417 billion. Of that 76.5 percent was invested in financial assets other than direct investment, 18.2 percent was used to acquire U.S. corporations and divisions of U.S. corporations, and 5.3 percent for other direct investments. Acquisitions of U.S. companies by foreigners have constituted an increasing fraction of net foreign investment: 9.5 percent in 1985, 17.2 percent in 1986, and 25 percent in 1987. Other direct investment as a share of net foreign investment has been declining. (Source: *Flow of Funds Accounts*, Board of Governors of the Federal Reserve System and *Mergerstat Review*, W.T. Grimm and Company.)

rate of the dollar were at its long-term equilibrium rate. The problem with the current situation is that the United States is selling its assets to finance consumption and quite possibly doing so at too low a price.[9]

The problem of U.S. dependence on foreign capital cannot be solved by treating symptoms – by trying a crash program of reducing the trade deficit by forcing the dollar down even further, or by trying to support the value of the dollar in order to avoid a "fire sale." If the U.S. were somehow to eliminate its current account deficit without raising the national saving rate, we would be in even worse trouble because the inadequacy of domestic saving would force a severe squeeze on investment. On the other hand, if the U.S. were somehow to raise the value of the dollar, the result would be to further widen our current account deficit. The only way to avoid a "fire sale" of our assets is not to need one.

The above discussion leads to one conclusion: *It is a national imperative to increase national saving immediately.* Such action is necessary both to reduce short-term risks and, more importantly, to prevent long-term damage to America's economic future.

The Rise of Personal Consumption

The unprecedented escalation of personal consumption in the mid-1980s is a recent phenomenon– personal consumption as a percent of national income exceeded previous historical peaks in each of the years after 1981. This escalation has been attributed to many causes including the presence of large federal deficits during a long economic expansion, changes in demographics, the rise in personal wealth, and the changing attitudes of people.

The determinants of consumption are a source of intense debate among economists. Much thinking on the subject assumes that individual households rationally formulate lifetime consumption plans based on both their current wealth and their expected earnings. If this were a good description of actual behavior, consumption spending would be unresponsive to many influences commonly cited. For example, dividend payments and accrued but unrealized capital gains would have equal effects on consumption. In addition, tax cuts would not be spent, because households would foresee the eventual burden of servicing government debt.

For a number of reasons, however, this stylized view is an inadequate description of actual consumption behavior. The most common objection is that many households, especially low income households, may face liquidity constraints because they are unable to borrow against future labor income. Such constraints force households into a shorter-term focus, in which changes in cash flow, whether due to reduced taxes or higher pre-tax income, may raise consumption more than their impact on lifetime earnings would indicate. Even higher income households who hold substantial assets and do not face liquidity constraints may, however, be excessively sensitive to current cash flow. They may base their spending on rules of thumb that give a high weight to current receipts. For example, sophisticated managers have a tendency to ratchet up their consumption in response to a high bonus during a year of record earnings, although they are fully aware of the temporary nature of such a payment. Because of this, many large corporations accrue bonuses and pay them over a number of years.

There is substantial empirical evidence that households associate consumption more with current cash flow than with unrealized capital gains. This was one reason that corporations paid cash dividends prior to the Tax Reform Act of 1986, even though under pre-1986 tax rules they could have reduced stockholder taxes by issuing stock dividends and transferring cash to stockholders through share repurchases. Thermo Electron and other high technology companies did make use of stock dividends; but this led to criticism from many stockholders who would have preferred to receive cash dividends because they were unwilling to sell shares to support current consumption.

The evident inadequacy of a framework in which households form fully rational lifetime consumption plans has led most econometric model-builders to adopt a specification for the aggregate consumption function in which both household net worth and current disposable income affect spending decisions. Our empirical research, summarized in Appendix I, extends the usual approach to estimating aggregate consumption functions by examining the effect of forced conversions of corporate equities into cash.[10] Such conversions have resulted from the extraordinary level of activity in debt-financed takeovers and lever-

9. There is considerable debate over whether the dollar is currently under- or over-valued relative to the level it will settle at in the long run. Nothing crucial in our argument depends on which side is right. At the moment financial markets believe that the dollar is weak enough to ensure a steady decline in the U.S. current account deficit. If they are right, then capital inflows, which are by definition equal to the current deficit, will also steadily decline, implying a growing squeeze on U.S. investment. If the current deficit does not continue its decline, markets will without doubt force the dollar still lower until it reaches a level at which the external deficit really does come down. Either way, within a few years, the U.S. will be forced to do without the massive net capital inflows that have replaced our vanishing national saving up to this point.

10. One would of course expect a correlation between *voluntary* realization of gains and consumption spending, since households may realize gains to finance spending on durables or large nondurable purchases. Our analysis focuses on the spending effects of involuntary realizations.

aged buy outs in the mid-1980s. Figure 1 illustrates the magnitude and the unusual aspect of these activities. Prior to 1984 net new equity issues in the corporate sector were very small, averaging about zero. Since 1984, net new equity issues have been negative – equity retirements have exceeded new equity issues by large amounts. Concurrently, net additions to debt have grown rapidly.

Debt-financed purchases of corporate stock force stockholders to convert their equity holdings, at least temporarily, into cash. This would not affect the fully rational investors of the stylized view. They should view cash and stocks as affecting their wealth equally and should immediately reinvest any cash accruing from a sale of stock. In reality, however, this is not the case: cash receipts are more likely to induce current consumption than gains that have not been converted into cash. This observation is consistent with previous empirical work and the results described in Appendix I, according to which persons consume only about 3 cents of each dollar of increased net worth as contrasted to over 50 cents on each dollar of forced conversions of equity to cash.

Our study of the underlying determinants of consumer spending sheds new light on the growth in consumption during the 1980s. *Our findings summarized in Table III and explained in more detail in Appendix I suggest that the rising ratio of consumption to national income can be explained largely as a result of four factors: growth in disposable income, changing demographics, variation of household wealth, and forced conversions of equity into cash.* In the 1985 to 1987 period, the consumption share of national income was 4.7 percent greater than in the 1970 to 1979 period. While the imprecision of econometric estimates suggests that our findings be viewed as illustrative rather than as a precise decomposition, our basic results suggest that the growth in disposable income, due primarily to rapid increases in interest income, accounts for 1.8 percentage points (more than one third) of this increase. The decline in the share of the population under age sixteen, with its associated changes in spending behavior, may explain one quarter of the consumption growth. Rising household wealth and forced equity-to-cash conversions each account for approximately one-sixth of the increase in consumption as a share of national income. There remains a small unexplained growth component.

The rise of disposable income as a percent of national income in the mid-1980s relative to the 1970s, to which we attribute more than a third of the increase in consumption, is essentially the result of the change in only one component: personal interest income. Labor income, the largest component of disposable income, declined slightly. Transfer payments less personal taxes and contributions for social insurance remained virtually constant.

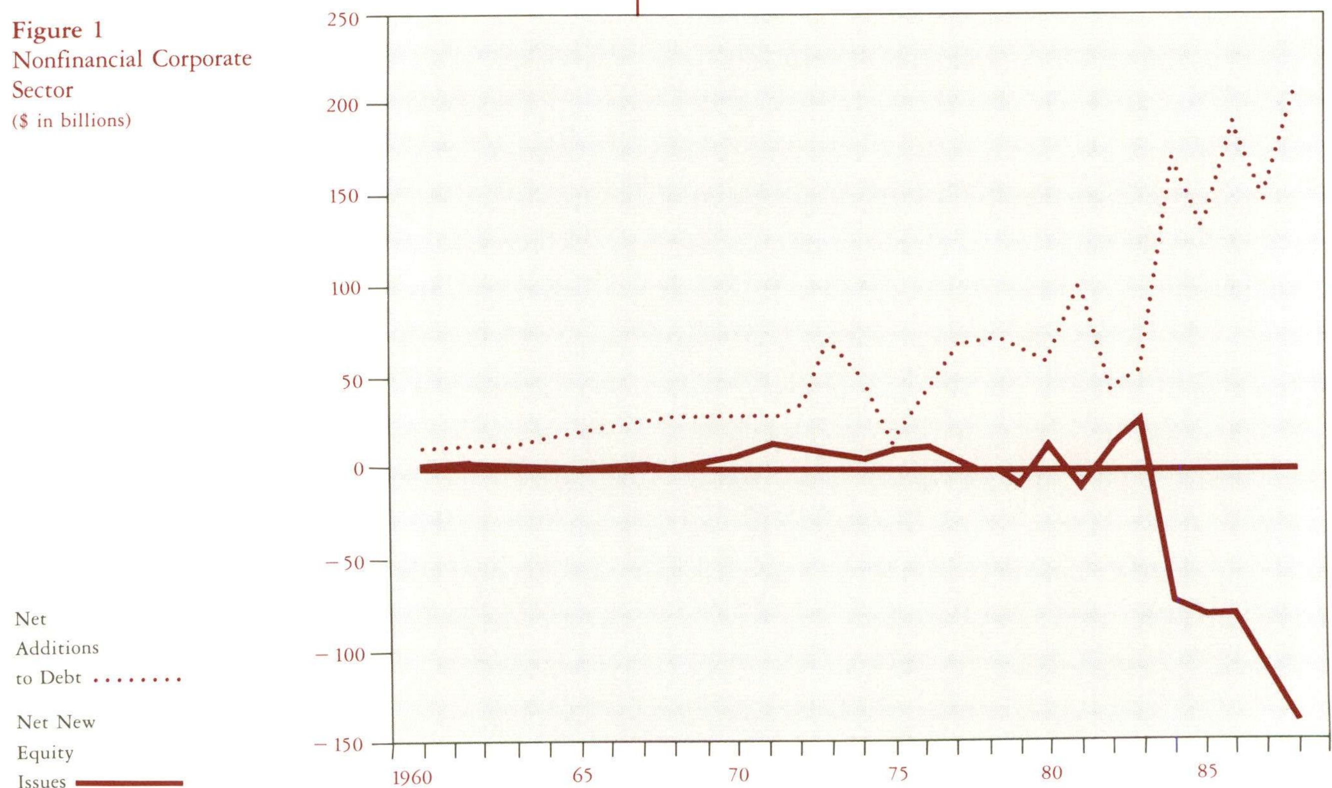


Figure 1
Nonfinancial Corporate Sector
($ in billions)

The rise in interest income resulted primarily from the high real interest rates in the mid-1980s. Real interest rates[11] received by households averaged 6 percent in the 1985 to 1987 period as compared to 1.5 percent in the 1970s. Real interest rates were much higher in the mid-1980s than in the past partly[12] because national saving was insufficient to fund domestic investment. The link between saving and interest rates implies that an autonomous decline in saving, say due to demographic factors, may be magnified through its effect on interest rates. This multiplier effect also worsens the federal deficit by increasing the interest paid by the federal government.

The rise of personal wealth in the mid-1980s, to which we attribute a part of the rise in consumption, is partly due to the rise in the stock market which in the 1980s more closely reflects the replacement cost of corporate net worth than it did in the 1970s. The rise of personal wealth is also related to the increase in the federal deficit. National net worth is all that Americans own. The apparent net worth of households equals the national net worth plus the federal debt. The large deficits of the 1980s caused national debt to grow faster than national net worth and, as a result, personal wealth grew faster than national net worth.

The contribution of debt-financed takeovers and leveraged buy outs to the decline of national saving is not limited to their direct effect on consumption discussed earlier. Forced conversions of equity into debt affect national saving in two additional ways. First the shift from equity to debt reduces federal revenues since interest payments may be deducted from the corporate tax burden while retained earnings or dividends may not.[13] Second, when corporations shift from equity to debt, they ordinarily end up paying more in interest than they would have paid in dividends and have less retained earnings. Thus personal disposable income rises at the expense of accrued capital gains. Since the propensity to consume is much higher for changes in disposable income than for accrued capital gains, such a shift promotes consumption.

Aside from demographic change, then, the rising share of private consumption in the 1980s may be attributed to a rise in interest income, an increase in private wealth that exceeded the growth in national wealth, and the direct impact of conversion of corporate equity to debt. These factors were not exogenous, however. For example, the rise in interest income was driven by the combination of budget deficits and conversions of equity to debt, and corporate decapitalization was largely due to changes in the tax laws.

A Strategy to Raise National Saving

It is imperative that we increase national saving immediately. This means, by definition, reducing consumption's share of net output. *The ultimate goal should be to bring national saving from about 2 percent of net output in the mid-1980s, to above the 1970 to 1979 average of about 8 percent of net output.* The increase, however, should not be done too rapidly. Otherwise, we would risk taking the economy into a recession caused by insufficient demand. Such a recession would tend to lengthen the period of adjustment. Rather, we want to substitute for the decrease in domestic consumption a comparable increase in net exports and net investment.

