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Dick Loomis
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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release February 24, 1992

REMARKS BY THE PRESIDENT
TO THE U.S. CHAMBER OF COMMERCE NATIONAL ACTION RALLY

Constitution Hall
Washington, D.C.

10:55 A.M. EST

THE PRESIDENT: May I, at the outset of these remarks, thank the Colonel and this wonderful Marine Band. They are sensational. And I think I speak for all when we say we've enjoyed the music. Thank you. (Applause.)

And I want to salute your incoming Chairman Bill Lurton, and your President Dick Lesher, so well-known to everyone and doing a superb job for the Chamber. And of course, your outgoing Chairman, my friend, Pete Silas.

Let me tell you something -- just a little word about Pete. Last week there was a newspaper report that more and more American business leaders are hailing this recent and somewhat controversial mission I took to Asia -- they're hailing it as a success for opening markets, for creating more American jobs. But let me say this to all of you in the Chamber, no one did more to make that mission a success than Pete Silas. He gave the trip the same leadership he's given this organization -- a forceful and effective presentation, taking our case for open markets to Japan and Korea. And I am very, very grateful to him. And I can see why you entrusted your leadership to him.

Pete, thank you very, very much -- (applause) -- for that leadership that makes us so proud.

Well, today we're noting an anniversary of sorts. One year ago almost to the hour our troops began punching through Iraqi lines to liberate Kuwait. We mobilized our strength and won that war with an all-volunteer force including tens of thousands of reservists. Many of you had to do without key personnel during the reserve call-up. Some of you answered the call yourselves. And as your Commander-in-Chief, I want to express deep thanks to our businessmen and women for playing a proud role in America's world leadership. I think it is fitting a year later to take note of those historic events. (Applause.)

But I came here now to ask support on another matter. I need your help to meet yet another challenge -- renewing the freedom and strength of our economy.

Four weeks ago, I spoke to the Congress and the American people. In my State of the Union address, I announced a set of urgent measures that I would take to unshackle our economy. And I asked Congress of the United States to do its part -- and to meet a deadline. Most important, I asked Congress to cut the high taxes on job creation and investment -- and to do this by March 20th. Well, my plan will get our economy moving again. And we need to liberate private enterprise from a government that's grown too big and spends too much. (Applause.) And we need to do this without raising taxes. (Applause.)

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In my State of the Union address, I instituted a 90-day freeze on federal regulations that affect economic growth -- and I asked major departments and agencies to carry out an unprecedented top-to-bottom review of all existing and proposed regulations. Within those 90 days, we will accelerate new rules that promote business growth and, whenever possible, halt those that would impede growth. Already, we've seen results.

Today, for example, I am announcing major new ground rules for regulation of biotechnology. Bill Reilly, the EPA Administrator, I understand is with you all today. He'll have a major responsibility for making our new rules work to foster economic growth. This is a $4-billion industry. And it should grow to $50 billion by the end of the decade if we let it. The rewards we will reap include new medicines and safer ways to clean up hazardous waste and a revolution in agriculture. The United States leads the world in biotechnology, and I intend, through sensible regulation and, in some instances, deregulation, to keep it just exactly that way. (Applause.)

We've taken new actions to ease the credit crunch. For example, for healthy banks, we've changed overly strict definitions of bank capital -- creating more access to capital. We're cutting red tape for healthy banks and thrifts. In these tough real estate markets, we've issued common-sense, realistic valuation guidelines.

We're making it easier for small businesses to get capital from securities markets. We're increasing the maximum for small public offerings that get simplified handling by the S.E.C. from $1.5 million, raising that to $5 million. We're cutting paperwork and we're simplifying securities registration for small businesses.

We've also cut the cost of compliance with the payroll tax system. We've cut paperwork and increased access for small business to electronic payment systems. Instead of heavy-handed enforcement, we're helping small firms meet their obligations.

The few steps that I've just outlined -- I know they're technical, but these few steps will provide billions of dollars in additional capital to the nation's economy. But we won't stop after 90 days. We'll turn up the heat against over-regulation -- rule by rule and industry by industry.

We'll take the case to Capitol Hill: For every unreasonable regulation we can't change through executive action, we'll introduce reform legislation -- and we will push the Congress to do its job and put an end to over-regulation. (Applause.) I want the regulators and the Congress to remember one thing: If it doesn't make sense, if it hurts the economy, don't do it. (Applause.)

One of my prime responsibilities as President is to open up world markets -- that's what this trip was about -- open up world markets, unlocking new opportunities for American workers and businesses. Free trade has come under attack these days -- and that makes no sense whatsoever. Our exports are at record levels -- guaranteeing millions of American jobs. With your help, we're going to open up the tremendous market opportunities of Mexico sooner, not later. (Applause.) With your help, we'll win global trade reforms for agriculture, services and intellectual property.

By protecting our freedoms, by opening markets here and abroad, and by pushing the envelope of excellence, I want to improve the quality of life for every man, woman and child in this country. And I mean everyone. Some politicians want to divide us -- divide us into economic classes. They're keen on defining people as "poor" or "rich" or "middle-class." They don't bother to ask you how you see

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yourselves or what your aspirations are. The Capitol Hill liberals have already made up their minds where everyone fits in some politically-correct caste system.

