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THE AMERICAN BUSINESS CONFERENCE
THE DEPARTMENT OF COMMERCE
TUESDAY APRIL 9, 1991
2 P.M.

D's
P.4

THANK YOU, BOB, FOR THAT INTRODUCTION AND FOR
LENDING US A MEETING ROOM TODAY. AND I ALSO WANT TO
SALUTE THE AMERICAN BUSINESS CONFERENCE'S LEADER, JIM
JONES. WHAT A JOB HE'S DOING! WE ALSO HAVE SOME HEAVY
HITTERS IN THE FRONT ROW: RICHARD BREEDON, BILL
SEIDMAN, SEN. DOMENICI.

IT'S ALWAYS GREAT TO TALK TO THE AMERICAN BUSINESS
CONFERENCE. I'VE BEEN HERE FOUR TIMES IN RECENT YEARS,
AND I'VE LANDED AT LEAST TWO OF YOUR LEADERS -- BOB
MOSBACHER AND ARTHUR LEVITT. //

IT'S AN HONOR AND A PLEASURE TO TALK TO A GROUP
THAT STANDS FOR SUCCESS -- A GROUP THAT ADMITS ONLY
MEDIUM SIZED COMPANIES THAT THRIVE IN THE MARKETPLACE.

BUT I'VE GOT TO TELL YOU, I FEEL A LITTLE FUNNY
BEING HERE. AFTER ALL, I'M THE CEO OF AN OUTFIT THAT
HAS LOST MONEY FOR 33 OF THE LAST 35 YEARS. //

BUT IN KEEPING WITH TODAY'S THEME -- CHARTING ECONOMIC GROWTH IN THE 90'S -- I'D LIKE TO TALK ABOUT THIS ADMINISTRATION'S PLAN FOR GENERATING MORE AMERICAN SUCCESS STORIES LIKE YOURS./

OUR RECENT SUCCESS IN THE GULF HAS RENEWED AMERICANS' BELIEF IN THEMSELVES. IN JUST THE PAST COUPLE OF MONTHS, CONSUMER CONFIDENCE HAS SOARED. THE STOCK MARKET HAS BEEN CLIMBING TOWARD THE 3,000 MARK. MOST ECONOMISTS PREDICT THAT THE RECESSION SOON WILL GIVE WAY TO A NEW CYCLE OF GROWTH.

BUT WE CAN'T REST ON OUR LAURELS: THERE'S AN ENTIRE WORLD OF COMPETITION OUT THERE. THE ADMINISTRATION'S ECONOMIC GROWTH PACKAGE IS DESIGNED TO LET PEOPLE LIKE YOU DO WHAT YOU DO BEST -- CREATE JOBS, CREATE NEW OPPORTUNITIES, CREATE WEALTH.

LET'S START WITH AN ISSUE WE ALL WILL HAVE TO ADDRESS IN THE NEXT MONTH, THE ISSUE OF FREE AND FAIR TRADE.

AS YOU KNOW, I HAVE ASKED CONGRESS TO EXTEND THE "FAST-TRACK" TRADE AUTHORITY.

FAST-TRACK IS ANOTHER TERM FOR "GOOD FAITH." IT GUARANTEES THAT CONGRESS WILL ACCEPT OR REJECT THE VERY SAME AGREEMENTS THAT OUR NEGOTIATORS AND THEIR COUNTERPARTS HAVE WORKED OUT. THIS DOESN'T WEAKEN CONGRESS' POWER TO REVIEW AGREEMENTS; IT SIMPLY PREVENTS ELEVENTH HOUR CHANGES THAT WOULD FORCE NEGOTIATORS FROM ALL COUNTRIES TO START FROM SCRATCH.

OUR TRADING PARTNERS CONSIDER FAST TRACK A VITAL TEST OF OUR RELIABILITY. IF WE DO NOT RETAIN THE FAST-TRACK PROCESS, WE JEOPARDIZE THREE CRITICAL TRADE INITIATIVES: THE URUGUAY ROUND OF TRADE TALKS, THE NORTH AMERICAN FREE TRADE AGREEMENT, AND THE ENTERPRISE FOR THE AMERICAS INITIATIVE.

AMERICANS UNDERSTAND THE BENEFITS OF FREE TRADE. IN THE LAST FOUR YEARS, EXPORTS FROM THE U.S. HAVE INCREASED 55 PERCENT, MORE THAN TWICE THE RATE OF IMPORT GROWTH. AND EXPORT BUSINESS HAS GROWN MORE RAPIDLY ~~THAT~~ THE REST OF OUR ECONOMY.

THAN

X

THIS TRADE BOOM HAS HELPED EVERYONE INVOLVED. A NORTH AMERICAN FREE TRADE AGREEMENT WOULD PLACE US IN THE LARGEST INTEGRATED MARKET ON EARTH: 360 MILLION PEOPLE, \$6 TRILLION OF ANNUAL OUTPUT. IT WOULD ALSO GIVE OUR NEIGHBORS ACCESS TO THE TECHNOLOGIES AND PRODUCTS THEY NEED TO IMPROVE THEIR STANDARDS OF LIVING / FURTHER CLEAN THEIR ENVIRONMENTS / AND CREATE A TRUE COMMUNITY OF NATIONS ON OUR CONTINENT.

WE ALSO BELIEVE STRONGLY IN PROMOTING TRADE. I HAVE ASKED BOB MOSBACHER TO LEAD A GOVERNMENT-WIDE EFFORT TO HELP SMALL- AND MEDIUM-SIZED COMPANIES SELL THEIR GOODS AND SERVICES ABROAD.

I KNOW YOU SUPPORT FREE TRADE, WHICH IS WHY I WANT YOUR HELP IN PERSUADING CONGRESS TO EXTEND THE FAST-TRACK PROCESS. WITHOUT IT, WE WILL SURRENDER OUR CHANCE TO SHAPE THE EMERGING WORLD ECONOMY. WITHOUT IT, WE RISK SETTING OFF THE KIND OF PROTECTIONIST WARFARE THAT HELPED PRODUCE THE GREAT DEPRESSION. WITH IT, AMERICAN WORKERS AND BUSINESSES WILL BE ABLE TO DEMONSTRATE THEIR STRENGTH IN A NEW AND VIBRANT WORLD MARKET.

THIS BRINGS ME TO A SECOND PART OF OUR GROWTH PACKAGE: CREATING AN EDUCATED, INNOVATIVE WORKFORCE.

OUR BUDGET EMPHASIZES THE IMPORTANCE OF BUILDING AN AMERICA THAT IS READY TO TAKE ITS PLACE IN AN EMERGING WORLD ECONOMY.

IT STRESSES THE ABSOLUTE NECESSITY OF AN EDUCATED NATION. WE WANT TO REINVENT THE AMERICAN SCHOOL, TO CREATE A NATION OF STUDENTS, TO MAKE SURE THAT EDUCATION OFFERS OPPORTUNITY TO EVERYONE.

OUR EDUCATION STRATEGY STARTS WITH SOME OBVIOUS TRUTHS: THAT SCHOOLS SUCCEED WHEN TEACHERS TEACH,

WHEN PARENTS SUPPORT THE SCHOOLS / WHEN SCHOOLS ACCEPT HELP FROM PEOPLE WITH SKILLS -- LOCAL BUSINESSES, COMMUNITY COLLEGES, THAT HUGE POOL OF UNTAPPED TALENT, OUR RETIREES /

WHEN COMMUNITIES FIGHT HARDER TO RIP DOWN BARRIERS THAT PREVENT EFFECTIVE TEACHING -- BARRIERS SUCH AS CRIME, DRUGS AND COMMUNITY INDIFFERENCE.

WE ALSO WANT TO ENCOURAGE ENTREPRENEURSHIP IN EDUCATION. WE WILL SUPPORT RESEARCH INTO THE BEST TEACHING METHODS AND TECHNIQUES. WE WANT TO HELP WORKERS IMPROVE THEIR KNOWLEDGE AND SKILLS. YOUR VITAL LINK PROGRAM OFFERS A GREAT WAY TO ACHIEVE THIS GOAL. AND WE WANT TO ENSURE THAT THE AMERICAN PEOPLE ARE THE BEST EDUCATED, BEST MOTIVATED IN THE WORLD. //

OUR ECONOMIC PROPOSALS ALSO SWEEP AWAY OBSTACLES TO FREE ENTERPRISE. THEY TRY TO UNLEASH THE POWER OF THE AMERICAN IMAGINATION.

YOUR ORGANIZATION UNDERSTANDS THAT RUNAWAY GOVERNMENT SPENDING STEALS OPPORTUNITY FROM PRIVATE CITIZENS. LAST YEAR'S BUDGET AGREEMENT PLACED REAL AND STRINGENT CAPS ON CONGRESSIONAL SPENDING. IF CONGRESS WANTS TO SPEND MORE MONEY ON CERTAIN PROGRAMS, IT WILL HAVE TO MAKE HARD CHOICES. IT WILL HAVE TO RAISE TAXES OR TAKE THE MONEY FROM OTHER PROGRAMS.