Table III
Sources of Consumption Growth 1985 to 1987 versus 1970 to 1979

	Estimated Consumption Effect (% of NNP)
Disposables Income/NNP	+ 1.8
Percentage of Population less than 16 years old	+ 1.0
Net Worth/NNP	+0.8
After-Tax Cash from Takeovers/NNP	+0.7
Total Explained Change	+4.3
Unexplained Change	+0.4

11. Real interest rates were calculated by subtracting from nominal interest rates the annual percent change of the personal consumption deflator. Nominal interest rates were calculated as the ratio of personal interest income divided by deposits and credit market instruments owned by households. (Source: *Balance Sheets of the U.S. Economy*, Board of Governors of the Federal Reserve System, and *National Income and Product Accounts of the United States*, U.S. Department of Commerce.)

12. Financial deregulation and the proliferation of high-risk, high-yield securities to finance mergers and leveraged buyouts also contributed to the high real interest rates received by households.

13. The net effect of LBOs on federal tax receipts is somewhat controversial. The forced realization of capital gains and the increased rate of corporate profits associated with these transactions may increase tax receipts, partly offsetting revenue losses from increased interest deductions.

There are two ways to increase exports. The first is to reduce the exchange rate of the dollar and the second is to improve the productivity of U.S. manufacturing and the quality and distribution of the products it makes. The first way is costly – it makes U.S. assets cheaper and imports more expensive. The second way is more lasting and in the long run more beneficial.

To make U.S. manufacturing inherently more competitive will require increases in the rate of investment not only in tangible assets, but also in research, development, and marketing. Accordingly, *a strategy focused primarily on an increased rate of investment to substitute for decreased consumption not only helps avoid a recession but also helps solve our long-term problems.*

The rate of investment in industry depends strongly on industry's cost of capital. The cost of capital is a composite of the cost of debt and the cost of equity. The cost of equity, which is particularly important for long-term investments, has always been higher than the cost of debt partly because interest payments on debt are excluded from taxation whereas dividends and retained earnings are not. As discussed later, changes in the tax code during the 1980s have widened the difference between the two costs and have been instrumental in encouraging conversions from equity to debt in the corporate sector. What is needed to improve the competitiveness of our industry is both a lowering of the overall cost of capital and a reduction of the gap between the cost of equity and the cost of debt.

An increase in our national saving rate will, of course, reduce interest rates. This reduction, however, may not be sufficient to achieve the required level of investment. Other initiatives, such as changes in the tax code, may also be required.

Doing all of these right things does not guarantee that we can avoid either overheating the economy or slowing down the rate of output growth. We simply do not possess the skills, let alone the determination, to "fine-tune" the economy that well. Nevertheless, we have to try – delaying only makes things worse.

There are three ways to increase national saving: (1) Reduce the federal deficit, (2) induce voluntary increases in personal saving, and (3) slow down the escalating leveraging of U.S. business. Each of these ways will be discussed in more detail.

Reducing the Federal Deficit

The emergence of a large federal deficit in the 1980s is a significant contributor to the decline in national saving. The popular view, however, that the deficit is the sole villain does not stand up to analysis. First, as seen in Table IV, the decline in private saving is more important than the increase in the federal deficit in explaining the reduction in national saving. Second, there is less than one-to-one correspondence between changes in the budget deficit and national saving.

Table V shows the major components of federal income and spending in the period 1970 to 1979, contrasted with 1985 to 1987. Direct purchases increased mostly as a result of increased defense spending. Increases in transfer payments were quite sizable. Net domestic interest increased partly because of the accumulation of deficits in the 1980s and partly because real interest rates are higher now than in the past.

This last point implies not only that we are now paying for past sins but also that the budget deficit is affected by the level of interest rates which, in turn, is affected by the level of national saving. Thus, an improvement in national saving can, per se, improve the federal deficit.

As a matter of accounting, national saving is the sum of government saving (the budget balance) and saving by the private sector. This might lead one to conclude that changes in the budget deficit should be reflected one-for-one in changes in the national saving rate. This is not, however, the case, because policies that change the budget de-

Table IV
Composition of Net National Saving
(Percent of national income)

	1985–1987	1970–1979	Difference
Private Saving	5.5	8.9	(3.4)
Plus federal government saving	(4.9)	(1.9)	(3.0)
Plus state and local government saving	1.5	0.9	0.6
Equals national saving	2.1	7.9	(5.8)

ficit may also affect private saving, often in ways that undermine the effect on national saving.

Two extreme examples may make the point. On one side, consider a reduction in the deficit achieved by reducing government consumption. Since this directly reduces consumption, we may expect it to be more or less fully reflected in higher saving.[14] On the other side, suppose the government were to reduce its deficit with a higher tax on investment income. This would increase government saving; but by reducing the private incentive to save, it would reduce private saving, so that the overall effect on national saving would be far less than the reduction in the federal deficit (and could even be negative, if private saving were especially sensitive to investor returns).

Other measures will usually lie between these extremes. A reduction in government transfer payments will typically affect individuals who have a high propensity to consume, and thus will induce a strong response in national saving. A tax increase will be less effective, since many households may choose to save less rather than consume less, at least at first.

The important points are: i.) reducing the federal deficit may not lead to a corresponding increase in national saving; and, ii.) the way in which the deficit is reduced matters – not all deficit reduction measures have the same effect on national saving.

At the present time the focus of federal deficit reduction efforts is on the narrowly defined accounting balance, with a timetable for deficit reduction set by Gramm-Rudman-Hollings. This narrow focus has some unfortunate consequences, leading to an emphasis on measures that narrow the deficit without any regard for their effect on the national saving rate – which is the true bottom line.[15]

Nonetheless, now is not the time to do away with targets for the budget deficit, even if these targets sometimes distort policy. Recent political experience has shown that setting rigid targets is, for the time being, a vitally necessary discipline on the political process. What we need to do is maintain the targets for deficit reduction, while placing them in the context of a broader policy aimed at raising national saving. *Deficit reduction alone will not cure the saving problem, especially if it is focused only on short-term accounting goals, but it remains a key part of an overall program.*

Inducing Voluntary Increases in Personal Saving

The ability of government to induce greater voluntary saving has been badly underestimated by policymakers. The reason is the strong conviction of some leading economists that incentives to save don't work. This conviction stems from absence of a definitive statistical association between personal saving and after-tax returns on personal saving accounts over many decades.

The absence of such statistical association is understandable. As discussed previously, returns on investments have different effects on consumption and saving depending on whether the return consists of accrued unrealized appreciation, or it is paid in cash. It is quite possible that increases in real interest rates on credit market instruments encourage consumption whereas investment opportunities for high real rates of appreciation encourage saving.

Table V
Federal Spending and Revenue 1970–1987
(As percent of net national product)

	1985–1987	1970–1979	Difference
Direct Purchases and payments to foreigners*	10.6	9.6	1.0
Plus transfers to persons	10.1	8.5	1.6
Plus net domestic interest	3.0	1.3	1.7
Plus intergovernmental grants and other	3.4	3.8	(0.4)
Total outlays	27.1	23.2	3.9
Less revenue	22.2	21.3	0.9
Equals deficit	4.9	1.9	3.0

*Payments to foreigners were included with direct purchases for consistency with Table II.

14. Reductions in government investment could discourage private saving by lowering the return to private investments although we suspect this effect is small. Some economists have argued that even a cut in government consumption will not increase national saving, since the private sector will see that this cut reduces the need for future tax increases and therefore consume more today. This argument presupposes a degree of knowledge and sophistication on the part of the average household that we believe few if any consumers possess in practice.

15. One way to emphasize the importance of focusing on the true bottom line is to notice that a dollar of additional private savings is worth more to the economy than a dollar of deficit reduction because most measures that reduce the deficit will be at least partially offset by reduced private savings.

Many countries, including the United States, have experimented with saving incentives. Opinion in the United States has been soured by the failure of the availability of IRAs to prevent the decline in saving in the 1980s. Yet the pessimism about incentives is not warranted by a more careful look.

This is not the place for an extended survey of evidence on saving incentives. We will simply note two points. First is that Canada has a program of saving incentives in place and that in the 1980s Canada has not shared in the precipitous U.S. saving decline. This observation, together with some more formal econometric evidence, suggests that the program has indeed had a positive effect on saving. (A more detailed discussion of the evidence may be found in Appendix III).

Second, we note that the IRA as a saving incentive had some severe limitations. On one side, the amount of sheltered income was limited so that no incentive was provided at the margin for individuals who would be saving heavily anyway. On the other hand, because the incentive was tax-based, it was most valuable to individuals with high income, who were most likely to be saving a good deal in any case. Furthermore, the setup of the IRA encouraged last-minute financial reshuffling rather than a precommitment to save more over time.

In spite of this, some studies suggest that IRAs actually had a positive effect on U.S. saving, i.e., that the saving rate fell in spite of rather than because of IRAs. A better-conceived scheme should therefore have a good chance of success.

The example of Japan is instructive. Before World War II the Japanese people saved less than the Americans. Japan's enormous rate of personal saving after the war was not merely attributal to cultural differences. It was the result of a national campaign. Not only were incentives provided, but more significantly, monthly seminars on the importance of workers' saving were conducted in most major corporations and publicized in the media. Moreover, no Japanese leader was promoting consumption as is frequently done by leaders in the United States.

Public promotions do work in America – from the campaign on careful driving that started after World War II to the promotion of energy conservation that started in the mid-1970's. America now has a lower rate of automobile fatalities than any other country in the world, and our energy consumption in 1987 was the same as in 1973, even though the economy's output increased in real terms by more than 50 percent. On this latter point, many attribute the increase in U.S. energy productivity solely to higher prices. This is not quite so. There is ample evidence that prior to the 1976 campaigns on energy conservation, prior to the Coalition to Save Energy, and before the appointment of energy "czars" by corporations, few individuals or corporations made energy saving investments with paybacks greater than one year. After the campaign, however, many investments were made with paybacks of over 4 years. Americans should know better than anyone that to sell an idea, even one that has value, requires promotion.

The kind of saving initiative that might be effective for the United States should emphasize several features. First, the incentive should be valuable to households regardless of tax bracket. Second, it should induce a regular pattern of saving, rather than solely encourage portfolio reshuffling. Third, the initiative should come as part of a public campaign on behalf of higher saving. Finally, the size of the incentive should be adjusted to achieve a cost effective increase in national saving.

A kind of proposal that might work is described below. *The federal government would expand the current savings bond program to issue higher yield zero-coupon "supersavings" bonds,* which would be non-negotiable and redeemable at face value after 7 years. These bonds could be marketed through banks and other financial institutions to fulltime corporate employees who can purchase them only through monthly payroll deductions, up to $5,000 per worker annually. The bonds would be either redeemed at maturity, at which time any gain would be fully taxed, or they would be rolled over. *The new bonds should be introduced with some fanfare, and the government should lobby businesses to promote the bonds actively among their employees. We view the campaign to raise saving as being at least as important as the actual saving instrument; active promotion is important.* Business experience suggests that participation of employees in benefits such as stock purchase plans or 401k plans increases dramatically after company-sponsored seminars and other promotional activities.

Such a plan would, of course, impose some budgetary cost in the long run, because the government would, in effect, be borrowing funds at above-market rates. Although such a cost may turn out to be very small compared to the benefit to the nation, nevertheless, the government should adhere to the discipline of Gramm-Rudman-Hollings and find a way to offset any revenue lost.

Slowing Down the Leveraging of U.S. Corporations

The ongoing shift from equity to debt in the corporate sector has probably been an important cause of low national saving in the 1980s. It has also created an unnecessary source of economic vulnerability by creating highly leveraged firms that would be placed at risk by any economic downturn or rise in interest rates. Thus, it is desirable to find a way of discouraging the growth of debt that we have recently seen.

There are probably many reasons for the shift from equity to debt that is taking place during the 1980s. The most obvious of these is that tax incentives for corporate borrowing have significantly increased during the last decade. The relative tax burden on debt as compared to equity depends on both corporate and investor taxes. The general trend toward reductions in individual tax rates – from a maximum of 70 percent in 1980 to 28 percent today – has reduced the net tax burden on interest payments and made corporate borrowing more attractive than in the past.

To illustrate the effect of the changes in tax burdens on equity and debt that took place between 1980 and 1987, an example is presented in Appendix II which compares the returns a top-bracket corporate investor would receive per dollar of pretax corporate profit from a corporation totally equity-financed to those from a corporation totally debt-financed for the years 1980 and 1987. The results are shown in Table VI.

It is evident that in 1980 the tax code favored equity over debt. In 1987, however, debt is much more favored than is equity. The changes in the tax code during the 1980s in favor of debt will certainly increase the debt-to-equity ratio of U.S. corporations relative to past experience.

Proposals to regulate takeovers and leveraged buy outs directly are inadvisable–interference with the free market usually does more harm than good. Instead, we believe that the right approach is to remove one of the main incentives for the increasing reliance on debt, the differential tax treatment of debt and equity. Interest on debt is deductible by corporations; payments to stockholders, or retained earnings, are not. This distinction causes increasingly important distortions in the economy. In addition to promoting consumption and reducing federal revenues, tax incentives for debt encourage investments with quick returns. In practice debt cannot be used to finance a long-term research and development project – only equity can. We have already discussed the need to lower the cost of capital and, in particular, the cost of equity to meet both our short-term and our long-term national objectives.

Ideally, we would want to lower the cost of equity to that of debt without affecting the latter. That, however, would be too costly to the federal government and, therefore, we have to find other ways to bring these two costs in line. One policy which eliminates all distortion between debt and equity finance is the expenditure or cash flow tax, advocated in recent years by the Meade Commission in the United Kingdom (1978) and in the Treasury Department's 1977 report, *Blueprints for Basic Tax Reform*. The expenditure tax would constitute a radical redefinition of the tax base: rather than taxing households on the basis of current income, they would be taxed on current expenditure.

A second set of proposals calls for either a partial or complete integration of corporate and personal income taxes. Integration allows shareholders a tax credit against personal income tax based on corporate tax payments. It eliminates (or with partial integration, reduces) the double tax burden on corporate earnings. It also reduces the cost of capital by eliminating one layer of taxation between the corporation and its investors. Such plans are practiced to different degrees in Great Britain, France, and most other European countries. Japan has also achieved parity between the cost of equity and the cost of debt by providing zero taxes on capital gains from equities and a high tax rate, up to 70 percent, on interest received.[16]

A third set of plans involves actions designed to alter the tax deductibility of some or all corporate borrowing. The most common proposals call for eliminating or restricting the deductibility of corporate interest payments, particularly if the interest payments result from a corporate control transaction (a merger or LBO). These plans equalize the costs of debt and equity by raising the former. The resulting increase in the cost of capital facing U.S. corporations would discourage investment and provide a competitive advantage to foreign firms which are still able to deduct interest payments.

A variation of such a proposal has been developed by the American Law Institute.[17] It calls for the disallowance of tax deductions on debt issues that have the effect of reducing equity. Although The American Law Institute's proposal does not discourage new investments, it does involve regulation and does not address the problem of foreign firms having a large advantage over American firms in buying U.S. corporations.

The simplest proposal is that of eliminating the tax deductibility of interest payments, and offsetting this with

Table VI
Returns to Top-bracket Corporate Investors
(Percent of pretax corporate profit)

Firm A is representative of many corporations in the aftermath of a leveraged buy out. Firm B is representative of many firms in the high technology sector.

	1980	1987
Corporation A: All Debt	30	72
Corporation B: No debt, no dividends	39	48
Difference B less A	9	(24)

16. Prior to the 1989 Japanese tax reform, the tax code in Japan favored equity over debt more than the United States did prior to 1980. This fact seems inconsistent with the high leverage of Japanese corporations. Japanese corporations, however, started at the end of World War II with practically no capital and the Bank of Japan provided them funds through the banking system. As the equity markets developed, corporate leverage has been rapidly declining.

17. See American Law Institute, Federal Income Tax Project, Tax Advisory Group Draft No. 18 (Nov. 1988)

a reduction in the corporate tax rate that leaves actual taxes unchanged for the average firm. The main problem with this proposal is that it would actually benefit owners of existing capital, while raising the cost of new capital to firms. Thus it would provide a windfall to firms that are not investing much, while penalizing those that invest heavily – the reverse of what we would like to do. Not incidentally, this would repeat the error of the 1986 tax reform, which eliminated accelerated depreciation while reducing corporate taxes.

The reason for this effect may be stated briefly: under existing law, the rate of depreciation allowed for tax purposes is somewhat faster in real terms than the actual economic rate. This is true even of physical investment in capital. It is especially true of investment in "invisible" assets such as R&D, which can be expensed. As a result, a unit of newly created capital has an advantage over an otherwise equivalent unit created some years earlier. A reduction in the tax rate reduces this advantage.

Appendix IV examines this point numerically. It suggests that under realistic assumptions about inflation and depreciation, a combined elimination of interest deductions and tax cuts, even if revenue neutral, would have a significant effect in raising the cost of capital for corporate investment. In addition, such an adjustment would result in a corporate tax rate of less than 22 percent, well below the maximum personal tax rate of 28 percent. Lowering of the corporate tax rate below the personal tax rate creates many problems, inducing persons to incorporate many of their personal activities.

A Possible Alternative

In what follows we describe a relatively simple method that reduces the cost of equity and raises the cost of debt without affecting the cost of capital or federal revenues. The proposed change would replace the current deduction of interest on debt with a general deduction for capital, set at some percentage of the over-all capitalization of a company, however financed. At current debt to equity ratios and interest rates, a cost-of-capital deduction equal to 5 percent of capital would be approximately revenue-neutral. Such a scheme would leave intact the present favoring of new investment over existing capital and thus avoid a windfall to old capital. At the same time, it would remove the tax incentive for increasing debt. In implementing such a proposal, carefully crafted transition rules should be established to allow corporations with large debt obligations ample time to replace their debt with equity capital.[18] We do not foresee any insurmountable problems.

A central element of this proposal is the definition of total capitalization. For nonfinancial corporations, it is the sum of recorded shareholders' equity plus the average of any loans for which the interest rate paid is greater than the deducted rate, e.g. 5 percent.[19] For financial corporations only equity should be counted as capitalization, but these corporations should be allowed to offset interest expense against interest income as long as their net interest income is positive.

Some may point out that a standard deduction based on total capitalization is arbitrary. It is, but so is a deduction for the cost of debt and not for the cost of equity. To allow an equal deduction for both equity and debt is fairer than what we now have and more conducive to economic growth.

Conclusion

The fundamental problem of the U.S. economy in the 1980s is not the budget deficit but overconsumption. This overconsumption is being financed through large-scale sales of U.S. assets to foreigners at unfavorable terms, a process that postpones the day of reckoning but that increasingly mortgages the U.S. economic future.

Overconsumption is fed partly by the budget deficit, but also by other sources. In particular, there is good reason to believe that the collapse of national saving and the explosion of corporate debt in the 1980s are closely related. The increased leveraging of corporations has raised interest income, led to large realizations of capital gains that get translated in part into consumption, and contributed to the budget deficit.

Because overconsumption in the United States is not simply a by-product of the budget deficit, it needs to be addressed on several fronts. Modest progress on the budget deficit will not be enough: *we need a concerted program aimed at raising national saving from its unprecedentedly low level.* ■

18. For example, corporations can elect to continue deducting interest expenses on any long-term debt acquired prior to enactment and on any short-term debt up to the amount present at enactment. As long as they make use of such an election, no deduction on equity will be provided. Detailed transition rules are beyond the scope of this paper.

19. This is necessary to prevent corporations from defining as debt other liabilities such as accounts receivable. The rate of credit for capital could be varied in line with Treasury bill yields or other measures of market required returns.

Appendix I:

Determinants of Consumer Spending

The determination of consumer spending is a fundamental yet controversial issue. Standard economic theory argues that absent credit market imperfections or consumer myopia, consumption would depend only on household net worth. This is the sum of the present value of current and expected future labor earnings, plus current net holdings of real and financial assets. In this setting, neither the cash income from investments nor the flow of after-tax wages would affect spending unless it affected household net worth.

A variety of considerations, however, make this stylized view an inadequate description of actual consumption behavior.[20] First, many households, especially lower income households, may face constraints that make it difficult to borrow against future labor income. If these households would like to borrow and consume more than their current income, liquidity constraints may restrict consumption to current after-tax income. Increases in cash flow, whether due to reduced taxes or higher wages, therefore raise consumption. Second, even high income households with substantial asset holdings may over-react to fluctuations in current income, failing to distribute a current windfall over current and future consumption. This is particularly relevant for our analysis of forced capital gain realizations.

These considerations among others have led most econometric model-builders to adopt a specification for the aggregate consumption function in which both household net worth and a measure of current cash income – typically disposable income as reported in the National Income Accounts – affect spending decisions.

This specification is usually applied to per capita consumption (denoted C) as

$$C = a_0 + a_1YD + a_2W$$

where YD and W, respectively, measure per-capita disposable income and net worth. This equation makes clear that changes in the economic environment that raise YD, either by lowering taxes, raising real interest receipts, or increasing labor income, raise consumption. So do increases in household net worth.

Our analysis extends the usual approach by including after-tax cash receipts from forced capital gain realizations in corporate takeovers as an additional explanatory variable in the consumption model. We do not constrain it to have the same coefficient as disposable income. We also follow many previous studies in adding simple measures of the population age structure to our equation, reflecting the possibility that the aging of the U.S. population has raised aggregate spending for reasons unrelated to wealth or income.[21]

This appendix is divided into two parts. The first presents our estimates of the aggregate consumption function. In the second part, we use these estimates to evaluate the relative importance of a variety of factors in contributing to the rise in consumption between the 1970s and the mid-1980s. We show that the growth in personal income as a share of NNP accounts for nearly 40 percent of the increase in real consumption. Demographic factors can explain another quarter of the consumption growth. Increased household wealth and the growth in cash receipts from corporate takeovers also have positive effects on consumption, each accounting for about one-sixth of the consumption increase.

Consumption Function Estimates

Our primary concern is explaining changes through time in the ratio of consumption to national income, so we use this ratio as the dependent variable in our estimated consumption function. We follow common practice in using the measure of disposable income reported in the National Income and Product Accounts, along with the Federal Reserve Board's estimate of household net worth, as explanatory variables. We add two variables to this list, the share of the population under age 16 and the value of after-tax cash payout in mergers.

The population share under age 16 is drawn from Census reports. We choose this measure of demographic shift for two reasons. First, much of the popular discussion of why saving has declined has emphasized the aging of the "baby boom" generation. Since consumption outlays by adults exceed those of children, consumption as a share of national income should be lower when the share of children in the population is higher. The share of the population under age 16 declines from 34.1 percent in 1960 to 24.5 percent in 1987. Second, when we tried including more detailed demographic variables (for example a set of variables measuring the fraction of the population in each ten-year age group) we obtained very imprecise estimates. This simply reflects the limited amount of time-series data available for our study.

We constructed a measure of the household sector's after-tax cash receipts in merger transactions. W.T. Grimm and Company has tabulated the number and value of merger transactions since 1968.[22] Not all takeovers, however, provide cash to stockholders of the target firm. If the takeover involves an exchange of securities, shareholders receive shares (or debt) in the acquirer in return for their

20. Further discussion of the "corporate veil" may be found in James M. Poterba, "Tax Policy and Corporate Saving," *Brookings Papers on Economic Activity 1987:2*.

21. A detailed examination of demographic influences on consumption may be found in M. Boskin and L. Lau, "An Analysis of Postwar U.S. Consumption and Saving: Parts I and II," NBER Working Papers 2605 and 2606, Cambridge, MA, 1988.

22. These data are presented each year in the *Mergerstat Review*.

shares in the target. Only cash takeovers generate after-tax cash flow for investors. Unfortunately W.T. Grimm does not report the amount of acquisition activity by financing method. It does, however, report the number of cash mergers as well as the number of other types. To construct a proxy for the value of cash payouts in corporate control transactions, we multiplied the total value of takeovers in each year by the share of transactions involving cash payments. Provided the average size of cash and non-cash mergers is not very different, our data-series should provide a reasonable guide to the time-series movements in cash payout.[23] For the years 1950 to 1967, we extrapolated the Grimm data-series using information from the Federal Trade Commission on the value of large mergers in mining and manufacturing.[24]

We conjecture that households' after-tax cash receipts from corporate control transactions may affect consumption. These receipts are smaller than total cash payments for two reasons: households do not own all corporate equity, and they are liable for taxes on the cash they receive. Since there is no direct information on the ownership of firms involved in corporate control contests, we assume that the household share in these firms equals their share of domestically-held corporate equity. Data on equity ownership are reported annually in the Flow of Funds *Balance Sheets of the U.S. Economy.*[25] We estimate the tax liability associated with these transactions in a crude manner, assuming that the stockholder's basis in his shares is half the sale price. We also assume that the gains are taxed at the maximum statutory capital gains rate, so the tax liability equals:

Capital gains taxes on cash merger payout $= t_{cg} \times (.5) \times$ (household equity share) x (cash takeovers).

Using these data, we define after-tax cash receipt series as:

$(1-.5\, t_{cg}) \times$ (household share of equities) x (cash takeovers).

This is the variable included in our regression equation. The data series is shown in Table VII, measured both in current dollars and constant (1982) dollars and as a fraction of net national product.