THIS YEAR, FOR THE FIRST TIME IN YEARS, FEDERAL SPENDING WILL ACTUALLY INCREASE LESS RAPIDLY THAN INFLATION. AND I CAN PROMISE YOU THAT IF CONGRESS SENDS ME SPENDING BILLS THAT BREAK THIS BUDGET, I WILL SEND THEM BACK -- WITH A VETO MESSAGE! //

BUT WE IN GOVERNMENT MUST DO MORE. AS VICE PRESIDENT, I HEADED THE TASK FORCE ON REGULATORY RELIEF. AS PRESIDENT, I REMAIN COMMITTED TO WEEDING OUT REGULATIONS THAT PREVENT PEOPLE FROM CREATING JOBS AND OPPORTUNITIES.

LAST YEAR REGULATIONS COST THE ECONOMY AT LEAST \$185 BILLION, OR \$1,700 FOR EVERY TAXPAYER. THE GOVERNMENT GENERATED MORE THAN 5.3 BILLION HOURS OF PAPERWORK LAST YEAR. THAT'S ENOUGH TO KEEP 2 MILLION PEOPLE BUSY DOING NOTHING BUT FILLING OUT FORMS.

OUR COUNCIL ON COMPETITIVENESS, CHAIRED BY THE VICE PRESIDENT, ATTACKS THE SCOURGE OF UNNECESSARY REGULATION. WE WANT TO LET PEOPLE TURN THEIR ATTENTION TO THE MORE IMPORTANT AND REWARDING WORK OF BUILDING A PROSPEROUS FUTURE.

WE HAVE FOLLOWED THE SAME APPROACH IN LOOKING AT OUR TAX CODE. WE WANT A TAX SYSTEM THAT REWARDS ENTERPRISE. I HAVE REPEATEDLY ASKED CONGRESS TO CUT OUR HIGH CAPITAL GAINS TAX.

I CAN'T THINK OF ANY ISSUE THAT'S BEEN MORE BADLY MISREPRESENTED THAN THIS ONE. OUR CRITICS SAY A CAPITAL GAINS CUT HELPS ONLY THE RICH. THEY'RE DEAD WRONG.

HERE ARE THE FACTS: MORE THAN A QUARTER OF ALL FAMILIES WHO FILE CAPITAL GAINS HAVE ANNUAL INCOMES OF LESS THAN TWENTY THOUSAND DOLLARS A YEAR. MORE THAN THREE-QUARTERS OF ALL FAMILIES WHO DECLARED MAKE LESS THAN MEMBERS OF CONGRESS. A CAPITAL GAINS CUT ISN'T A SOP TO THE RICH. IT REWARDS PEOPLE WHO TURN GOOD IDEAS INTO GOODS AND SERVICES THAT PEOPLE NEED.

WHEN TAXES ON ENTREPRENEURSHIP ARE HIGH, INVESTORS HAVE NO INCENTIVE TO RISK MONEY ON UNTRIED BUSINESSES AND ENTREPRENEURS. BEFORE CONGRESS CUT THE CAPITAL GAINS RATE IN 1978, THE POOL FOR START-UP BUSINESSES HAD VIRTUALLY DRIED UP. AFTER THE CUT, WE EXPERIENCED AN INVESTMENT BOOM. BETWEEN 1978 AND 1986, THE NUMBER OF INITIAL PUBLIC OFFERINGS INCREASED NEARLY 1,600 PERCENT, FROM 45 TO 719. THE AMOUNT OF INVESTMENT SEED MONEY INCREASED A HUNDREDFOLD, FROM \$250 MILLION TO \$22-AND-A-HALF BILLION. CAPITAL GAINS PAYMENTS TO THE FEDERAL GOVERNMENT QUADRUPLED. THIS IS WHAT HAPPENS WHEN YOU REDUCE THE COST OF CAPITAL.

WE MUST ENCOURAGE SAVINGS AND DISCOURAGE DEBT. FOR THE PAST FOUR YEARS, WE HAVE TAXED CAPITAL GAINS LIKE ANY OTHER FORM OF INCOME. AT THE SAME TIME, WE HAVE ENCOURAGED PEOPLE TO TAKE ON DEBT. NOT SURPRISINGLY, PEOPLE HAVE BORROWED MORE, INVESTED LESS. HOME EQUITY LINES OF CREDIT OFFER A PERFECT EXAMPLE. THESE DEVICES, WHICH LET HOMEOWNERS BORROW AGAINST THEIR INCREASED HOME VALUES, HAVE NEARLY TRIPLED IN VOLUME SINCE TAX REFORM.

NO OTHER MAJOR INDUSTRIAL POWER TAXES CAPITAL GAINS AT NEARLY THE RATE WE DO. GERMANY AND JAPAN ENJOY MUCH HIGHER SAVINGS AND INVESTMENT RATES IN PART BECAUSE THEY DON'T PUNISH SUCCESSFUL INVESTMENT.

MY POINT IS SIMPLE: TAXES ON GROWTH ARE TAXES ON THE AMERICAN DREAM. WE SHOULD CLEAR AWAY OBSTACLES TO THE AMERICAN DREAM.

SIMILARLY, WE SHOULD FOSTER INNOVATION WHEREVER WE CAN. OUR BUDGET ADVOCATES INCREASED FEDERAL SUPPORT FOR RESEARCH AND DEVELOPMENT IN BASIC AND APPLIED SCIENCE. IT ALSO ENCOURAGES PRIVATE-SECTOR INNOVATION BY EXTENDING THE RESEARCH AND EXPERIMENTATION TAX CREDIT. THIS ADMINISTRATION UNDERSTANDS THE POWER OF KNOWLEDGE, AND WE WANT THE TAX CODE TO REWARD PEOPLE WHO TURN THEIR BIG DREAMS INTO REVOLUTIONARY NEW GOODS AND SERVICES.

FINALLY, THIS ADMINISTRATION BELIEVES IN PROTECTING WORKERS' EARNINGS AND SAVINGS.

OUR BANKING REFORM PROPOSALS TRY TO MODERNIZE THE LAWS THAT AFFECT OUR BANKING SYSTEM. LET'S FACE IT: 1930'S REGULATIONS AND RESTRICTIONS JUST DON'T CUT IT IN THE 1990'S. TO PICK JUST ONE EXAMPLE, UNDER OUR CURRENT LAWS, A CALIFORNIA BANK CAN OPEN A BRANCH IN BIRMINGHAM, ENGLAND, BUT NOT IN BIRMINGHAM, ALABAMA.

THINK OF THE BANKING SYSTEM AS AN IRRIGATION NETWORK FOR THE ECONOMY. WHEN IT WORKS PROPERLY, IT NOURISHES THE SEEDS OF ECONOMIC GROWTH. WHEN IT DOESN'T, COMPANIES LIKE THE ONES REPRESENTED HERE CAN WITHER AND DIE.

OUR REFORM PACKAGE TRIES IN A COMPREHENSIVE WAY TO MAKE OUR BANKING SYSTEM MORE COMPETITIVE, UP-TO-DATE, SAFE, AND SOUND.

**WE ALSO BELIEVE IN PROTECTING RETIREES FROM UNDUE
HARDSHIP. EIGHT YEARS AGO, CONGRESS ADOPTED MEASURES
TO GUARANTEE THE SHORT-TERM SOLVENCY AND LONG-TERM
STABILITY OF THE SOCIAL SECURITY SYSTEM. CONGRESS
SHOULD RESIST ANY TEMPTATION TO UNDERMINE THAT
STABILITY BY PERMITTING RAIDS ON THE TRUST FUND
BALANCES. WE NEED TO HONOR OUR PROMISES TO WORKERS AND
RETIREEES.**

**I KNOW I HAVE COVERED A LOT OF GROUND TODAY, BUT I
WANTED TO MAKE A POINT: OUR GROWTH PACKAGE ADDRESSES
THE CHALLENGES POSED BY A NEW / EXCITING / RAPIDLY
CHANGING WORLD. OUR THEMES:**

WE WANT TO PROMOTE GROWTH.

WE WANT TO CREATE JOBS FOR ALL AMERICANS.

**WE WANT TO UNLEASH THE POWER OF AMERICAN
IMAGINATION.**

**WE WANT TO IGNITE PEOPLE'S AMBITIONS, RATHER THAN
INCITING THEIR FEARS.**

**MANY PEOPLE CALL THE 20TH CENTURY "THE AMERICAN
CENTURY." WELL, WE SHOULD NOT BE CONTENT WITH THAT.**

**THE STUNNING COLLAPSE OF COMMUNISM IN 1989 WAS NO
ACCIDENT. DURING THE 1980'S THE COMMUNIST WORLD LEARNED
THAT NO WALL, NO BARRIER CAN FEND OFF POWERFUL IDEAS.
IT SAW OUR PROSPERITY AND OUR VITALITY. IT SAW THAT
OUR WAY IS BETTER. THE PROSPERITY OF THE 1980'S --
WHICH BEGAN WITH TAX CUTS AND PRO-GROWTH POLICIES IN
THE UNITED STATES -- TRANSFORMED THE WORLD.**

**OUR CHALLENGE NOW IS TO SHAPE THE REVOLUTION WE
STARTED, TO MAKE THE 21ST CENTURY THE NEXT AMERICAN
CENTURY.**

**I ASK YOUR HELP IN THAT QUEST. TOGETHER, WE CANNOT
FAIL.**

THANK YOU, AND GOD BLESS THIS GREAT NATION.

#

Simon

Snow/Simon
ABC
Draft Five
April 8, 1991
6 p.m.

ADDRESS BY THE PRESIDENT: THE AMERICAN BUSINESS CONFERENCE
THE DEPARTMENT OF COMMERCE
TUESDAY APRIL 9, 1991
2 p.m.

[Introductory acknowledgments].

It's always great to talk to the American Business Conference. I've been here four times in recent years, and I've landed at least two of your leaders -- Bob Mosbacher and Arthur Levitt. I wish I'd had that much luck fishing last week. //

It's an honor and a pleasure to talk to a group that stands for success -- a group that admits only medium sized companies that thrive in the marketplace.

But I've got to tell you, I feel a little funny being here. After all, I'm the CEO of a corporation that has **lost** money for 33 of the last 35 years. //

But in keeping with today's theme -- Charting Economic Growth in the 90s -- I'd like to talk about this administration's plan for generating more American Success Stories like yours./

Our recent success in the Gulf has renewed Americans' belief in themselves. In just the past couple of months, consumer confidence has soared. The stock market has been climbing toward the 3,000 mark. Most economists predict that the recession soon will give way to a new cycle of growth.

But we can't rest on our laurels: There's an entire world of competition out there. The administration's economic growth package is designed to let people like you do what you do best - - create jobs, create new opportunities, create wealth.

Let's start with an issue we all will have to address in the next month, the issue of free and fair trade.

As you know, I have asked Congress to extend my "fast-track" trade authority.

Fast-track is another term for "good faith." It guarantees that Congress will accept or reject the very same agreements that our negotiators and their counterparts have worked out. This doesn't weaken Congress' power to review agreements; it simply prevents eleventh hour changes that would force negotiators from all countries to start from scratch.

Our trading partners consider fast track a vital test of our reliability. If we do not retain the fast-track process, we jeopardize three critical trade initiatives: The Uruguay Round of trade talks, the North American Free Trade Agreement, and the Enterprise for the Americas Initiative.

Americans understand the benefits of free trade. In the last four years, exports from the U.S. have increased ⁵⁵ (59) percent, more than twice the rate of import growth. And export business has grown more rapidly than the rest of our economy.

This trade boom has helped everyone involved. A North American Free Trade Agreement would place us in the largest integrated market on earth: 360 million people, \$6 trillion of

annual output. It also would give our neighbors access to the technologies and products they need to improve their standards of living / further clean their environments / and create a true community of nations on our continent.

We also believe strongly in promoting trade. I have asked Bob Mosbacher to lead a government-wide effort to help small- and medium-sized companies sell their goods and services abroad.

I'll be in Boston soon, addressing one of these National Export Initiative Conferences.

I know you support free trade, which is why I want your help in persuading Congress to preserve the fast-track process. Without it, we will surrender our chance to shape the emerging world economy. Without it, we risk setting off the kind of protectionist warfare that helped produce the Great Depression. With it, American workers and businesses will be able to demonstrate their strength in a new and vibrant world market.

**This brings me to a second part of our growth package:
Creating an educated, innovative workforce.**

Our budget emphasizes the importance of building an America that is ready to take its place in an emerging world economy.

It stresses the absolute necessity of an educated nation. We want to reinvent the American school, to create a nation of students, to make sure that education offers opportunity to everyone.

Our education strategy starts with some obvious truths: That schools succeed when teachers teach,

When parents support the schools /

When schools accept help from people with skills -- local businesses, community colleges, or that huge pool of untapped talent, our retirees /

When communities fight harder to rip down barriers that prevent effective teaching -- barriers such as crime, drugs and community indifference.

We also want to encourage entrepreneurship in education. We want to encourage research into the best teaching methods and techniques. We want to help workers improve their knowledge and skills. (Your Vital Link program offers a great way to achieve this goal.) And we want to ensure that the American people are the best educated, best motivated in the world. //

Our economic proposals also sweep away obstacles to free enterprise. They try to unleash the power of the American imagination.

Your organization understands that runaway government spending steals opportunity from private citizens. Last year's budget agreement placed real and stringent caps on Congressional spending. If Congress wants to spend more money on certain programs, it will have to make hard choices. It will have to raise taxes or take the money from other programs.

This year, for the first time in years, federal spending actually will increase less rapidly than inflation. And I can promise you that if Congress sends me spending bills that break this budget, I will send them back -- with a veto message! //

Congress can do its part by
reauthorizing the
Paperwork Reduction
act. 5

to let the
free market
prosper

But we in government must do more. As vice president, I headed the Task Force on Regulatory Relief. As president, I remain committed to weeding out regulations that prevent people from creating jobs and opportunities.

Last year it cost us \$106 billion to process paperwork, and ~~regulatory paperwork~~ ^{regulations} cost the economy at least \$185 billion, or \$1,700 for every taxpayer. The government generated more than 5.3 billion hours of paperwork last year. That's enough to keep 2 million people busy doing nothing but filling out forms.

Our Council on Competitiveness, chaired by the vice president, attacks the scourge of unnecessary paperwork. ~~It~~ We want to let people turn their attention to the more important and rewarding work of building a prosperous future.

We have followed the same approach in looking at our tax code. We want a tax system that **rewards** enterprise. I repeatedly have asked Congress to cut our high capital gains tax.

I can't think of any issue that's been more badly misrepresented than this one. Our critics say a capital gains cut helps only the rich. They're dead wrong.

Here are the facts: More than a quarter of all capital gains are declared by families with annual incomes of less than twenty thousand dollars a year. More than three-quarters are declared by families who make less than members of Congress. A capital gains cut isn't a sop to the rich. It rewards people who turn good ideas into goods and services that people need.

When capital gains taxes are high, investors have no incentive to risk money on untried businesses and entrepreneurs. Before Congress cut the capital gains rate in 1978, the pool for start-up businesses had virtually dried up. In the decade following the cut, the amount of investment seed money increased **tenfold**. Capital gains payments to the federal government **quadrupled**. This is what happens when you reduce the cost of capital.

A capital gains cut also will encourage savings and discourage debt. For the past four years, we have taxed capital gains like any other form of income. At the same time, we have encouraged people to take on debt. Not surprisingly, people have borrowed more, invested less. Home equity ^{lines of credit} ~~loans~~, a perfect example of this trend, have tripled in volume since we raised that capital gains rate four years ago. They let people gain access to the increased value of their homes without having to pay a capital gains duty.

No other major industrial power taxes capital gains at nearly the rate we do. Germany and Japan enjoy much higher savings and investment rates than we do in part because they don't punish successful investment.

My point is simple: **Capital gains taxes are taxes on the American dream.** If we want to build on our natural strengths as a nation, we should cut this burdensome tax.

Similarly, we should foster innovation wherever we can. Our budget advocates increased federal support for research and

development in basic and applied science. It also encourages private-sector innovation by extending the Research and Experimentation Tax Credit. This administration understands the power of knowledge, and we want the tax code to reward people who turn their big dreams into revolutionary new goods and services.

Finally, this administration believes in protecting workers' earnings and savings.

Our banking reform proposals try to free our banking system from ~~1940s~~^{1930s} regulations and restrictions that just don't cut it in the 1990s.

We want a deposit insurance system that protects that average depositor and forces banks to take responsibility for their behavior. We want to improve supervision, so that we address problems before banks fail.

In short, our comprehensive reform proposals aim to make our banking system more competitive, up-to-date, safe and sound.

We also believe in protecting retirees from undue hardship. Eight years ago, Congress adopted measures to guarantee the short-term solvency and long-term stability of the social security system. Congress should resist any temptation to undermine that stability by permitting raids on the trust fund balances. We need to honor our promises to workers and retirees.

I know I have covered a lot of ground today, but I wanted to make a point: Our growth package addresses the challenges posed by a new / exciting / rapidly changing world. Our themes:

We want to promote growth.

We want to create jobs for all Americans.

We want to unleash the power of American imagination.

We want to ignite people's ambitions, rather than inciting their fears.

Many people call the 20th Century "The American Century." Well, we should not be content with that.

The stunning collapse of communism in 1989 was no accident. During the 1980s the communist world learned that no wall, no barrier can fend off powerful ideas. It saw our prosperity and our vitality. It saw that our way is better. The prosperity of the 1980s -- which began with tax cuts and pro-growth policies in the United States -- transformed the world.

Our challenge now is to shape the revolution we started, to make the 21st Century the **Next** American Century.

I ask your help in that quest. Together, we cannot fail.

Thank you, and God bless this great nation.

#

Treasury insert

It is time to modernize so our banks can compete efficiently, and play their crucial role of fueling economic growth and creating jobs. To pick just one example, under our laws a California bank can open a branch in Birmingham, England -- but not in Birmingham, Alabama. Our banking reform package would lift these ancient and onerous restrictions that weaken our banks and hamper their competitiveness at home and abroad.

Snow/Simon
ABC
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Before Congress cut the capital gains rate in 1978, the pool for start-up businesses had virtually dried up. In the decade following the cut, the amount of investment seed money increased **tenfold**. Capital gains payments to the federal government **quadrupled**. This is what happens when you reduce the cost of capital.