Our focus on the consumption effects of cash receipts from takeovers suggests a minor modification to the National Income Accounts disposable income measure. Disposable income equals personal income less taxes. Some of these taxes result from the realization of capital gains in control transactions, and therefore reduce disposable income, even though capital gains themselves are not included in personal or disposable income. When capital gain realizations are high, other things equal, disposable income will be low. We correct for this spurious negative link between realizations and disposable income by defining:

Augmented Disposable Income = NIPA Disposable Income + Capital Gains Taxes on Cash Merger Payout

We estimate the basic consumption relationship using annual time-series data for the 1950 to 1987 period. Our central regression result, which corrects for serially correlated errors in the consumption function using autoregressive least squares, is shown below:[26]

C/NNP =
.28x(1/Real Per Capita NNP)
(.10)

\+ .83 x (Augmented Disposable Income/NNP)
(.03)

\+ .59 x (After-Tax Receipts from Takeovers/NNP)
(.42)

\+ .03 x (Household Net Worth/NNP)
(.01)

− .22 x (Share of Population < 16)
(.06)

First-Order Autoregressive Coefficient: .39 (.18) $R^2 = .91$

The estimated coefficients on disposable income and on net worth are similar to those in earlier studies.[27] The estimates also suggest an important link between after-tax receipts from takeovers and consumer spending, with a marginal propensity to spend of .59. This coefficient is not estimated with the same precision as the coefficients on income or wealth, however. The hypothesis that this coefficient equals zero can be rejected at the 85 percent confidence level, although not the conventional 95 percent level.[28] There is also strong empirical support for the view

23. Our estimates of the share of transactions involving cash payout are broadly comparable with the five-year averages, based on *value*, reported in Julian R. Franks, Robert S. Harris, and Colin Mayer, "Means of Payment in Takeovers: Results for the United Kingdom and the United States," in A. Auerbach, ed., *Corporate Takeovers: Causes and Consequences* (Chicago: University of Chicago Press, 1988). We describe alternative results using these data below.

24. U.S. Federal Trade Commission, *Statistical Report on Mergers and Acquisitions: 1978*, Bureau of Economics, Washington, D.C., 1980. We estimated the share of merger transactions involving cash during the 1950 to 1967 period using the five-year average shares reported in Franks *et al.*

25. The Flow of Funds includes nonprofit institutions along with individuals in the "household" sector. Although we would prefer to exclude these untaxed institutions from our definition of the household sector, that is not possible given available data. We exclude foreign equity holdings in calculating the household share because most such holdings are concentrated in subsidiaries rather than general portfolio investment. Our results are not significantly affected, and suggest a larger effect of cash payout on consumption, if we include foreign ownership in calculating the household share of equities.

26. We do not include a constant term, but instead include the variable 1/Real Per Capita NNP, because this results when the linear specification for real per capita consumption used in most studies is deflated by net national product per capita. The numbers in parentheses are coefficient standard errors. T-ratios may be obtained by dividing the coefficient by its standard error.

27. These results are broadly consistent with many previous empirical studies.

28. The coefficient on cash receipts from takeovers is also somewhat sensitive to our choices regarding demographic variables.

that demographic shifts have altered the level of consumer spending. The next sub-section evaluates the substantive importance of these findings.

Since our evidence that cash receipts from corporate control transactions affect consumption is the principal contribution of our econometric results, we explored the robustness of the findings in several ways. First, since our corrections for capital gains taxes are imprecise, we replaced our tax-adjusted measure of payout with the unadjusted level of cash payout. This variable has a stronger statistical effect on consumption than our corrected measure, supporting our general view of a link between cash transactions and consumption. Second, we used an alternative measure of the share of cash payout in takeovers based

Table VII
Household Cash Receipts from Takeover Activity

(Columns 1 and 2 are measured in billions of dollars. The data reflect the total value of mergers reported by W.T. Grimm, multiplied by the share of such mergers for cash and the share of corporate equity held by households. We also perform tax adjustments as described in the text.)

Year	Current Dollars	Constant (1982) Dollars	Percent of NNP
1950	0.0	0.1	0.0
1951	0.0	0.1	0.0
1952	0.1	0.2	0.0
1953	0.1	0.5	0.0
1954	0.3	0.9	0.1
1955	0.4	1.4	0.1
1956	0.3	1.1	0.1
1957	0.2	0.7	0.1
1958	0.2	0.6	0.0
1959	0.3	0.8	0.1
1960	0.7	2.0	0.1
1961	0.9	2.6	0.2
1962	1.0	2.8	0.2
1963	1.1	3.1	0.2
1964	1.0	2.8	0.2
1965	2.2	6.3	0.3
1966	2.3	6.2	0.3
1967	5.6	14.9	0.7
1968	10.7	27.3	1.3
1969	6.4	15.7	0.7
1970	4.3	9.9	0.5
1971	3.5	7.7	0.3
1972	4.5	9.6	0.4
1973	5.1	10.3	0.4
1974	4.4	7.9	0.3
1975	4.3	7.2	0.3
1976	7.6	12.1	0.5
1977	8.4	12.6	0.5
1978	11.7	16.4	0.6
1979	16.8	21.5	0.7
1980	16.0	18.5	0.7
1981	28.6	30.3	1.1
1982	18.7	18.7	0.7
1983	22.2	21.3	0.7
1984	44.1	40.8	1.3
1985	71.1	63.8	2.0
1986	57.5	50.3	1.5
1987	48.2	40.3	1.2

on the five-year average share rather than the annual share of cash in total payouts.[29] This increased the estimated effect to nearly the same size as the disposable income coefficient. We also recognized that not all cash payouts result from takeovers: some firms repurchase shares for reasons unrelated to corporate control. We therefore constructed a measure of gross share repurchases from the Flow of Funds and included this in our consumption models. Once again the effect was larger than the .59 effect estimated above. The other coefficients in the consumption equation were not substantially affected by these changes.

The possibility that each dollar of after-tax cash payout from corporate takeovers generates 59 cents of additional spending strikes us as implausibly large.[30] We therefore examine the robustness of our conclusions about the source of consumption changes by considering smaller spending propensities as well. Our findings clearly establish, however, that there may be important links between corporate control transactions and national saving.

Explaining Consumption Growth, 1970 to 1987

To evaluate the importance of various changes in the economic environment on the share of national income devoted to consumption, we use our estimates of the aggregate consumption function to explain changes between the 1970 to 1979 and 1985 to 1987 periods. The estimated coefficients provide some guidance on the relative importance of changes in disposable income, wealth, demographic composition, and the role of corporate control transactions. The table shows our basic findings in tabular form.

Table VIII reports the mean of each of the explanatory variables from our consumption model for the 1970 to 1979 and 1985 to 1987 periods. Between these periods, the ratio of consumption to net national product increased by 4.7 percentage points. Disposable income (excluding our measure of after-tax cash from takeovers) increased by 2.1 percent of NNP. The table shows that interest receipts grew especially rapidly. Transfers net of taxes did not. While transfers rose by over 2 percent of NNP, this rise was essentially matched by growth in taxes as a share of NNP. The net effect on disposable income is therefore very small. (This stands in marked contrast to the differences between the 1960s and 1970s when transfers net of taxes increased significantly as a share of NNP.) Using our estimates of the marginal propensity to consume from disposable income of .83, the net effect of these changes has been to increase the consumption to NNP ratio by 1.8 percentage points.

Table VIII
Baseline Calculation of Sources of Consumption Growth

	1985–1987	1980–1987	1970–1979	1985–87 less 1970–79		Estimated Consumption Effect
Consumption/NNP	74.0	73.1	69.3	+ 4.7		+ 4.7
Disposable Income/NNP	79.5	79.7	77.4	+ 2.1	x .83 =	+ 1.8
Labor Income/NNP	60.6	61.2	61.5	− 0.9	x .83 =	− 0.7
Interest Income/NNP	13.2	12.8	8.3	+ 4.9	x .83 =	+ 4.1
Other Capital Income/NNP	10.0	9.7	12.0	− 2.0	x .83 =	− 1.7
Transfers/NNP	13.7	13.9	11.5	+ 2.2	x .83 =	+ 1.8
Taxes/NNP	(18.0)	(17.9)	(15.9)	− 2.1	x .83 =	− 1.7
After-Tax Cash from Takeovers/NNP	1.6	1.1	0.5	+ 1.1	x .59 =	+ 0.7
Net Worth/NNP	331.0	332.1	305.1	+25.9	x .03 =	+ 0.8
Percent of population < 16	24.7	25.2	29.4	− 4.7	x −.22 =	+ 1.0
Total Predicted Change in consumption/NNP						+ 4.3
Unexplained Component of consumption/NNP						0.4

29. The five-year averages are drawn from Franks, Harris, and Mayer, op cit.

30. The coefficient on forced realizations may reflect more than simply the marginal propensity to spend from cash receipts. If increased takeover activity raises all share prices, for example, and this wealth effect increases consumption, our estimated coefficient could be biased upwards.

The household sector's after-tax receipts of cash income from takeovers also increased from 0.5 to 1.6 percent of NNP between 1970 to 1979 and 1985 to 1987. Given our estimate that these receipts raise consumption by 59 cents on the dollar, we attribute an increase in the consumption to NNP ratio of 0.7 percent to this shift in the economic environment. Our findings suggest similar effects from shifts in net worth. While the value of household net worth averaged 3.05 times net national product during the 1970 to 1979 period, this ratio increased to 3.31 times NNP during the more recent years. However, the small effect of net worth on consumption (.03) implies that even this large wealth change raises consumption by 0.8 percent of NNP.

Finally, our estimates imply that demographic shifts have had a significant effect on the share of national income devoted to consumption. Between 1970 and 1979, the share of the population under age 16 declined. The average share during this period was 29.4 percent. In the 1985 to 1987 period, by comparison, only 24.7 percent of the population was in this age category. Given our estimate that a one percent decline in the share of the population in this age group raises the share of NNP devoted to consumption by .22 percent, we estimate that changes in the demographic mix could account for a consumption shift of 1.0 percent of NNP, or nearly one quarter of the decline between 1970 to 1979 and 1985 to 1987.

Although demographic factors can explain some of the long-run shifts in consumption patterns, they are unlikely to explain short-run variations in saving rates such as the decline between the early and mid-1980s. This is because demographic variables change very slowly, as demonstrated in Table IX. To explain significant year-to-year variation in saving rates on the basis of demographic factors, the marginal propensities to save across different groups would have to differ by far more than plausible estimates would suggest.

Sensitivity Analysis

Our calculations of how changes in the U.S. economy between the 1970 to 1979 and 1985 to 1987 period, have affected consumption rely exclusively on our estimated consumption function. Since we make several important assumptions in estimation, for example by constraining all of the components of disposable income to have the same effect on consumption, some evidence on the robustness of our findings is useful.

We report one alternative calculation of consumption effects in which we assume that the marginal propensity to consume out of transfers is higher than that out of other forms of disposable income (perhaps because transfers are received by liquidity constrained households; perhaps because households assume that they are more permanent than other forms of income). We set this marginal spending propensity to unity in our alternative calculation. We also consider the possibility that the spending propensity from capital income is lower than our estimates suggest, and set both the MPC from after-tax cash income received in takeovers and the receipts from other capital income equal to .3. We do not modify our other estimated coefficients. The results of this calculation are shown in Table X on the next page.

The results are less successful than our earlier calculations in explaining the growth of consumption. The estimates still explain 60 percent of the consumption increase, however, which is substantially more than earlier studies of the saving decline have accounted for.

Our analysis has focused on comparing the experience of the 1980s with that of the previous decade. This comparison is motivated by the striking rise in U.S. consumption during the 1980s. Our estimating equation can also be used, however, to analyze changes in consumption between other time periods. One useful way of validating our model is to see if it correctly predicts the change between

Table IX
Share of U.S. Population by Age Groups

Year	<16	17–24	25–34	35–44	45-54	55-64	>65
1950	0.297	0.119	0.158	0.142	0.115	0.088	0.081
1960	0.341	0.106	0.127	0.134	0.114	0.086	0.092
1970	0.321	0.139	0.123	0.113	0.114	0.091	0.098
1980	0.261	0.152	0.165	0.114	0.100	0.096	0.113
1985	0.248	0.135	0.177	0.133	0.094	0.093	0.119
1987	0.245	0.127	0.178	0.141	0.095	0.090	0.122

Table X
Alternative Calculation of Sources of Consumption Growth

	1985–1987	1970–1979	Difference	Estimated Consumption Effect
Consumption/NNP	74.0	69.3	+ 4.7	+ 4.7
Disposable Income/NNP	79.5	77.4	+ 2.1	
Labor Income/NNP	60.6	61.5	− 0.9	x .83 = − 0.7
Interest Income/NNP	13.2	8.3	+ 4.9	x .30 = + 1.5
Other Capital Income/NNP	10.0	12.0	− 2.0	x .30 = − 0.6
Transfers/NNP	13.7	11.5	+ 2.2	x 1.00 = + 2.2
Taxes/NNP	(18.0)	(15.9)	− 2.1	x .83 = − 1.7
After-Tax Cash from Takeovers/NNP	1.6	0.5	+ 1.1	x .30 = + 0.3
Net Worth/NNP	331.0	305.1	+25.9	x .03 = + 0.8
Percent of Population < 16	24.7	29.4	− 4.7	x −.22 = + 1.0
Total Predicted Change in Consumption/NNP				+ 2.8
Unexplained Component of Consumption/NNP				+ 1.9

two earlier periods, say the 1960s and the 1970s. If the model significantly mispredicts in these time periods, then its reliability in accounting for the experience in the 1980s would be open to question.