A capital gains cut also will encourage savings and discourage debt. For the past four years, we have taxed capital gains like any other form of income. At the same time, we have encouraged people to take on debt. Not surprisingly, people have borrowed more, invested less. Home equity ~~loans~~ ^{lines of credit}, a perfect example of this trend, have tripled in volume since we raised that capital gains rate four years ago. They let people gain access to the increased value of their homes without having to pay a capital gains duty.

No other major industrial power taxes capital gains at nearly the rate we do. Germany and Japan enjoy much higher savings and investment rates than we do in part because they don't punish successful investment.

My point is simple: **Capital gains taxes are taxes on the American dream.** If we want to build on our natural strengths as a nation, we should cut this burdensome tax.

Similarly, we should foster innovation wherever we can. Our budget advocates increased federal support for research and development in basic and applied science. It also encourages private-sector innovation by extending the Research and

Experimentation Tax Credit. This administration understands the power of knowledge, and we want the tax code to reward people who turn their big dreams into revolutionary new goods and services.

Finally, this administration believes in protecting workers' earnings and savings.

Our banking reform proposals try to free our banking system from 1940s regulations and restrictions that just don't cut it in the 1990s.

We want a deposit insurance system that protects that average depositor and forces banks to take responsibility for their behavior. We want to improve supervision, so that we address problems before banks fail.

In short, our comprehensive reform proposals aim to make our banking system more competitive, up-to-date, safe and sound.

We also believe in protecting retirees from undue hardship. Eight years ago, Congress adopted measures to guarantee the short-term solvency and long-term stability of the social security system. Congress should resist any temptation to undermine that stability by permitting raids on the trust fund balances. We need to honor our promises to workers and retirees.

I know I have covered a lot of ground today, but I wanted to make a point: Our growth package addresses the challenges posed by a new / exciting / rapidly changing world. Our themes:

We want to promote growth.

We want to create jobs for all Americans.

We want to unleash the power of American imagination.

We want to ignite people's ambitions, rather than inciting their fears.

Many people call the 20th Century "The American Century." Well, we should not be content with that.

The stunning collapse of communism in 1989 was no accident. During the 1980s the communist world learned that no wall, no barrier can fend off powerful ideas. It saw our prosperity and our vitality. It saw that our way is better. The prosperity of the 1980s -- which began with tax cuts and pro-growth policies in the United States -- transformed the world.

Our challenge now is to shape the revolution we started, to make the 21st Century will be the Next American Century.

I ask your help in that quest. Together, we cannot fail.

Thank you, and God bless this great nation.

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Snow/Simon
ABC
Draft Four
April 8, 1991
5 p.m.

**ADDRESS BY THE PRESIDENT: THE AMERICAN BUSINESS CONFERENCE
THE DEPARTMENT OF COMMERCE
TUESDAY APRIL 9, 1991
2 p.m.**

[Introductory acknowledgments].

It's always great to talk to the American Business Conference. I've been here four times in recent years, and I've hired away at least two of your leaders -- Bob Mosbacher and ~~Alan~~ ^{Arthur} Levitt. I wish I'd had that much luck fishing last week. //

It's an honor and a pleasure to talk to a group that stands for success -- a group that admits only medium sized companies that thrive in the marketplace.

But I've got to tell you, I feel a little funny being here. After all, I'm the CEO of a corporation that has **lost** money for 33 of the last 35 years. //

But in keeping with today's theme -- Charting Economic Growth in the 90s -- I'd like to talk about this administration's plan for generating more American Success Stories like yours./

Our recent success in the Gulf has renewed Americans' belief in themselves. In just the past couple of months, consumer confidence has soared. The stock market has been climbing toward the 3,000 mark. Most economists predict that the recession soon will give way to a new cycle of growth.

But we can't rest on our laurels: There's an entire world of competition out there. The administration's economic growth package is designed to let people like you do what you do best - - create jobs, create new opportunities, create wealth.

Let's start with an issue we all will have to address in the next month, the issue of free and fair trade.

As you know, I have asked Congress to extend my "fast-track" trade authority.

Fast-track is another term for "good faith." It guarantees that Congress will accept or reject the very same agreements that our negotiators and their counterparts have worked out. This doesn't weaken Congress' power to review agreements; it simply prevents eleventh hour changes that would force negotiators from all countries to start from scratch.

Our trading partners consider fast track a vital test of our reliability. If we do not retain the fast-track process, we could lose three critical trade initiatives: The North American Free Trade Agreement, the Enterprise for the Americas Initiative and the Uruguay Round of trade talks.

Americans understand the benefits of free trade. In the last four years, exports from the U.S. have increased 59 percent, more than twice the rate of import growth. And export business has grown more rapidly than the rest of our economy.

This trade boom has helped everyone involved. A North American Free Trade Agreement would place us in the largest integrated market on earth: 360 million people, \$6 trillion of

annual output. It also would give our neighbors access to the technologies and products they need to improve their standards of living / further clean their environments / and create a true community of nations on our continent.

We also believe strongly in **promoting** trade. I have asked Bob Mosbacher to lead a government-wide effort to help small- and medium-sized companies sell their goods and services abroad. I'll be in Boston soon, addressing one of these National Export Initiative Conferences.

I know you support free trade, which is why I want your help in persuading Congress to preserve the fast-track process. Without it, we will surrender our chance to shape the emerging world economy. We also will risk setting off the kind of protectionist warfare that helped produce the Great Depression. With it, American workers and businesses will be able to demonstrate their strength in a new and vibrant world market.

**This brings me to a second part of our growth package:
Creating an educated, innovative workforce.**

Our budget emphasizes the importance of building an America that is ready to take its place in an emerging world economy.

It stresses the importance of an educated nation. We want to reinvent the American school, to create a nation of students, to make sure that education offers opportunity to everyone.

Our education strategy starts with some obvious truths: That schools succeed when teachers teach,

When parents support the schools /

When schools accept help from people with skills --
businesses, academics, retirees /

When communities rip down barriers that prevent effective
teaching -- barriers such as crime, drugs and community
indifference.

We also want to encourage entrepreneurship in education. We
want to encourage research into the best teaching methods and
techniques. We want to help workers improve their knowledge and
skills. (Your Vital Link program offers a great way to achieve
this goal.) And we want to ensure that the American people are
the best educated, best motivated in the world. //

**Our economic proposals also sweep away obstacles to free
enterprise. They try to unleash the power of the American
imagination.**

Your organization understands that runaway government
spending steals opportunity from private citizens. Last year's
budget agreement placed real and stringent caps on Congressional
spending. If Congress wants to spend more money on certain
programs, it will have to make hard choices. It will have to
raise taxes or take the money from other programs.

This year, for the first time in years, federal spending
actually will increase less rapidly than inflation. And I can
promise you that if Congress sends me spending bills that break
this budget, I will send them back -- with a veto message! //

But we in government must do more. As vice president, I
headed the Task Force on Regulatory Relief. As president, I

remain committed to weeding out regulations that prevent people from creating jobs and opportunities.

Last year regulations cost our economy at least \$106 billion, or \$1,000 for every taxpayer. They generated more than 5.3 billion hours of paperwork each year. That's enough to keep 2 million people busy doing nothing but filling out forms.

Our Council on Competitiveness, chaired by the vice president, attacks the scourge of unnecessary paperwork. We want to let people turn their attention to the more important and rewarding work of building a prosperous future. Our banking reform package tries to lift ancient and onerous restrictions that crush the kind of innovation that system needs. An in everything from the pharmaceutical industry to the auto industry, we have tried to clear away regulatory obstacles to growth.

We have followed the same approach in looking at our tax code. We want a tax system that rewards enterprise. I repeatedly have asked Congress to cut our high capital gains tax.

I can't think of any issue that's been more badly misrepresented than this one. Our critics say a capital gains cut helps only the rich. They're dead wrong.

Here are the facts: More than a quarter of all capital gains are declared by families with annual incomes of less than twenty thousand dollars a year. More than three-quarters are declared by families who make less than members of Congress. A capital gains cut isn't a sop to the rich. It rewards people who turn good ideas into good deeds.

THE WHITE HOUSE

WASHINGTON

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development in basic and applied science. It also encourages private-sector innovation by extending the Research and Experimentation Tax Credit. This administration understands the power of knowledge, and we want the tax code to reward people who turn their big dreams into revolutionary new goods and services.

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We want to highlight Americans' capabilities, not their weaknesses.

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Thank you, and God bless this great nation.

#

periods the tax penalty [of equity versus debt financing] is over 50 percent." He continues by underscoring the perversity of these incentives:

The goals of tax reform were laudable: uniformity and equity. But what possible rationale is there for imposing a 50 percent tax penalty on investors willing to commit equity investments in a project in anticipation of future capital gains, and to provide a corresponding tax benefit to the use of debt finance....The result of tax reform is not uniformity, nor a tilt against debt, but is the tilt against capital gains and in favor of debt.

Economy-wide evidence suggests that this bias encouraging debt financing has already had substantial effects on corporate investment patterns. Between 1984 and 1987 corporate equity declined by \$300 billion while debt increased by more than \$600 billion.⁷ This corporate shift in favor of debt and leveraged buy-outs is a by-product of the capital gains rate hike. By raising capital gains tax rates in 1986, Congress directly encouraged the very trend in corporate finance that it now bemoans: increases in corporate debt and leveraged buy-outs.⁸

New Business Creation

One of the purported favorable effects of a capital gains tax cut is to divert investment funds to new business start-ups, particularly in the high tech industry—where investments tend to involve high risk but hold out potentially large pay-offs. This is particularly vital to the economy because studies indicate that small businesses (twenty employees or less) create anywhere from 50 to 80 percent of all new jobs in the US.⁹

Although this has proven to be a scientifically difficult relationship to prove, causal evidence tends to support the theory: past reductions in the capital gains tax rates (1978 and 1981, for instance) have stimulated the start-up of new businesses, while new business starts have stalled after increases in capital gains taxes (1969 and 1986). Table 6 compares three separate measures of new business generation—the number of initial public stock

Table 6

Relationship Between Capital Gains Tax Rate and Various Measures of New Business Formation (\$ Millions)

Year	Top Capital Gains Rate	Initial Public Offerings	Number of \$ Raised	\$ Commitments To Venture Capitalist
1969	27%	1,026	\$2,600	\$506
1970	32	358	780	272
1971	39	391	1,650	252
1972	45	568	2,720	157
1973	45	100	330	133
1974	45	15	50	124
1975	45	15	270	20
1976	49	34	230	93
1977	49	40	150	68
1978	48	45	250	980
1979	28	81	510	449
1980	28	237	1,400	961
1981	24	448	3,210	1,628
1982	20	222	1,450	2,119
1983	20	884	12,620	5,098
1984	20	354	3,900	4,590
1985	20	362	8,600	3,502
1986	20	719	22,400	4,650
1987	28	541	24,200	4,900
1988	33	280	23,400	N.A.

Sources: Richard Rahn, U.S. Chamber of Commerce, Testimony before the House Committee on Small Business, on Capital Gains Taxation, Nov. 1, 1989; and Venture Economics, Venture Capital Yearbook, 1988, p. 17.



The National Chamber
Foundation

THE TAX TREATMENT OF CAPITAL GAINS

Recent research findings on the
Capital Gains Tax

By Stephen K. Moore

POLICY ANALYSIS

INTERNATIONAL STATISTICS

INDUSTRIAL PRODUCTION AND CONSUMER PRICES—MAJOR INDUSTRIAL COUNTRIES

Period	Industrial production (1987=100; seasonally adjusted)							Consumer prices (1982-84=100)						
	United States	Canada	Japan	France	Germany	Italy	United Kingdom	United States ¹	Canada	Japan	France	Germany	Italy	United Kingdom
1982	81.9	76.5	82.9	97.3	90.3	91.8	86.3	96.5	94.9	98.0	91.7	97.0	87.7	95.4
1983	84.9	81.5	85.5	96.5	90.9	88.8	89.5	99.6	100.4	99.9	100.3	100.8	100.8	99.8
1984	92.8	91.4	93.4	97.1	93.5	91.8	89.6	103.9	104.8	102.1	108.0	102.7	111.5	104.8
1985	94.4	96.5	96.8	97.2	97.7	92.9	94.5	107.6	108.9	104.2	114.3	104.9	121.1	111.1
1986	95.3	95.7	96.6	98.0	99.6	96.2	96.8	109.6	113.4	104.9	117.2	104.7	128.5	114.9
1987	100.0	100.0	100.0	100.0	100.0	100.0	100.0	113.6	118.4	105.0	121.1	104.9	134.4	119.7
1988	105.4	105.0	109.3	104.7	103.9	105.9	103.6	118.3	123.2	105.7	124.4	106.3	141.1	125.6
1989	108.1	105.1	115.7	108.9	108.7	109.2	104.0	124.0	129.3	108.1	128.9	109.2	150.4	135.4
1990 ^p	109.2	101.6	121.3	110.2	114.6		103.3	130.7	135.5	111.4	133.2	112.1	159.6	148.2
1989: Dec	108.6	104.7	116.9	107.8	111.4	114.6	104.4	126.1	131.5	109.0	130.5	110.2	154.4	139.6
1990: Jan	107.5	102.6	117.2	108.5	111.9	107.3	103.5	127.4	132.7	109.2	130.8	110.9	155.3	140.4
Feb	108.5	102.7	116.5	107.1	111.3	111.4	103.2	128.0	133.4	109.5	131.1	111.3	156.5	141.2
Mar	108.9	102.6	118.8	108.0	112.8	110.4	104.8	128.7	133.9	109.9	131.6	111.4	157.1	142.6
Apr	108.8	102.3	117.9	109.8	110.2	109.5	105.9	128.9	133.9	110.8	132.1	111.6	157.7	147.0
May	109.4	102.8	121.0	109.3	113.4	107.2	104.7	129.2	134.6	111.6	132.3	111.8	158.0	148.3
June	110.1	102.7	121.1	109.4	113.7	108.4	107.2	129.9	135.1	111.0	132.6	111.9	158.7	148.9
July	110.4	103.1	123.2	111.6	116.5	109.7	102.1	130.4	135.8	110.9	132.9	111.9	159.3	149.0
Aug	110.5	102.0	123.7	111.6	117.3	110.7	102.1	131.6	135.8	111.4	133.7	112.2	160.3	150.5
Sept	110.6	100.4	122.4	109.8	116.5	109.7	102.1	132.7	136.3	112.4	134.4	112.6	161.2	151.9
Oct	109.9	100.3	125.3	110.1	117.0	107.4	102.1	133.5	137.4	113.9	135.2	113.4	162.6	153.1
Nov	108.3	98.8	124.6	108.0	116.6	106.6	100.5	133.8	138.2	113.5	135.0	113.2	163.6	152.7
Dec	107.2	97.8	124.0	106.2	116.4	109.2	99.8	133.8	138.1	113.2	134.9	113.3	164.2	152.6
1991: Jan ^p	106.6		125.1	109.3	118.8		99.5	134.6	141.7	114.1	135.4	114.1	165.4	153.0
Feb ^p	105.7							134.8	141.7					153.8

¹ Data relate to all urban consumers.

Source: National sources as reported by Department of Commerce (Bureau of Economic Analysis and International Trade Administration, Trade Information and Analysis).

U.S. MERCHANDISE EXPORTS AND IMPORTS

[Billions of dollars; monthly data seasonally adjusted]

Period	Merchandise exports (f.a.s. value) ¹							General merchandise imports (customs value) ³							Trade balance		
	Total ²	Principal end-use commodity category						Total	Principal end-use commodity category						General merchandise imports (c.i.f. value)	Exports (f.a.s.) less imports (customs value)	Exports (f.a.s.) less imports (c.i.f.)
		Foods, feeds, and beverages	Industrial supplies and materials	Capital goods except automotive	Automotive vehicles, parts, and engines	Consumer goods (non-food) except automotive	Other ²		Foods, feeds, and beverages	Industrial supplies and materials	Capital goods except automotive	Automotive vehicles, parts, and engines	Consumer goods (non-food) except automotive	Other			
1982	216.4	31.3	61.7	72.7	15.7	14.3	20.7	244.0	17.1	112.0	35.4	33.3	39.7	6.5	254.9	-27.5	-38.4
1983	205.6	30.9	56.7	67.2	16.8	13.4	20.5	258.0	18.2	107.0	40.9	40.8	44.9	6.3	269.9	-52.4	-64.2
1984	224.0	31.5	61.7	72.0	20.6	13.3	24.0	330.7	21.0	123.7	59.8	53.5	60.0	7.8	346.4	-106.7	-122.4
1985	218.8	24.0	58.5	73.9	22.9	12.6	27.3	336.5	21.9	113.9	65.1	66.8	68.3	9.4	352.5	-117.7	-133.6
1986	227.2	22.3	57.3	75.8	21.7	14.2	35.9	365.4	24.4	101.3	71.8	78.2	79.4	10.4	382.3	-138.3	-155.1
1987	254.1	24.3	66.7	86.2	24.6	17.7	34.6	406.2	24.8	111.0	84.5	85.2	88.7	12.1	424.4	-152.1	-170.3
1988	322.4	32.3	85.1	109.2	29.3	23.1	43.4	441.0	24.8	118.3	101.4	87.7	95.9	12.8	459.5	-118.5	-137.1
1989	363.8	37.2	99.3	138.8	34.3	36.4	17.2	473.2	25.1	132.3	113.3	86.1	102.9	13.6	493.2	-109.4	-129.4
1990 ^p	393.9	35.1	104.2	152.6	36.0	43.4	22.6	494.9	26.6	143.0	117.3	85.9	105.7	16.3	516.6	-101.0	-122.7
1990: Jan	31.4	3.1	8.6	12.0	2.5	3.4	1.8	41.6	2.3	12.9	9.8	6.4	8.9	1.3	43.4	-10.2	-12.1
Feb	31.6	3.1	8.0	12.8	2.8	3.4	1.6	38.7	2.3	11.1	9.1	6.7	8.3	1.2	40.4	-7.1	-8.8
Mar	33.3	3.2	8.6	12.8	3.3	3.4	1.8	41.6	2.5	11.5	9.8	7.9	8.7	1.3	43.5	-8.4	-10.2
Apr	32.1	3.0	8.4	12.4	3.0	3.5	1.7	39.4	2.3	10.5	9.8	6.9	8.7	1.3	41.1	-7.3	-9.1
May	32.8	2.9	8.4	12.7	3.5	3.6	1.8	40.5	2.3	11.3	9.5	7.5	8.7	1.3	42.4	-7.8	-9.6
June	34.2	3.4	8.4	13.5	3.4	3.9	1.6	39.6	2.1	10.5	9.6	7.3	8.5	1.4	41.3	-5.3	-7.1
July	32.1	2.8	8.1	12.8	3.1	3.5	1.7	42.3	2.1	11.0	10.1	7.5	9.1	1.3	43.1	-9.1	-11.0
Aug	32.5	3.1	8.7	12.5	3.1	3.5	1.7	41.2	2.1	12.3	9.8	7.7	9.1	1.3	44.2	-9.7	-11.6
Sept	32.0	2.7	8.6	12.6	2.7	3.5	1.8	41.3	2.1	12.8	9.3	7.0	8.6	1.6	43.1	-9.3	-11.1
Oct	35.0	2.6	10.0	13.2	3.4	3.9	1.8	46.0	2.2	14.3	10.6	8.0	9.6	1.4	47.9	-11.0	-12.9
Nov	34.2	3.0	9.6	12.3	3.1	3.8	2.4	43.1	2.1	13.3	10.2	7.0	9.1	1.5	44.9	-8.9	-10.7
Dec ^p	33.3	2.5	9.0	13.0	2.4	3.7	2.6	39.6	2.2	11.6	9.8	6.3	8.3	1.3	41.3	-6.3	-8.0
1991: Jan	34.5	2.7	9.6	13.1	3.2	4.0	2.0	41.5	2.2	12.4	9.9	7.1	8.5	1.3	43.3	-7.0	-8.8