Table XI reports decadal averages for the variables in our consumption function for both the 1960s and 1970s. These averages are of independent interest for their contrast with the later periods that we focused on above. Two features of the comparison between the 1960s and 1970s are striking. First, in contrast to the recent period, there was rapid growth in transfers. These payments increased from 6.9 to 11.5 percent of NNP between the 1960s and 1970s. Taxes also increased, but by only 2.6 percent of NNP. The second important pattern is the pronounced decline in

Table XI
Sources of Consumption Growth 1960–1979

	1970–1979	1960–1969	Difference	Estimated Consumption Effect
Consumption/NNP	69.3	68.5	+ 0.8	+ 0.8
Disposable Income/NNP	77.8	75.7	+ 2.1	x .83 = + 1.7
Labor Income/NNP	61.5	60.0	+ 1.5	x .83 = + 1.3
Interest Income/NNP	8.3	6.0	+ 2.3	x .83 = + 1.9
Other Capital Income/NNP	12.0	15.7	− 3.7	x .83 = − 3.1
Transfers/NNP	11.5	6.9	+ 4.6	x .83 = + 3.8
Taxes/NNP	(15.9)	(13.3)	− 2.6	x .83 = − 2.2
After-Tax Cash from Takeovers/NNP	0.5	0.4	+ 0.1	x .59 = + 0.1
Net Worth/NNP	305.1	341.1	−36.0	x .03 = − 1.1
Percent of Population < 16	29.4	33.9	− 4.5	x −.22 = + 0.9
Total Predicted Change in Consumption/NNP				+ 1.6
Unexplained Component of Consumption/NNP				+ 0.9

household net worth as a share of NNP. While net worth averaged 3.41 times national income during the 1960s, the decline in the national debt as percent of NNP combined with the decline in stock market values during the 1970s reduced this average to only 3.05. The 1980s have witnessed a rebound in the ratio of net worth to NNP, but not to the level of the 1960s.

The last column of Table XI shows the predicted change in consumption as a share of NNP from each of the components of our consumption equation. The results provide encouraging evidence on the predictive power of this model. Between the 1960s and the 1970s, the consumption share of national income increased by 0.8 percent. Our equation predicts a 1.6 percentage point increase which consists of a 2.7 percentage point increase due to changes in disposable income, demography, and cash receipts from takeovers, which is partly offset by a 1.1 percent decline attributed to changing wealth. Although the equation does not predict the actual change exactly, it yields a reasonable estimate (and correctly predicts the direction) of the consumption change. ■

Appendix II:

Why Has Leverage Increased?

Growth in corporate leverage during the 1980s is the result of many different factors. First, the tax incentives for corporate borrowing have increased during the last decade. The relative tax burden on debt vs. equity depends on both corporate and investor taxes. The general trend toward reductions in individual tax rates (from a maximum rate of 70 percent in 1980 to 28 percent today) has reduced the net tax burden on interest payments and made corporate borrowing more attractive relative to equity.

A simple example, presented in detail in Table XII, illustrates the changing tax posture toward debt. In 1980, a firm earning one dollar in pretax profits and using equity finance would have 54 cents available after-tax for equity-holders (the marginal corporate tax rate was 46 percent). If all of this after-tax profit was reinvested, then a shareholder in the top tax bracket would eventually pay a capital gains tax of 28 percent and would receive 39 cents after all taxes. This makes the conservative (high-tax) assumption that capital gains are taxed at their statutory rate of 28 percent and neglects the benefit resulting from deferral of tax liability until gains are realized. For a bond-financed project, the firm would pay no tax, the interest recipient would pay personal income tax of 70 cents per dollar of interest income and would receive 30 cents after all taxes. Thus, from the perspective of the top-bracket investor, the tax burden on equity and debt gave a preference to equity.

The lower panel of Table XII examines the company's tax burden in 1987. The same investor providing funds to the same firm would earn an after-tax return of 72 cents on a debt-financed project, compared with 48 cents for an equity-financed project. The after-tax return from a debt-financed project is now significantly larger than that from an equity-financed project, just the opposite of the situation before the 1981 tax reform. Thus, for high-bracket individual investors, the incentive for holding corporate debt has grown significantly during the 1980s.[31]

A second consideration encouraging higher borrowing is the development of financial institutions that reduce the costs of bankruptcy and near-bankruptcy. An obvious example of this is "strip-financing," a technique whereby investors who purchase low-grade corporate debt also re-

31. The 1981 tax reform clearly encouraged leverage. The net effect of the 1986 tax reform is less clear. For tax exempt investors, for example, corporate tax rate reductions have made equity more attractive relative to debt. On balance, however, there is little question that during the mid-1980s leverage has been more attractive than in previous decades.

recession. ■

Overconsumption: The Challenge to U.S. Economic Policy

Appendix III:

Potential Effects of Saving Incentives

Although empirical studies of how rates of return affect private saving are inconclusive there are two recent sources of evidence suggesting that raising the after-tax return to saving might draw forth a private saving response.

First, evidence on the IRA experiment of the early 1980s compiled by Venti and Wise suggests that only about thirty cents of each dollar contributed to IRAs was drawn from other saving instruments.[32] As much as seventy cents per dollar was "new saving," money that would have been spent or paid in taxes were it not for IRAs[33]. The sharp decline (more than fifty percent) in IRA participation in 1987, when contributions were no longer deductible for many households, further supports the view that interest incentives can affect saving.

Second, comparisons of saving behavior in the United States and Canada reveal an interesting pattern: the saving rate in Canada has diverged from that in the United States for the last decade, coincident with the introduction and widespread use of tax-sheltered saving plans for home purchase and retirement. Estimates by Carroll and Summers[34] suggest that each dollar of sheltered saving raises the Canadian saving rate by at least one dollar relative to its U.S. counterpart. This may even suggest that widespread availability of such sheltered accounts promotes a culture of saving in which households devote more attention to future plans and the need for deferring consumption. ■

32. See S. Venti and D. Wise, "IRAs and Saving," in M. Feldstein, ed., *The Effects of Taxation on Capital Accumulation* (Chicago: University of Chicago Press, 1987).

33. The revenue cost to the Treasury, estimated at approximately thirty cents per dollar of IRA contribution, highlights our earlier point on the distinction between a policy's effect on government and total saving. Although IRAs increased the federal deficit, their net effect on national saving was positive.

34. See C. Carroll and L. Summers, "Why have private savings rates in the United States and Canada diverged?", Journal of Monetary Economics 20, 249-279 (1987).

Appendix IV:

Effect of Revenue-Neutral Changes in Corporate Taxation on the Cost of Capital

We shall examine the effect on the cost of capital of two revenue-neutral alternatives to the present structure of corporate taxation. Under alternative 1 the deductibility of interest payments is eliminated and the resulting increase in corporate taxation is offset by a lowering of the corporate tax rate. Under alternative 2 the deductibility of interest payments is replaced by a general deduction for both equity and debt at a fixed percentage of total corporate capitalization such that the government revenue is not altered.

The real cost of capital c for corporate investments net of depreciation is given by the general expression[35]

$$c = \frac{1 - \tau Z}{1 - \tau} \ (\rho^* + \delta) - \delta$$

where τ is the corporate tax rate at the margin

ρ^* is the real after-tax cost of funds

π is the inflation rate

δ is the depreciation rate of the asset

δ_a is the depreciation rate allowed for the asset by the tax code and Z is the present value of depreciation allowance.

The present value of depreciation allowances Z equals $\delta_a / (\rho^* + \pi + \delta_a)$. This present value approaches zero with increased inflation and approaches unity with accelerated depreciation allowances.

The real after tax cost of funds for a firm is the average of its real cost of equity and its real cost of debt, weighted by the relative amounts of equity and debt used to finance a new project. The costs of equity and debt are determined by the requirements of stockholders and creditors, respectively. For example, assume that stockholders demand, on average, a return of 12 percent on equity investments and creditors an interest rate of 10 percent on corporate bonds. Moreover, let the inflation rate be 4 percent. The real after-tax cost of equity for the average corporation would be 8 percent (12 percent less 4 percent). The real after-tax cost of debt, however, is not 10 percent less 4 percent, because interest payments are deductible. If the corporate tax rate is 40 percent (say 34 percent federal and 9 percent state) then the real after tax cost of debt would be 10 x (1 - 0.4) - 4 = 2 percent. For a firm that uses 50 percent equity funds and 50 percent borrowed funds to make investments, the real cost of funds is 0.5 x 8 + 0.5 x 2 = 5 percent. For this cost of funds, the cost of capital c for an investment whose economic depreciation rate is 10 percent per year is 9.7 percent if the tax code allows economic depreciation, 8.1 percent if it allows double-declining-balance depreciation, and 5 percent if it allows expensing.

35. This expression is based on the approach first proposed by R.E. Hall and D.W. Jorgenson, "Tax Policy and Investment Behavior," American Economic Review 57, June 1967, 391- 414.

Table XIV
Cost of Capital Under Various Taxation Alternatives

Depreciation Allowances:	Current Law	Alternative 1	Alternative 2
Economic equal 10 percent	9.7	10.6	9.7
Double Declining equal 20 percent	8.1	9.2	8.1
Expensing	5.0	7.0	5.0

Consider now the two modifications of the tax law. Under the first alternative, corporations lose the tax deduction on interest payments but pay the same taxes because the corporate tax rate is lowered. To calculate what the new corporate tax rate would have to be, we assume a pretax corporate return of 20 percent (this would produce an after-tax return equal to the cost of equity, i.e. 12 percent). It is further assumed that this pretax return on equity would not be altered as a result of the enactment of the tax change.[36] Accordingly, the new tax rate is calculated to be 29 percent (22 percent federal and 9 percent state). The marginal real cost of funds for the firm under this alternative will be

$$0.5x(12\text{-}4) + 0.5(10\text{-}4) = 7 \text{ percent}$$

The resulting cost of capital for an asset having a depreciation rate of 10 percent per year rises from 9.7 to 10.6 percent if the tax code provides for economic depreciation, 8.1 to 9.5 percent if it provides for double-declining-depreciation, and 5.0 to 7.0 percent if it provides for expensing as it does for investments in research and development.

Under the second alternative, the deduction on debt is lowered from 10 percent, which is the assumed average interest rate, to a standard 5 percent. This deduction is also extended to equity capital at a fixed 5 percent rate. Thus, although the real cost of debt to corporations increases the real cost of equity will decline, resulting in no change in the cost of funds and, therefore, no change in the cost of capital.[37]

The results are summarized in Table XIV. Alternative 2 is more attractive than alternative 1 because it does not raise the cost of capital and discourage new investment.

The disadvantage of alternative 1 versus either current law or alternative 2 is more pronounced for investments in research and development that can be fully expensed. In fact, since such investments can be financed in practice only with equity, alternative 2 provides stronger investment incentives than current law. ■

36. In the long run, reductions in the corporate tax rate are likely to lead to lower pre-tax returns.

37. For firms using more debt than equity in their capital structure, this change would raise the cost of capital. It would have an opposite effect on firms using mostly equity finance.

Notes:

Design: Taccino/Gray Design
Type: Alexandria Type Company, Inc.

About the Authors

George N. Hatsopoulos is founder, Chairman of the Board, and President of Thermo Electron Corporation. He is Chairman of the Federal Reserve Bank of Boston, a member of the board of directors of the American Business Conference, and a member of the Board of Directors of the National Bureau of Economic Research among other distinguished positions. He is the author of over 60 articles in professional journals and the principal author of three books and numerous publications. Dr. Hatsopoulos received his education at the National Technical University of Athens and the Massachusetts Institute of Technology where he received his Bachelor's, Master's, Engineer's, and Doctor's degrees. He served on the faculty of MIT from 1956 to 1962 and has continued his association with the Institute, currently serving as Senior Lecturer.

Paul R. Krugman is a Professor of Economics at the Massachusetts Institute of Technology and a research associate at the National Bureau of Economic Research. He is a member of the Board of Advisors for the Institute of International Economics, a member of the Group of Thirty and a fellow of the Econometric Society. He is a member of the Board of Economists for the *Los Angeles Times* and has published articles on numerous domestic and international economic issues. Dr. Krugman received his B.A. from Yale University and his Ph.D. from the Massachusetts Institute of Technology. He has taught at MIT since 1979.

James M. Poterba is a Professor of Economics at the Massachusetts Institute of Technology and a Research Associate at the National Bureau of Economic Research. His principal research fields are the economics of taxation, corporate finance, and financial economics. He has published widely in professional journals and is a fellow of the Econometric Society. Dr. Poterba received his undergraduate training at Harvard University and holds the Doctor of Philosophy degree from Oxford University. He has taught at MIT since 1982.

1730 K Street, NW
Washington, DC 20006
(202) 822-9300

Barry K. Rogstad
President

American Business Conference

March 24, 1989

Mr. Jeff Vogt
Office of Public Liaison
The White House
Washington, DC 20500

Dear Jeff:

Here is a letter for Bobbie that conveys some additional information that might be useful to the President's speechwriters.

Regards,

Barry K. Rogstad

BKR:mcp
encs.

A Coalition of Growth Companies

1730 K Street, NW
Washington, DC 20006
(202) 822-9300

Barry K. Rogstad
President

American Business Conference

March 24, 1989

The Honorable Bobbie Kilberg
Deputy Assistant to the President
The White House
Washington, DC 20500

Dear Bobbie:

We are honored that President Bush has consented to speak to the members of the American Business Conference at our meeting here in Washington early next month.

I am enclosing a paper describing the nature and mission of ABC. In addition, for purposes of preparing the President's presentation, you may find the following background information helpful.

- President Bush is a long-standing and valued friend of ABC. As Vice President, he met with our members in October 1981 (at which time he hosted a reception at the Vice Presidential residence), March 1983, and October 1985. Last January, shortly before the inauguration, he and Vice President Quayle hosted a session with some of America's leading entrepreneurs including one of our members, Tom Wathen, President of Pinkerton's Inc. The President has a number of personal acquaintances and friends among our membership; indeed, Secretary of Commerce Bob Mosbacher is a former vice chairman of ABC.

- ABC enthusiastically supports the President's budget initiative, especially its focus on capital formation and growth.

- We share as well the President's emphasis upon education as a key ingredient for increasing labor productivity and, therefore, the nation's international competitiveness. A number of our members are very active at the state and local level in programs to promote educational excellence.

A Coalition of Growth Companies

o ABC, perhaps more than any other business organization in Washington, has consistently endorsed a pragmatic free trade and investment policy as the only reasonable response to an interdependent global marketplace.

The members of the ABC feel that the President closely embodies the ideals and goals of our organization. For that reason, we will not only support his short-term economic goals, but want to contribute to the achievement of his long-term priorities for the nation and the world. I trust that the meeting with the President next month will be the beginning of a long and constructive partnership to that end.

Sincerely,

Barry K. Rogstad

BKR:mcp
enc.

American Business Conference

A Coalition of Growth Companies

THE AMERICAN BUSINESS CONFERENCE

Founded in 1981 and comprising one hundred chief executives of fast-growing, mid-size companies, the American Business Conference (ABC) is the non-partisan voice of the high-growth, entrepreneurial sector of the economy.

Mission

The mission of the American Business Conference is the promotion of public policies to encourage growth, job creation, and a higher standard of living for all Americans. ABC executives believe their own business success carries with it a responsibility to help expand economic opportunity throughout the economy.

Membership

To qualify for membership in ABC, a company must have annual revenues of at least $25 million and must be growing in revenues or earnings at a minimum annual rate of three times the growth of the economy plus inflation. Member firms who can no longer maintain the growth criterion leave the organization and are replaced with other qualified companies.

ABC maintains a distribution of manufacturing, service, financial service and real estate firms in its membership roughly proportional to the configuration of the economy as a whole. Membership in ABC is limited to one hundred.

Agenda

Just as it keeps its membership limited and select, so too ABC focuses on a few, very important issues directly related to economic growth.

- Fiscal Policy: ABC regards the stimulation of national savings and the continued reduction of the federal deficit as the nation's leading economic priorities. ABC believes that deficit reduction is primarily a matter of reducing the rate of increase in federal spending. To that end, ABC urges a bipartisan scrutiny of all federal spending programs in an effort to bring the budget into balance without new taxes. ABC does not accept the proposition that higher taxes are a substitute for a disciplined, accountable federal budget.

  In the event that future, unforeseen economic circumstances call for new taxes in order to keep the budget in balance, ABC would support such taxes only if the new revenues are dedicated explicitly and without exception to deficit reduction. The burden of any new levies should fall on consumption rather than savings. In the longer term, ABC believes that an examination of the merits of a transition to a consumption-based income tax is in order.

- International Trade and Finance: ABC is committed to free and fair trade as well as the unhindered international flow of investment capital. The American economy has demonstrably benefitted from both. The United States must be on guard to insure that the vigorous enforcement of its trade laws -- which is a legitimate response to a world trading system still marked by barriers to trade and investment -- does not result in furthering the sort of protectionism the laws were designed to counteract.

- Human Capital: By their very nature, ABC companies depend upon human skills for imaginative business concepts and innovative technology. Over time the more advanced countries of the world can be expected to grow in industries that are more technology and knowledge intensive, that provide higher value-added goods and services, and that are increasingly dependent on human skills. The long-range competitiveness of ABC companies and of American business generally, depends upon the maintenance of a world-class work force. To that end, ABC strongly supports new initiatives to promote educational excellence at all levels.

Activities

ABC in all of its activities depends upon the participation and initiative of its executives. That fact gives ABC's perspective special credibility. Throughout the year ABC executives are prepared to offer their perspective in a number of forums on both short- and long-term critical economic issues.

- Membership Meetings: To advance their economic ideas, ABC executives regularly meet the nation's most important policymakers. Twice each year, all ABC members come to Washington for three days of policy meetings. The number of people participating in each meeting is kept small: perhaps two or three senators or administration officials with an equal number of executives. The discussion agenda typically reflects ABC executives' interests.

  ABC executives also meet in plenary session to hear from the president of the United States, the vice president, the chairman of the Federal Reserve, and other distinguished speakers. In the plenary sessions as well as the small sessions, the atmosphere is sufficiently informal to allow a healthy exchange of views.

- Other Policy Meeings: Beyond the twice-yearly membership meetings, ABC executives often visit Washington individually and in small groups to discuss the views of the membership before committees of Congress. A number of ABC executives serve on various trade and advisory committees to the president, and three ABC members are directors of Federal Reserve Banks.

- Publications: Together with direct advocacy, ABC executives place great emphasis upon the study of entrepreneurship and management practice. ABC is well-known for its monographs topics such as on capital costs, saving and consumption, the contribution of entrepreneurship to the economy, and the elements for success in the world marketplace. These and other ABC publications are drawn directly from the experiences of ABC member companies.

o Seminars: ABC also co-sponsors seminars and other programs to allow further public debate on economic policy issues, and frequently ABC executives are asked to speak to meetings of business leaders and policymakers.

Through personal advocacy and publications, ABC executives attempt to bring a fresh, informed, and neutral outlook on economic policy-making.

The American Business Conference sees itself as a "laboratory of excellence," dedicated to communicating the outlook and practices of the sort of firms that are on the leading edge of the American economy as the nation moves into the next century.

(Lange/Martin)
March 30, 1989
9:30 a.m.

PRESIDENTIAL REMARKS: AMERICAN BUSINESS CONFERENCE
ROOM 450, OLD EXECUTIVE OFFICE BLDG.
TUESDAY, APRIL 4, 1989
2:00 P.M.

I've met with this group three times, over the last eight years -- and every meeting has been a great success. So I've got a mind to ask: Why can't we equal or exceed that kind of contact over the next eight years?

Among the many close friends I have in the ABC, I'd mention your former vice chairman, now Commerce Secretary, Bob Mosbacher. Like all of you, he knows what it means to take risks, to build a business, and to keep America first. And he's already doing a superb job.

To be sitting in this room today, as ABC members, you've had to keep your earnings at three times the growth of the economy, plus inflation. Now, if Bob can just make that happen for every business in America... I'll make him the Business Czar and we can all go fishing.

You run the kind of high-growth businesses that represent the most dynamic, entrepreneurial segment of the American economy. And this government knows better than to fix what's already working.

So this afternoon I want to talk to you about what we're doing to encourage flexibility for the present -- and investment for the future.

For anyone running a business, flexibility and sound investment are now more important than ever. Your concern about a lack of savings is clearly motivated by a lack of investment capital for American industry. Now, the personal savings rate hit 5.9 percent in February -- nearly a seven-year high. That's good news.

But the working paper you released last month on overconsumption was another reminder that the deficit must be brought under control. So let me reassure you -- this government will not become the fiscal equivalent of Overeaters Anonymous. Accountability in government demands that we put an <u>end</u> to this spending spiral.

You know, when George Kaufman -- that famous wit from the Algonquin Round Table -- was at a party, he heard a self-made millionaire boasting to a circle of people, "I was born into the world without a single penny." And Kaufman answered, "Oh really. When I was born, I owed twelve dollars."

Well, we don't <u>have</u> to let the deficit play a cruel joke on

future generations. Next year alone, federal tax revenues will rise by more than $80 billion. And we're going to use those funds to bring the deficit down below the Gramm-Rudman-Hollings targets.

To spur greater investment in American industry, we need to bring our taxation of capital gains down -- in line with that of our trading partners. In the budget we've proposed to Congress, we want to restore the differential to 15 percent on long-held investments.

How many of you, as you built your businesses, were able to just walk up to a bank and get equity? Few, if any. Most of you probably raised capital by offering people a share of the business -- and a stake in the outcome.

Cutting the capital gains rate means more of that can happen. It will give businesses more of the capital they need to grow. It will bring in $4.3 billion more in tax revenues, according to the Treasury. And it will create more new jobs.

That's no tax break for the rich. That's a fair shake for every American.

The budget consultations are being held behind closed doors; so I can't tell you how they're going. Which may strike you like

one of those spy movies where somebody knows a secret, and says, "You know, I'd tell you -- but then I'd have to kill you." But we're determined to work with this Congress -- you know, live and let live -- to find answers we can all live with.
and I'm sure Congress feels the same way -- we need

We want to build on the energy and initiative of American business -- and we're determined to avoid burdensome mandates that only enforce solutions of uniform mediocrity. We don't want to limit the flexibility of managers and workers, who are trying to find their own best solutions. And you know, many are already succeeding.

Chamber of Commerce estimates suggest that workers are receiving more fringe benefits than ever before. Total benefits in 1987 were up 163 percent in a decade. And it is the market -- not government -- that is responsible for this growth.

Nearly eighty percent of growth in the fringe share of compensation is due to voluntary action by employers. Only 21 percent is due to government requirements. We want to keep it that way.

"Mandated benefits" are a contradiction in terms. How would you feel if your doctor said, "Well, nothing's broken... but we're going to put you in a full-body cast anyway." No thanks.

A hallmark of this administration will be its focus on the future -- and the importance we attach to making the right kinds of investment. You don't make your money on short-term, day-to-day trades -- you make it through sound long-term planning.

There can be no investment more urgent -- or more compelling for the future of American business, and this country as a whole, than education.

As labor markets get tighter in the coming years, many of you are going to be facing shortages of skilled people. Some managers are already worried about a scarcity of science and engineering graduates. And you've all read the surveys that show Pacific rim students outperforming our own.

Our best students can compete with anyone in the world. We're not on the verge of some intellectual brown-out. But in order to give business more of the people it needs to compete -- to help build America's prosperity -- and to give more of our young people the skills they need to <u>share</u> in that prosperity -- we have made education a national priority.

Next week I will be sending to Congress an education legislation package. We want to reward <u>merit schools</u> that make progress in terms of raising student achievement, and reducing

drug use and drop-out rates. We're promoting parental choice and educational quality, through magnet schools of excellence.

We want to provide alternative certification of teachers and principals, to broaden the pool of talent available; President's Awards to outstanding teachers; Urban Emergency Grants to provide comprehensive help in fighting drugs for school districts under seige; a National Science Scholars program for high school seniors; and additional endowment matching grants for historically black colleges and universities, which occupy a unique and vital position in American higher education.

We are committed to a program of education reform that will give our young people a solid foundation for the future. But to make lasting improvements in education, we'll need to get all of the players -- superintendents and administrators, school boards, local business leaders, teachers' unions -- around the table.

This will demand accountability, from all of us. It will require the best kind of collective effort, from all directions -- but it holds the promise of real progress.

Many of you have been prime movers, spending a remarkable amount of your own time making good on that promise. More than a third of you serve on local school boards, public or private -- or on the board of a local college or university.

Others among you have established a program with a local community college, or created Montessori schools, or taught part-time, or promoted science education across a school district. That's the kind of involvement that, while it isn't always easy, leads to the kind of educational reform that lasts. Consider yourself one in a thousand -- you know, points of light.

By investing your time and talents toward the education of our young people, you're helping to bring about something vital -- a fundamental cultural shift, that reasserts the value of learning in this country.

You're breathing new life into an idea that has always been a testament to the American spirit: that doing well demands doing good.

Nothing I might tell you would say it better than your own mission statement, which says ABC executives "believe their own business success carries with it a responsibility to help expand economic opportunity throughout the economy."

As business leaders, you understand the power of interests held in common. Education is the one investment that guarantees economic opportunity -- for every individual, and every business in America. Thank you. And God bless you.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Interest Rates
Q4 GNP
Housing Finance
Bean Counting

March 24, 1989

MEMORANDUM FOR THE DIRECTOR

FROM: John C. Weicher

SUBJECT: Friday Economic and Financial Report

Interest Rates Stabilize After Recent Jump

This week, interest rates stabilized and even fell slightly on long maturities. That's a welcome change from the prior week's increase of 20 basis points. February's Consumer Price Index, released this week, was a bit better than the market expected, with about a 5 percent annual rate rise overall and also excluding volatile food and energy items. Despite this good news, the underlying rate of inflation this year has averaged 5.3 percent, up about 1/2 percentage point from last year.