¹ Includes Department of Defense Military Assistance Program grant-aid shipments.

² Includes undocumented exports to Canada through 1988.

³ Total arrivals of imported goods other than intransit shipments.

⁴ Total includes revisions not reflected in detail.

⁵ Total exports are on a revised statistical month basis; end-use categories are on a statistical month basis.

month basis.

NOTE.—Data shown include trade of the U.S. Virgin Islands.

Source: Department of Commerce, Bureau of the Census.

SS 970

From CEA

3/91

22%

Capital Gains and Taxes Paid on Capital Gain Income for Returns with Net Capital Gains, 1954-88

Year	Gains in adjusted gross income	Excluded gains 1/	Total gains	Taxes paid on capital gain income
1954	3,732	3,425	7,157	1,010
1955	5,126	4,755	9,881	1,465
1956	4,991	4,692	9,683	1,402
1957	4,128	3,982	8,110	1,115
1958	4,879	4,561	9,440	1,309
1959	6,797	6,340	13,137	1,920
1960	6,004	5,743	11,747	1,687
1961	8,291	7,710	16,001	2,481
1962	6,821	6,630	13,451	1,954
1963	7,468	7,111	14,579	2,143
1964	8,909	8,522	17,431	2,482
1965	11,069	10,415	21,484	3,003
1966	10,960	10,388	21,348	2,905
1967	14,594	12,941	27,535	4,112
1968	18,854	16,753	35,607	5,943
1969	16,078	15,361	31,439	5,275
1970	10,656	10,192	20,848	3,161
1971	14,559	13,782	28,341	4,350
1972	18,397	17,472	35,869	5,708
1973	18,201	17,556	35,757	5,366
1974	15,378	14,839	30,217	4,253
1975	15,799	15,104	30,903	4,534
1976	20,207	19,285	39,492	6,621
1977	23,363	21,974	45,337	8,104
1978	26,232	24,294	50,526	9,104
1979	31,331	42,112	73,443	11,669
1980	32,273	41,859	74,132	12,459
1981	34,713	46,225	80,938	12,684
1982	38,514	51,639	90,153	12,900
1983	52,398	70,375	122,773	18,468
1984	58,198	81,567	139,765	21,534
1985	71,600	99,848	171,448	26,478
1986	135,043	191,291	326,334	49,696
1987	144,173	0	144,173	32,941
1988	161,871	0	161,871	38,963 2/

40070

Department of the Treasury
Office of Tax Analysis

July 11, 1990

1/ For 1954-78, 50 percent of net long-term gains in excess of net short-term losses for returns with capital gains; for 1979-86, 60 percent such net long-term gains. In 1987, the exclusion was eliminated.

2/ Preliminary, subject to revision.

FROM: USTR

EXPORT GROWTH AND THE IMPORTANCE OF FAST TRACK

EXPORT EXPANSION HAS BEEN A VITAL SOURCE OF ECONOMIC GROWTH FOR THE U.S. ECONOMY IN RECENT YEARS

- o Exports have become increasingly important to U.S. economic growth. Over the last 4 years U.S. merchandise exports have expanded by nearly three-fourths, rising from \$246 billion in 1986 (constant 1982 dollars) to \$424 billion in 1990. This \$178 billion expansion in U.S. exports accounted for over 40 percent of the 4-year growth in U.S. GNP.
- o In 1990, merchandise exports expanded by 8.6 percent or \$33 billion. Export expansion accounted for 88 percent of U.S. GNP growth last year.
- o Export growth gives an additional boost to the economy by spurring investment in the manufacturing and other export sectors. While the economy expanded by only 0.9 percent last year, investment in producers' durable equipment rose nearly three times faster (2.4 percent), stimulated in part by export expansion.

EXPORT EXPANSION SHOULD HELP MODERATE THE CURRENT ECONOMIC DOWNTURN AND HASTEN THE RECOVERY

- o The current outlook for a relatively short, shallow recession hinges in part on sustained U.S. export growth. To add 1 percentage point to GNP growth, U.S. exports of goods and services would need grow by no more than 6.6 percent this year. Last year, goods and services exports grew by 6.2 percent.
- o The outlook for exports this year is good.
 - The dollar exchange rate has moderated over the last year, increasing the price competitiveness of U.S. goods and services in many foreign markets.
 - Demand growth generally is expected to be stronger in our export markets than at home in the period ahead.
 - American firms and workers in the export sectors have made significant efforts to enhance their international competitiveness in recent years. Manufactured exports have grown extremely rapidly since 1986. Manufacturing as a share of U.S. constant-dollar GNP, at 23.1 percent, reached a post-World War II record high in 1988 (most recent available data).
 - U.S. efforts in the 1980s both to resist the imposition of new barriers against American producers and to open

*Contrary to
0 years of
the complaining
about the US's
declining
manufacturing
sector.*

foreign markets further to U.S. exports have created a relatively favorable environment abroad for U.S. export expansion.

CONTINUED PROGRESS IN OPENING FOREIGN MARKETS IS NEEDED TO HELP SUSTAIN EXPORT EXPANSION

trade deficit has fallen 4 years.

- o From a 1987 peak of \$152 billion, the U.S. merchandise trade deficit fell to a deficit of \$101 billion last year.
- o As additional progress is made in reducing the federal budget deficit and strengthening domestic saving, the trade deficit is likely to decline further. Such macroeconomic adjustments at home and abroad will work not only to lower the U.S. trade deficit but also to sustain the potential for strong U.S. export expansion.
- o Indeed, strong export growth will be vital if the reduction of the U.S. trade deficit is to take place in the context of healthy U.S. economic expansion.
- o To have all the tools needed to sustain the export expansion -- trade policy as well as macroeconomic tools -- the United States must be in a position to pursue the successful completion of the Uruguay Round and to negotiate freer trade for the Western Hemisphere.
- o On its own, a successful completion of the Uruguay Round could bring an estimated 10 year cumulative gain to the U.S. GNP as great as \$1.1 trillion (1989 purchasing power). That translates into an average annual income gain of \$1,600 per U.S. family of four over the next 10 years.

EXTENSION OF FAST TRACK AUTHORITY IS KEY TO THE FURTHER OPENING OF FOREIGN MARKETS TO U.S. EXPORTS

- o The current economic environment is generally favorable to U.S. export expansion. The failure to renew fast track authority, however, would be the death knell for Administration efforts to successfully complete the Uruguay Round and to negotiate a North American free Trade Agreement with Mexico and Canada. U.S. export potential would suffer if the Administration is denied the tools required to negotiate broad foreign market-opening agreements.
- o A failure of the Uruguay Round, in particular, might lead to increased pressures to raise trade and investment barriers around the world. Just as falling barriers over the last four decades have stimulated growth in trade and living standards, increasing barriers could reduce trade and economic growth. A sufficiently sharp movement away from open markets could contribute to a global recession.

Staffed
Snow/Simon
ABC
Draft One
April 5, 1991
5 p.m.

ADDRESS BY THE PRESIDENT: THE AMERICAN BUSINESS CONFERENCE
THE DEPARTMENT OF COMMERCE
TUESDAY APRIL 9, 1991
2 p.m.

[Introductory acknowledgments].