Consumer Price Index
(% change, annual rate)

	December to December				Jan	Feb
	1985	1986	1987	1988	1989	
Total	3.8	1.1	4.4	4.4	7.2	5.1
Food	2.7	3.8	3.5	5.2	9.3	5.0
Energy	1.9	-19.5	8.2	0.5	9.8	6.9
Ex. Food & Energy	4.3	3.8	4.2	4.7	5.9	4.8

Fed Chairman Alan Greenspan and Vice-Chairman Manuel Johnson, in separate remarks on Wednesday, made clear that the Fed has stopped raising the federal funds rate for the time being while they wait for the effects of their previous tightening moves to appear. They stressed the long lags in monetary policy and their desire to avoid overkill and reduce the possibility of a recession. This is a clear sign that the FOMC, which meets next week, is unlikely to change policy.

The bond market bounced up a bit after the Fed officials' remarks, but the stock market headed down. In the past week, technology stocks have been hit on reports of lower earnings. IBM and Digital Equipment dropped by over 8 percent. Weakness at these major computer manufacturers is a signal of a slowdown in investment spending.

Nominal interest rates are now about 1/2 percentage point higher on long maturities and 1-1/4 percentage point higher on short maturities than projected in the budget. While this increases outlays and the deficit, the effects will be almost entirely offset by higher-than-expected inflation. Tax receipts increase proportionately to the rise in prices, while noninterest program outlays are slower to adjust in the short run. Eventually, outlays are likely to be adjusted for higher inflation, so that receipts and outlays change about equally.

Of course, higher inflation is bad news for the economy and threatens the continuation of the expansion, but it has a roughly neutral effect on the deficit in the long run. What really matters for the budget is real interest rates and real growth rates. This year's rise in nominal interest rates has been fairly closely matched by rising inflation, with little average change in real rates. Real growth was slightly higher than the Administration's projection for the fourth quarter of 1988. The budget assumes a decline in real interest rates and healthy growth over the next year and a half, a more favorable outcome than most private sector forecasts. But so far, overall economic performance is consistent with the economic projections that matter most for the budget.

Fourth Quarter GNP

Now that all the data are in for the final quarter of last year, it is clear that the economy was somewhat stronger than initially reported. The Bureau of Economic Analysis places real GNP growth at a 2.4 percent annual rate, up 0.4 percentage points from the prior reading. A change of this magnitude is not exceptional, in fact, it is equal to the average revision during the past dozen years. Excluding the drought, which cut 1.1 percentage points off the growth rate, real GNP rose at a 3.5 percent annual rate. Over the four quarter of the year, GNP also rose 3.5 percent excluding the drought's effects.

The fourth quarter inflation estimates were not revised. The GNP implicit price deflator was up at a 5.3 percent annual rate and the GNP fixed-weighted price index, which is based on a constant composition of output, was up at a 4.2 percent rate. (See attachment for details of fourth quarter GNP.)

The Administration has assumed that rising interest rates over the past year will put a damper on nonfarm growth this year, but not enough to cause unemployment to rise. The year is still young, but there are signs that this is already happening. The

sectors that were at the forefront of the expansion last year are moderating. Manufacturing production and employment slowed during the first two months of this year. In part, this reflects diminished competitiveness because of the dollar's appreciation. On the domestic front, businesses' orders for new equipment have not risen since the third quarter of last year, which will curb capital spending in the coming months. Finally, consumer spending also waned in January and February as auto sales slumped. At the same time, unemployment has actually fallen.

A slackening pace does not necessarily signal an end to the expansion. In fact, the composite index of leading indicators rose 0.7 percent in December and 0.6 percent in January, the most recent months available. That's the best back-to-back showing since last June and is consistent with the Administration's forecast for continued growth in the nonfarm economy, albeit at a slower pace than during 1988.

The Evolution of Home Finance: Part I

The problems of the Federal Savings and Loan Insurance Corporation have simultaneously focused public attention on the American housing finance system and obscured the nature of the fundamental changes that have occurred over the last decade. This story is the first in a series on the housing finance system. It describes the evolution of the system. Subsequent stories will discuss the changes in the mortgage instrument itself, in origination and servicing, and in the sources of funds for mortgages.

A Flawed Foundation

The "traditional housing finance system," dating back to the Depression, was in reality two essentially competing systems of home finance, each with Federal support: the thrift industry, and the separate system of FHA/VA insurance and secondary market development designed to attract commercial banks, life insurance companies, pension funds and other investors to mortgages.

- Federal support for thrifts was initiated by President Hoover. The Federal Home Loan Bank System was created in 1932 to charter and regulate Federal savings and loan institutions, and to provide advances (loans) to all S&Ls. This was supplemented in 1934 by the creation of the Federal Savings and Loan Insurance Corporation to insure thrifts' deposits. The thrifts originated, serviced, and held mortgages in their own portfolios.

- President Roosevelt started the Federal Housing Administration in 1934 to insure mortgages, hoping to encourage commercial banks and other institutions to originate and hold them. The Federal National Mortgage Association (Fannie Mae) was established in 1938 to create a secondary market for FHA insured mortgages. In the immediate postwar period, the

Veterans Administration joined the FHA as a mortgage insurer. In this system, there was a split between origination and investing: mortgage bankers typically originated and serviced mortgages, but sold them directly or through Fannie Mae to other institutions which were the ultimate investors.

The S&Ls were heavily regulated, in return for deposit insurance and preferential access to capital markets, and the regulations eventually hamstrung the system. S&Ls were required to hold most of their assets in mortgages. They were permitted to originate mortgages only within 50 miles of their home office. These holdings were financed primarily by local savings deposits. Restricting thrifts to mortgages, primarily local, ignored the wisdom of portfolio diversification. Moreover, financing portfolios of long-term, fixed-rate mortgages by short-term savings deposits exposed thrifts to interest rate risk. So long as interest rates were relatively stable, such lending was profitable. But when interest rates rose, shocked by inflation, this term mismatch led to tremendous losses.

Accelerating Inflation

As inflation ratcheted upward in the mid-1960s, the early 1970s, and again in the late 1970s, these flaws became evident. In 1966, Regulation Q, which restricted the interest rates that commercial banks could pay on deposits, was extended to S&Ls in the hope of holding down their cost of funds. Instead, it resulted in disintermediation -- a reduction in the growth of deposits available for mortgage lending. On the second ratchet in the early 1970s, money market mutual funds were created; they invested in relatively short-term, high-quality assets, and were free of the restrictions on insured depository institutions. In the third cycle, MMMFs skyrocketed from $3.5 billion in 1977 to $180 billion in 1981; there was a net decline in thrift deposits. The first effect of inflation was to limit and destabilize the funds thrifts had available for home finance.

The second, closely related, effect was to reduce thrifts' profits and the value of their portfolios. On a market value basis, by 1980 the industry as a whole had a negative net worth of about 12.5% of assets. Although this industry-wide figure improved as interest rates came down in the 1980s, a substantial and growing fraction of the industry was insolvent. In any other industry, they would have gone out of business. But insolvent depository institutions can only go out of business when the Federal Government closes or merges them. Instead, the FSLIC exercised forbearance. Many thrifts with little or no net worth continued in business, competing for funds, increasing the volume of originations, and seeking higher returns. Their decisions were subject to moral hazard; they might profit, but with no equity, they could lose no more.

The nature of the mortgage instrument was also affected by the continuing inflation. As rising home prices and higher interest rates reduced the affordability of homes, potential buyers sought both lower down payment requirements and easier monthly terms. On the lenders' side, high and variable inflation created a desire for variable or adjustable rate mortgages, which would shift some of the interest rate risk to the borrower.

Bundles and Packages

Another major force restructuring the mortgage market in the 1970s was the increasing power and diminishing cost of computers and telecommunications. New information technology made it possible to "unbundle" different mortgage services so that different firms could handle origination, insurance, servicing, and holding. It also made possible the securitization of mortgages. This financial innovation "packaged" the cash flows on a pool of mortgages into a variety of securities. These securities, with quite different characteristics than the underlying mortgages, were designed to appeal to a variety of investors. They were sold in the secondary market, and were more liquid than the underlying mortgages. Securitization will be discussed more fully in a forthcoming article in this series.

The establishment of the Government National Mortgage Association (Ginnie Mae) in 1968 accelerated the development of the secondary market. Ginnie Mae bought FHA and VA insured mortgages, and created pass-through securities on which it guaranteed timely payment of principal and interest. In 1970, the Federal National Mortgage Corporation (Freddie Mac) was chartered and charged with creating a secondary market in conventional (uninsured) mortgages to increase the liquidity of thrifts, and Fannie Mae was permitted to buy conventional loans as well. As a result, mortgage qualifying and underwriting standards became more uniform to facilitate sale to the secondary market.

The Culmination

By the end of the 1970s, these forces created massive pressures for changes in the housing finance system. To permit thrifts to compete for funds and smooth the flow of financing for mortgages, the Depository Institutions Deregulation and Monetary Control Act of 1980 set up a schedule for the elimination of deposit rate ceilings and the Garn-St Germain Act of 1982 authorized a deposit account similar to money market fund accounts. The DIDMCA also permited thrifts to hold up to 20% of assets in consumer loans, commercial paper, and long-term corporate debt; Garn-St Germain permitted investment in corporate and government securities with no geographic limitation and increased the allowable limit for these non-mortgage investments to 40% by 1984. For mortgages, geographic limits on origination had been widened in several stages, and by 1983 were eliminated throughout the nation. And in 1981, thrifts were permitted to originate and hold any kind of adjustable rate mortgage.

The result of these changes is that the housing finance system of 1989 is much removed from the system of 1979, and vastly different from that of 1969. Twenty years ago, nearly all mortgages carried fixed rates for terms of 25 to 30 years; more than half were originated by S&Ls, and more than half were held by them in their own portfolios; few were sold in the secondary market; and mortgage securities were unknown. Moreover, interest rates then were much lower. Before the 1970s, S&Ls lived in a friendly environment, one that enabled them to grow and prosper. High inflation and new information technologies have changed all that: today's environment is a hostile one for S&Ls. It is no wonder that they have to struggle to survive.

Sweet Forecast Worth Hill of Beans

OMB is widely regarded as having the best bean counters in the world, and the Office of Economic Policy has the best of the best. This week, OEP's Jim Simpson won the NEOB cafeteria's jellybean counting contest. His estimate of 539 beans was closest to the actual count of 535, an error of less than 1 percent. The next closest was 619 beans. According to an informed source, most estimates were in the low thousands, which reinforces the view that OMBers believe in rosey scenarios. But not OMB's economists: Jim has provided proof positive that realism prevails in this office! "Forecasting is not an exact science", but this forecast was right on the bean, er-- beam.

HAPPY EASTER!

FOURTH QUARTER GNP

The economy grew at a revised annual rate of 2.4 percent in the fourth quarter, up 0.4 percentage points from the previous estimate. Excluding the drought, fourth quarter GNP was 1.1 percentage points higher. Inflation, as measured by both the implicit price deflator and the fixed-weighted index, remained unchanged; therefore all of the increase in nominal GNP was attributable to higher real growth.

	1988 Q1	Q2	Q3	Q4 Prelim.	Q4 Final
	(% change, saar)				
Real GNP	3.4	3.0	2.5	2.0	2.4
Excluding Drought	3.4	3.9	3.0	3.1	3.5
GNP Price Deflator	1.7	5.5	4.7	5.3	5.3
GNP Fixed-Weighted Price Index	3.5	5.0	5.3	4.2	4.2
Nominal GNP	5.4	8.7	7.3	7.2	7.6

The boost to fourth quarter GNP came mostly from business fixed investment, which was down less than initially measured, and from higher federal spending. Most of the higher federal nondefense revision was due to transactions of the Commodity Credit Corporation (CCC). Growth of consumption and residential investment was unchanged. The upward revisions more than offset a deterioration in the net export balance.

	Q1	Q2	Q3	Q4 Prelim.	Q4 Final
Business Fixed Investment	7.6	15.0	4.0	-4.6	-2.9
Personal Consumption	4.5	3.0	3.9	3.5	3.5
Residential Investment	6.5	0.2	4.3	10.9	10.9
Federal Government	-21.0	4.7	-13.2	16.8	20.7
Defense	-5.3	-1.5	-10.5	7.5	9.9
Nondefense	-60.1	33.2	-22.5	60.5	71.5
Nondefense Excluding CCC	-1.9	1.5	-12.9	8.0	10.9
State and Local	3.5	3.2	1.1	5.1	6.0

The real net export deficit widened, mostly due to a downward revision in exports. Imports were revised up slightly. Inventories remained essentially unchanged.

	Q1	Q2	Q3	Q4 Prelim.	Q4 Final
	($82 billions)				
Net Exports	-109.0	-92.6	-93.9	-103.3	-105.4
Exports	486.2	496.9	514.0	523.6	522.1
Imports	595.1	589.5	607.9	626.8	627.4
Inventory Change	66.0	35.3	39.5	29.3	29.1
Nonfarm	51.9	30.1	40.4	37.7	37.6
Farm	14.1	5.3	-0.8	-8.3	-8.5

Nominal and real disposable income were revised downward as a result of smaller gains in wages, proprietors' income and interest income. Corporate profits in the fourth quarter increased sharply. The quarterly pattern of profits last year was quite volatile, but overall they rose 7.5 percent.

	Q1	Q2	Q3	Q4 Prelim.	Q4 Final
	(% change, saar)				
Nominal Disposable Income	7.4	5.6	10.4	9.4	8.8
Real Disposable Income	5.0	0.0	5.6	4.8	4.1
Saving Rate (%)	4.4	3.7	4.2	4.5	4.3
Corporate Profits	0.1	13.7	4.4	NA	12.6

RECENT ECONOMIC INDICATORS MARCH 24, 1989
(S.A. OR AS INDICATED)

	Feb-88	Mar-88	Apr-88	May-88	Jun-88	Jul-88	Aug-88	Sep-88	Oct-88	Nov-88	Dec-88	Jan-89	Feb-89
GNP (QUARTERLY SERIES, % A.R.)													
NOMINAL GNP	5.4			8.7			7.3			7.6			
REAL GNP	3.4			3.0			2.5			2.4			
IMPLICIT PRICE DEFLATOR	1.7			5.5			4.7			5.3			
FIXED-WEIGHT PRICE INDEX	3.5			5.0			5.3			4.2			
REAL DISP. PERS. INC.	5.0			0.0			5.6			4.1			
OPERATING PROFITS	0.1			13.7			4.4			12.6			
LEADING AND COINCIDENT INDICATORS													
LEADING INDEX	140.3	140.8	141.5	141.5	143.9	142.7	144.1	143.7	143.9	143.9	144.9	145.7	NA
PERCENT	1.2	0.4	0.5	0.0	1.7	-0.8	1.0	-0.3	0.1	0.0	0.7	0.6	NA
COINCIDENT INDEX	126.5	127.3	127.3	127.6	128.5	128.9	129.3	129.3	130.6	130.7	131.6	132.9	NA
PERCENT	0.7	0.6	0.0	0.2	0.7	0.3	0.3	0.0	1.0	0.1	0.7	1.0	NA
INDUSTRIAL PRODUCTION	134.4	134.7	135.4	136.1	136.5	138.0	138.5	138.6	139.4	139.9	140.5	141.1	141.1
PERCENT	0.0	0.2	0.5	0.5	0.3	1.1	0.4	0.1	0.6	0.4	0.4	0.4	0.0
CAPACITY UTIL. MFG.	82.6	82.7	82.9	83.3	83.3	84.0	84.0	84.0	84.3	84.4	84.5	84.8	84.6
EMPLOYMENT INDICATORS													
CIVILIAN EMPLOYMENT, MIL.	114.3	114.1	114.7	114.4	115.0	115.0	115.2	115.4	115.6	115.9	116.0	116.7	116.9
CIV. UNEMPLOYMENT RATE, PERCENT	5.7	5.6	5.5	5.6	5.4	5.4	5.6	5.4	5.3	5.4	5.3	5.4	5.1
NONFARM PAYROLL EMPLOYMENT, MIL.	104.7	105.0	105.3	105.5	106.1	106.3	106.4	106.7	107.0	107.4	107.6	108.1	108.3
AVG. WEEKLY HOURS, MFG.	41.0	40.9	41.2	41.0	41.1	41.1	41.0	41.2	41.2	41.2	40.8	41.0	41.0
INITIAL CLAIMS UNEMP. INS.,THOUS.	321.6	308.0	304.5	310.8	304.1	325.4	305.1	292.8	295.4	300.5	309.0	292.5	308.8
CONSUMER SECTOR													
RETAIL SALES, BIL. $	131.9	133.7	133.2	134.1	135.0	136.7	136.1	135.8	137.8	139.5	139.2	140.1	139.5
PERCENT	1.2	1.3	-0.3	0.7	0.7	1.2	-0.4	-0.2	1.5	1.2	-0.2	0.7	-0.4
TOTAL AUTO SALES, MIL. UNITS, A.R.	11.1	10.6	10.5	10.4	11.0	10.7	10.6	10.6	9.8	10.2	11.5	9.8	9.9
DOMESTIC	7.9	7.5	7.2	7.3	7.8	7.8	7.4	7.6	6.8	7.2	8.4	7.0	7.1
IMPORTED	3.2	3.1	3.3	3.0	3.1	3.0	3.2	3.1	3.0	2.9	3.1	2.7	2.8
PERSONAL INCOME, BIL. $, A.R.	3946.7	3985.9	4001.0	4021.4	4044.9	4075.3	4091.8	4114.7	4175.5	4165.2	4200.8	4272.9	4315.3
PERCENT	0.6	1.0	0.4	0.5	0.6	0.8	0.4	0.6	1.5	-0.2	0.9	1.7	1.0
DISP. PERS. INC., BIL. $, A.R.	3376.7	3406.4	3357.6	3441.5	3465.3	3491.1	3505.9	3525.5	3580.0	3567.9	3599.5	3659.9	3699.7
PERCENT	1.0	0.9	-1.4	2.5	0.7	0.7	0.4	0.6	1.5	-0.3	0.9	1.7	1.1
REAL DISP. PERS. INC., BIL. $, A.R.	2768.0	2779.2	2721.5	2776.5	2788.4	2797.0	2802.2	2802.0	2832.5	2818.5	2834.3	2863.4	2889.6
PERCENT	1.0	0.4	-2.1	2.0	0.4	0.3	0.2	0.0	1.1	-0.5	0.6	1.0	0.9
PERS. CONSUMP. EXP., BIL. $, A.R.	3125.4	3149.0	3161.3	3190.9	3231.5	3241.7	3271.7	3270.2	3307.7	3325.4	3346.0	3357.9	3375.7
PERCENT	0.5	0.8	0.4	0.9	1.3	0.3	0.9	0.0	1.1	0.5	0.6	0.4	0.5
REAL PERS. CONSUMP. EXP., BIL. $, A.R.	2562.0	2569.2	2562.5	2574.3	2600.3	2597.3	2615.0	2599.1	2617.1	2626.9	2634.6	2627.2	2636.6
PERCENT	0.5	0.3	-0.3	0.5	1.0	-0.1	0.7	-0.6	0.7	0.4	0.3	-0.3	0.4
HOUSING SECTOR													
HOUSING STARTS, THOU. UNITS, A.R.	1511.0	1528.0	1576.0	1392.0	1463.0	1478.0	1459.0	1463.0	1532.0	1567.0	1577.0	1690.0	1498.0
SINGLE-FAMILY	1095.0	1169.0	1087.0	1001.0	1088.0	1067.0	1076.0	1039.0	1136.0	1138.0	1141.0	1202.0	1045.0
HOUSING PERMITS, THOU. UNITS, A.R.	1429.0	1476.0	1449.0	1436.0	1493.0	1420.0	1464.0	1394.0	1516.0	1516.0	1566.0	1507.0	1404.0

American
Business
Conference
A Coalition of Growth Companies

T16

TELECOPIER TRANSMISSION

FROM

AMERICAN BUSINESS CONFERENCE

DATE: 3/29 TIME: 9:35

TO: MARK LANGE TELECOPIER #

DEPARTMENT: TELEPHONE #

COMPANY:

FROM: JOHN ENDEAN TELECOPIER # (202) 467-4070

TELEPHONE # (202) 822-9300

NUMBER OF PAGES TO FOLLOW: 2

REMARKS: RE PRESIDENT BUSH'S REMARKS BEFORE AMERICAN BUSINESS CONFERENCE

NOTE: IF THERE ARE ANY QUESTIONS REGARDING THIS DOCUMENT, PLEASE CALL ______ AT THE ABOVE NUMBER.

American
Business
Conference

A Coalition of Growth Companies

MEMORANDUM

To: Mark Lange
From: John Endean
Date: March 29, 1989

Attached are a few examples of ABC members' activities on behalf of educational excellence. Quite candidly I have not included the names of the executives in the examples I have given because virtually all one hundred of our members are involved in one way or another in this issue and we are sensitive about singling out for special mention only half a dozen or so.

It is a cliche to say that business is "concerned" about educational excellence. I think what distinguishes our CEOs is their willingness to spend a remarkable amount of their own time making good on that generalized concern.

ABC members, the chief executives of high growth, entrepreneurial firms, are directly and personally involved in promoting better educational standards at all levels in their local schools and colleges. Some examples:

- A number of ABC executives have taken the lead in their home cities in public-private partnerships to explore what the appropriate role for business is in improving K-12 education.

- One ABC chief executive is sponsoring a geography and political/economic class for 5th through 8th graders in his local grade school. He is planning to give about $5,000 to the program and will also do some of the teaching because he believes that to be competitive in the world "we had better understand it." He plans to focus on science and math next.

- Several ABC executives hold part-time teaching positions in local colleges and universities.

- An ABC executive has begun a continuing education center for employees. At the company's expense, 65 men and women will take a 30-week course to improve their reading skills. The program will be undertaken in cooperation with the local community college.

- A Minnesota-based chief executive has been very active in promoting parental choice in selecting public schools for children. So crucial is improved education to this executive's company that he has hired someone to work full-time on the issue.

- An ABC chief executive's interest in education led him to become involved in the establishment of several Montessori Schools.

- An ABC executive is Chairman of the Boston Museum of Science and has in that capacity been instrumental in promoting science education in the Boston schools.

- Well over one third of ABC chief executives serve on either a local school board, on the board of a private secondary school, or on the board of a local college or university.

American
Business
Conference

A Coalition of Growth Companies

Photocopy-Preservation

TELECOPIER TRANSMISSION

FROM

AMERICAN BUSINESS CONFERENCE

DATE: 3/29 TIME: 9:35

TO: MARK LANGE TELECOPIER #

DEPARTMENT: TELEPHONE #

COMPANY:

FROM: JOHN ENDEAN TELECOPIER # (202) 467-4070

TELEPHONE # (202) 822-9300

NUMBER OF PAGES TO FOLLOW: 2

REMARKS: RE PRESIDENT BUSH'S REMARKS BEFORE AMERICAN BUSINESS CONFERENCE

NOTE: IF THERE ARE ANY QUESTIONS REGARDING THIS DOCUMENT, PLEASE CALL ______ AT THE ABOVE NUMBER.

American
Business
Conference

A Coalition of Growth Companies

MEMORANDUM

Photocopy-Preservation

To: Mark Lange
From: John Endean
Date: March 29, 1989

Attached are a few examples of ABC members' activities on behalf of educational excellence. Quite candidly I have not included the names of the executives in the examples I have given because virtually all one hundred of our members are involved in one way or another in this issue and we are sensitive about singling out for special mention only half a dozen or so.

It is a cliche to say that business is "concerned" about educational excellence. I think what distinguishes our CEOs is their willingness to spend a remarkable amount of their own time making good on that generalized concern.

Photocopy-Preservation

ABC members, the chief executives of high growth, entrepreneurial firms, are directly and personally involved in promoting better educational standards at all levels in their local schools and colleges. Some examples:

- A number of ABC executives have taken the lead in their home cities in public-private partnerships to explore what the appropriate role for business is in improving K-12 education.

- One ABC chief executive is sponsoring a geography and political/economic class for 5th through 8th graders in his local grade school. He is planning to give about $5,000 to the program and will also do some of the teaching because he believes that to be competitive in the world "we had better understand it." He plans to focus on science and math next.

- Several ABC executives hold part-time teaching positions in local colleges and universities.

- An ABC executive has begun a continuing education center for employees. At the company's expense, 65 men and women will take a 30-week course to improve their reading skills. The program will be undertaken in cooperation with the local community college.

- A Minnesota-based chief executive has been very active in promoting parental choice in selecting public schools for children. So crucial is improved education to this executive's company that he has hired someone to work full-time on the issue.

- An ABC chief executive's interest in education led him to become involved in the establishment of several Montessori Schools.

- An ABC executive is Chairman of the Boston Museum of Science and has in that capacity been instrumental in promoting science education in the Boston schools.

- Well over one third of ABC chief executives serve on either a local school board, on the board of a private secondary school, or on the board of a local college or university.

— flexibility, and accountability -- in business
in education
& in government.

Business

Flexibility -- demands savings & investment / [crossed out] ... for savings
[crossed out] ...
cgs tax cut

means no mandated body-costs
min. wage.

accountab -- your mission statement
expand
econ oppor.
local school boards — derive from account. to comm, yes
-- but also [crossed out] ...
econ. common
sense

Education

Flexib. -- choice

Account.

Govt

Accountab - [ethics]