It's always great to talk to the American Business Conference. I've been here four times in recent years, and I've hired away at least two of your leaders -- Bob Mosbacher and Alan Levitt. I wish I'd had that much luck fishing in Florida last week. //

It's an honor and a pleasure to talk to a group that stands for success -- a group that admits only small to medium sized companies that succeed in the marketplace.

But I've got to tell you, I feel a little funny being here. After all, I ^{am CEO of} work for a huge corporation that has lost money for 33 of the last 35 years. //

At any rate, in keeping with today's theme -- Charting Economic Growth in the 90s -- I'd like to talk about this administration's plan for generating more Great American Success Stories like yours./

Our recent success in the Gulf has renewed Americans' belief in themselves. In just the past couple of months, consumer

confidence has soared. The stock market has ~~begun~~^{been} climbing toward the 3,000 mark. Most economists predict that the recession soon will give way to a new cycle of growth.

But we can't rest on ^{our} laurels: There's an entire world of competition out there. The administration's economic growth package is designed to let people like you do what you do best - - create jobs, create new opportunities, create wealth. Its four pillars can help America take its rightful place in a new global economy.

Let's start with a first pillar, the capital gains tax.

I can't think of any issue that's been more badly misrepresented than this one. Our critics say a capital gains cut helps only the rich. They're dead wrong.

Here are the facts: More than a quarter of all capital gains are declared by people with annual incomes of less than twenty thousand dollars a year. More than three-quarters are declared by families who make less than members of Congress. A capital gains cut isn't a sop to the rich. It's a lifeline to the poor and middle class.

Consider what a capital gains cut can do:

A capital gains tax cut helps people in need.

When times get tough, people of modest means must sell things to make ends meet. They move into smaller houses. Sell off furniture, heirlooms, stocks and bonds. Yet they can't get around to paying their bills until they've paid the taxman. And lots of times, they are being taxed on so-called gains that only reflect the effects of inflation. In the end, they sell precious possessions, and get to keep only pennies.

I recently got a letter from a woman in Virginia whose husband has suffered a stroke -- whose fourth child suffers Downs syndrome -- whose family needs to move into a less expensive home because they can't pay both their mortgage and their medical bills.

Yet because of the capital gains tax, they can't afford to sell their home. Once they have paid their taxes / their realtor's commissions / their lawyer's fees / their settlement fees / they don't have enough left for even a modest down payment.

She wrote: "Please tell Congress for me that a cut in the capital gains tax will not benefit big business. It will enable a once-middle-income family suffering two major catastrophes to 'buy down' to a lower cost of living // and enable a disabled husband to support his wife and four children."

The capital gains tax punishes people who live paycheck to paycheck, and suddenly run into financial trouble. A cut in the capital gains rates gives them a chance to survive tough times.

9-18-90

Letter
from
Patricia
Gunn
3314
Whinn House
Herndon,
VA
703-
476-8018

Here's a second advantage of a capital gains cut: It rewards people who turn good ideas into good deeds.

It makes the American dream accessible to people who DON'T have lots of money, but who DO have good ideas.

Consider the effects of the cuts enacted in 1978 -- in part because of the efforts of Jim Jones here. Jim, you helped lead a bipartisan effort back then; we need more people like you now. //

Before that tax cut took effect our tax code actually punished people who risked money on new businesses. The government didn't insulate investors from risks, but it did siphon off much of the reward.

After the capital gains cut, investors could make money on wise risks. They suddenly had good reason to provide the seed money for fledgling businesses and industries. The pool of money for new businesses grew almost tenfold in ten years -- and that's after you take inflation into account.

Most of this money went to small start-up companies, like many of yours. These companies supplied 80 percent of the new jobs during our recent economic boom. As those firms thrived, investors made money. As investors made money, they paid capital gains taxes. Federal capital gains receipts also increased nearly tenfold during this period.

This is not unusual. Every time in our history that we have cut capital gains taxes, new companies have blossomed and capital gains receipts have increased.

Another advantage: A capital gains cut will encourage savings and discourage debt.

For the past four years, we have taxed capital gains like any other form of income. At the same time, we have encouraged people to take on debt. Not surprisingly, people have borrowed more, invested less. If you want an obvious example of this phenomenon, think about the home equity loan. The overall volume of home equity lines of credit doubled in the first year after tax reform, from 40 billion dollars to 75 billion dollars. Right now, Americans have taken out nearly ~~125~~¹¹⁵ billion dollars in home equity lines of credit.

These loans give people access to the increased value of their homes without forcing them to shell out capital gains taxes. Since we don't tax these loans and we let people deduct the interest payments, our tax law actually encourages people to buy debt.

Our preference for borrowing hurts lots of people. The construction industry suffers. Potential small businesses go wanting for help. The economy just doesn't grow as much as it could.

This leads us to another point: A capital gains cut can slash the cost of saving our financial industry.

An increasing number of studies show that a reduction in the capital gains rate will restore hundreds of billions of dollars in commercial and residential property values. That jump would improve the balance sheets of lending institutions, including troubled savings and loans -- and increase the value of institutions up for sale. In this way, a capital gains rate cut immediately would chop billions of dollars from the cost of rescuing the savings and loan industry. As property values grew, the long-term costs of recovery would shrink even more.

A capital gains cut will make us more competitive in the new world economy.

None of our major competitors imposes a high tax on capital gains. Japan and Germany enjoy higher savings rates than we do in part because they tax capital gains at a much lower rate than they tax wages and other income.

East Germany has abolished the capital gains tax entirely, and Hungary and Czechoslovakia are thinking about doing the same. That's because they want to promote savings and economic enterprise.

So let's take stock:

If we want to compete effectively in a world marketplace, we should cut the capital gains tax.

If we want to encourage savings and investment, rather than debt and hoarding, we should cut the capital gains tax.

If we want to reward enterprise, not envy, we should cut the capital gains tax.

The point is simple: **Capital gains taxes are taxes on the American dream.**

They punish the people who stand to gain the most from growth, the poor, the middle class. They encourage the well-to-do to hoard their wealth, rather than investing it.

This is the real fairness problem.

If we want to unleash the creative power of the American people, we should ignore those who would rather be righteous than right.//

We should cut the tax on the American Dream.

Now, let's turn to a second pillar of growth -- free trade.

As you know, I have asked Congress to extend my "fast-track" trade authority.

Fast-track is another term for "good faith." It guarantees that Congress will accept or reject the very same agreements that

our negotiators and their counterparts have adopted. This doesn't weaken Congress' power to review agreements; it simply prevents ^{eleventh} 11th hour changes that would force negotiators from all countries to return to the table and start from scratch.

Our trading partners consider fast track a vital test of our reliability. And three impending trade initiatives could stand or fall depending on whether Congress permits the fast track process to continue. The North American Free Trade Agreement, the Enterprise for the Americas Initiative and the Uruguay Round of trade talks all depend on fast track.

I know you support free trade. But we can't take full advantage of our opportunities without fast-track. Today I ask your help in getting Congress to join us in reaching out to this new and vibrant world.

I also need your support in a third crucial element of our growth package -- banking reform.

In many ways, our banking industry strains under the weight of ancient regulations and restrictions. We want Congress to help modernize our banking system, make it safer for consumers, and increase its competitive strength.

Let me touch just a few of ~~of~~ our reform proposals:

Our package would limit the liability of insured deposits to no more than \$100,000 per person per institution, and retirement

savings to \$100,000 per person per institution. This restriction obviously protects small savers.

Our package would discourage wheeling and dealing by charging insurance premiums based on risk. Good institutions would pay lower rates than unsound ones. We also would alter the current "too big to fail" policy. We want institutions to know that they no longer can rely on government to bail them out when they behave foolishly.

Our package would prevent unsound institutions from offering "new" banking services. It would prevent unfair banking practices. It would pay for a larger, better focused team of regulators.

Our package would authorize nationwide banking for bank holding companies, after a three year phase-in period.

In brief, our reforms try to strip away incentives for irresponsible behavior. Our comprehensive package strives to make our banking system more competitive / up to date / safe / and sound.

Think of the banking system as an irrigation system for the economy. When it works properly, it cultivates the seeds of economic growth. When it doesn't, companies like the ones represented here can wither and die.

This brings me to the fourth pillar of our growth package: Investing in the future.

Our budget emphasizes the importance of looking ahead, of building an America that is ready and eager to take its place in an emerging world economy.

It stresses the importance of educational reform. Our new Education Secretary, Lamar Alexander, has outlined a reform strategy that involves common sense.

It starts with the assumptions that schools succeed when teachers teach,

When parents support the schools/

When schools welcome help from people with skills -- businesses, industries, academics, retirees/

When communities eliminate the barriers -- crime, corruption, inefficiency, -- to education.

Your Vital Link program offers a perfect example of the kind of partnership Lamar seeks to build with industry, and I'm sure he'll be seeking out your advice and help in the future.

Our invest in the future strategy also recognizes the importance of preventive health care -- staying fit, staying healthy.

It encourages research and development in basic and applied science.

It seeks to improve our transportation system -- the roads, airports, and railways that take people to and from work.

It strives to reward stewardship of our natural resources without choking off economic growth.

It tries to create real competition in all areas of government service -- education, health care, housing, employment. It lets people choose the best way of pursuing their dreams.

Now, I know I have covered a lot of ground here. But our growth package incorporates some powerful, simple themes.

We want to promote growth.

We want to unleash the power of American imagination.

We want Americans to think in terms of their **capabilities**, not their **disabilities**.

Many people call the 20th Century The American Century. Well, we should not be content with that. Our growth package will help make the 21st Century the **Next American Century**. We can help our sons and daughters continue the American tradition of excellence if we give them the freedom to excel.

This is a great nation because men and women like you believed in yourselves. Believed in your ideas. And trusted the public to choose wisely.

These same virtues can propel us to future greatness as a nation. I ask your help in pursuing that quest. Together, we cannot fail.

Thank you, and God bless this great nation.

Snow/Simon
ABC
Draft Two (a)
April 8, 1991
9 a.m.

**ADDRESS BY THE PRESIDENT: THE AMERICAN BUSINESS CONFERENCE
THE DEPARTMENT OF COMMERCE
TUESDAY APRIL 9, 1991
2 p.m.**

*Base
closure*

*Mosbacher intro
Bredon
Seidman
Jim Jones*

[Introductory acknowledgments].

*speech
4-4-89*

It's always great to talk to the American Business Conference. I've been here four times in recent years, and I've hired away at least two of your leaders -- Bob Mosbacher and Alan Levitt. I wish I'd had that much luck fishing last week. //

Arthur

It's an honor and a pleasure to talk to a group that stands for success -- a group that admits only medium sized companies that succeed in the marketplace.

But I've got to tell you, I feel a little funny being here. After all, I ^{im CEO of} ~~work for~~ a huge corporation that has lost money for 33 of the last 35 years. //

But in keeping with today's theme -- Charting Economic Growth in the 90s -- I'd like to talk about this administration's plan for generating more American Success Stories like yours./

*USAT
3-27-91
WSJ
4-8-91*

Our recent success in the Gulf has renewed Americans' belief in themselves. In just the past couple of months, consumer confidence has soared. The stock market has been begun climbing toward the 3,000 mark. Most economists predict that the recession soon will give way to a new cycle of growth.

our

But we can't rest on laurels: There's an entire world of competition out there. The administration's economic growth package is designed to let people like you do what you do best - - create jobs, create new opportunities, create wealth.

Let's start with an issue we all will have to address in the next month, the issue of free and fair trade.

As you know, I have asked Congress to extend my "fast-track" trade authority.

Fast-track is another term for "good faith." It guarantees that Congress will accept or reject the very same agreements that our negotiators and their counterparts have worked out. This doesn't weaken Congress' power to review agreements; it simply prevents ^{*eleventh*} 11th hour changes that would force negotiators from all countries to start from scratch.

Our trading partners consider fast track a vital test of our reliability. If we do not retain the fast-track process, we could lose three critical trade initiatives: The North American Free Trade Agreement, the Enterprise for the Americas Initiative and the Uruguay Round of trade talks.

Americans understand the benefits of free trade. In the last four years, exports from the U.S. have increased ~~50~~ ⁵⁵ percent, more than twice the rate of import growth. And export business has grown more rapidly than the rest of our economy.

This trade boom has helped everyone involved. Canada wants to expedite completion of its free trade pact with us. Mexico also wants a free-trade agreement. Its people know that

CEA
chart
see
file

ITA office of
Canada
377-3101

development offers the surest way to increase wages, improve environmental quality and ensure real prosperity for all Mexicans.

USTR A North American Free Trade Agreement would place us in the largest integrated market on earth: 360 million people, \$6 ~~trillion~~ ^{trillion} billion of annual output. *decide*

I know you support free trade. Congress must ~~vote~~ ^{decide} by June 1 on whether to preserve this essential negotiating tool. Without it, we will surrender our chance to shape the emerging world economy. We also risk the kind of protectionist warfare that helped produce the Great Depression.

We cannot afford to squander this opportunity. Today I ask your help in getting Congress to join us in reaching out to this new and vibrant world.

**This brings me to a second part of our growth package:
Creating an educated, innovative workforce.**

Our budget emphasizes the importance of building an America that is ready to take its place in an emerging world economy.

It begins by stressing the importance of an educated workforce. Our new Education Secretary, Lamar Alexander, has outlined a reform strategy that involves common sense.

It starts with the obvious truths: That schools succeed when teachers teach,

When parents support the schools/

When schools welcome help from people with skills --
businesses, academics, retirees/

When communities eliminate the barriers to education -- barriers such as crime, corruption, ^{and} inefficiency.

Your Vital Link program offers a perfect example of the kind of partnership Lamar seeks to build with industry, and I'm sure he'll be seeking out your advice and help in the future.

Meeting with Alexander
4-5-91
But Lamar also wants to encourage entrepreneurship in education. He has talked about stimulating research into the best teaching methods and techniques. He has stressed the importance of lifelong learning. And he wants to ensure that the American workforce is the best educated, best motivated -- in short, the best -- workforce in the world. //

Our economic proposals also sweep away obstacles to free enterprise. They try to unleash the power of the American imagination.

Your organization understands that runaway government spending steals opportunity from private citizens. Last year's budget agreement finally placed real and stringent caps on Congressional spending. If Congress wants to spend more money on certain programs, it has to raise taxes or to take the money from other programs. This concentrates the mind wonderfully. It forces Congress and the administration to make hard choices, rather than simply to fob problems off on taxpayers.

This year, for the first time in years, federal spending actually will increase less rapidly than inflation. I can promise you that if Congress sends me spending bills that break this budget, I will veto them. //

VP
bio

But we in government must do more. As vice president, I headed the Task Force on Regulatory Relief. As president, I remain committed to weeding out regulations that prevent people from creating jobs and opportunities.

Dave
McIntosh
OVP

Last year regulations cost our economy at least \$185 billion, or \$1,700 for every taxpayer. Government regulations generate more than 5 billion hours of paperwork each year. That's enough to keep 2 million people employed, doing nothing but filling out forms.

We want to put an end to this kind of regulatory creep, and liberate business from unnecessary paperwork. Our banking reform package tries to lift ancient and onerous restrictions that crush the kind of innovation that system needs.

In everything from the pharmaceutical industry to the auto industry, we have tried to clear away regulatory obstacles to growth.

Similarly, we want a tax code that rewards enterprise. I repeatedly have asked Congress our high capital gains tax.

I can't think of any issue that's been more badly misrepresented than this one. Our critics say a capital gains cut helps only the rich. They're dead wrong.

Here are the facts: More than a quarter of all capital gains are declared by people with annual incomes of less than twenty thousand dollars a year. More than three-quarters are declared by families who make less than members of Congress. A capital

gains cut isn't a sop to the rich. It's a lifeline to the poor and middle class.

Furthermore, a capital gains tax cut will reward people who turn good ideas into good deeds.

When capital gains taxes are high, investors have no incentive to risk money on untried businesses and entrepreneurs. After we cut capital gains taxes in 1978 and 1981, the amount of investment seed money increased tenfold. Capital gains payments to the federal government quadrupled. And people of modest means suddenly had a chance to turn their dreams into realities.

A capital gains cut also will encourage savings and discourage debt.

For the past four years, we have taxed capital gains like any other form of income. At the same time, we have encouraged people to take on debt. Not surprisingly, people have borrowed more, invested less.

Think about the home equity loan. Since high capital gains taxes discourage people who might sell their homes, many people turn to home equity lines of credit. These loans give people access to the increased value of their homes while also letting them write off interest payments. No wonder the overall volume of home equity lines of credit has *more than* tripled since tax reform took effect.

Now, no other major industrial power taxes capital gains at nearly the rate we do. If you want to understand why Germany and Japan have higher savings rates than we do, start by looking at

Glenn
Cannon
Fed.
Reserve
452-2910

their capital gains tax rates. They are very low, and on some long-held assets they charge no capital gains tax at all.

The point is simple: **Capital gains taxes are taxes on the American dream.** If we want to unleash the creative power of the American people, we should cut our capital gains rate.

Similarly, we want to invest in research and development in basic and applied science, and to encourage private-sector innovation by extending the Research and Experimentation Tax Credit. This administration understands the power of knowledge, and we want the tax code to reward people who dare to turn their big dreams into revolutionary new goods and services.

I know I have covered a lot of ground here. But our growth package incorporates some powerful, simple themes.

We want to promote growth.

We want to unleash the power of American imagination.

We want to highlight Americans' capabilities, not their disabilities.

Many people call the 20th Century ^{the} American Century. Well, we should not be content with that.

The stunning collapse of communism in 1989 didn't happen by accident. During the 1980s the communist world learned that no wall, no barrier is strong enough to fend off powerful ideas. People in that world saw our prosperity and our vitality. They saw that our way ^{is} ~~was~~ better. The prosperity of the 1980s helped more than just Americans; it changed the entire world.

FY 92
Budget

Our challenge now is to shape the revolution we started. The administration's growth package wrestles with the changing and fascinating world around us. It works to ensure that the 21st Century will be the **Next American Century**.

This is a great nation because men and women like you believed in yourselves. Believed in your ideas. And trusted the public to choose wisely.

These same virtues can propel us to future greatness as a nation. I ask your help in pursuing that quest. Together, we cannot fail.

Thank you, and God bless this great nation.