Well, that's not the way I see America. I don't apply a means test to the American Dream. I want to increase opportunity for everyone. That's what fairness means. (Applause.)

And once again, I could not have had better allies in my fight than the U.S. Chamber of Commerce. Chamber members share a sense of responsibility -- to your families and your firms and your communities and your nation. You take your responsibilities personally -- in your homes, among your families. You know, it's not so important what happens in the White House, it's what happens in your house. My administration's strategies for fighting drugs and improving our schools are sound because they join government's efforts to the responsibilities of parents and families. We know we'll win the battle against drugs through the moral grounding that begins and ends in the family.

We'll renew education by giving parents more freedom and responsibility to choose their children's schools -- (applause) -- to get involved in their kids' education. You carry these values into managing your business. The kind of values that say when the company's losing money, the boss doesn't take home a seven-figure bonus.

Your companies get involved in the community because you're good neighbors. Big government didn't make this country great. You did it. Our nation's strength and generosity flow from private enterprise and voluntary initiative. It comes from seeing a problem, taking charge, getting involved, and not taking no for an answer. The Partnership for a Drug-Free America is a brilliant example of this. This business group -- many of you may participate in it -- voluntarily produces a million dollars a day in pro bono advertising to warn our kids about drugs. And we're making progress in that front. I am very pleased that the drug use for these teenagers is substantially down.

Freely undertaken, corporate responsibility is one of the strongest fibers in our social fabric. So it's only natural that you should expect government to serve the people responsibly -- not to behave as an arrogant ruler. On this I faced a big fight. Time and again I fought to get members of Congress to apply to themselves the same laws they impose on everyone else. (Applause.) Laws on ethics, on equal pay, on civil rights for women and minorities. Each time Congress drags its feet. They're slow learners up there on Capitol Hill -- but you and I can make them learn. And that's just what we must do.

As you know -- and here's where I need you -- I've sent the Congress a short-term plan to get our economy moving -- as well as a longer-term program for economic growth. I've given Congress a deadline of March 20th to act on our most urgent needs, to pass this short-term plan. We need to lower those sky-high taxes on new jobs and investment, and that means that we must cut the tax on capital gains. And we ought to do it now. (Applause.)

We need changes in the alternative minimum tax and a 15-percent investment tax allowance to encourage businesses to buy equipment, upgrade their plants, and start hiring again. We need new incentives to build and buy real estate -- through changes in the passive loss rules for real estate developers -- (applause) -- and we need a $5,000 tax credit for first-time homebuyers and penalty-free IRA withdrawals for first-time homebuyers. (Applause.) This is not all that controversial. I want to sign these reforms on March 20th. And I do need your help working with the United States Congress.

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We all know that this is a political year. We know Congress hates to make real decisions in election years. But that's why I see this March 20th deadline as fair and realistic. It gives us a window in which to get this plan passed and put it into action -- and most economists will tell you it will stimulate immediately. And it still leaves everyone then more than seven months for this traditional partisan politicking before election time.

Today is the 27th day, the halfway mark of my 52-day deadline for action on that economic growth plan. So it is time for a midterm report card. The stark and sorry fact is Congress so far deserves an F; they deserve a failing grade. (Applause.)

The Ways and Means Democrats considered my plan for two hours, a hefty two hours. And then, on a straight party-line vote, they said no to these seven progrowth proposals. And they said no to first-time homebuyers. And they said no to letting people keep more of their capital gains earnings. And they said no to helping new businesses write off their investment. And they said no to each of these vital proposals to create jobs now and get this economy moving.

They said yes, though, to politics as usual. They went behind closed doors -- you ask your people here in Washington -- they went behind closed doors to design what they think is clever politics. Now the door is opening. And they have proposed a bill that raises taxes and, just as incredibly, breaks the budget agreement of a year ago.

They not only want to take away your income, they want to dream up new ways to spend it -- to take the restraints off government spending. Take off those caps. Take off the brakes. Take off the spending controls that are so essential.

They want to saddle America with permanent tax hikes -- all to pay for a temporary tax cut of 25 cents per person per day. What's worse, some of them have a bidding war in mind. To pay for that, they'd have to raise tax rates on people making more than $35,000 a year. Any economist will tell you that the last thing this economy needs is a tax increase. (Applause.)

The contrast between my economic growth plan and the Democrats' new tax-increase scheme could not be more plain. Our plan will cut taxes on investment and job creation -- for all investors, for all homeowners, for all entrepreneurs. And it will do it without increasing the deficit.

So to the Congress at this halfway point before the deadline, I'll say it again: Pass my plan. Let's get America moving again.

Come March 20th, if the Democrats send me the message they're talking about now, I will send it right back. I will veto it and send it back. And I don't want to veto a bad bill, I want to sign a good bill. (Applause.) And Congress has a responsibility to give the American people a growth bill right now. (Applause.)

As Pete Silas knows and a handful of you others old enough to remember, my path to office as a chief executive of the United States began in the world of small business. Fresh out of college, I joined a couple of partners and started a little business out in Midland out in west Texas. It was there that I saw firsthand what the Chamber does to translate business efforts into community achievements. As businessmen we knew freedom's benefits would be stronger if we joined hands to meet our responsibilities as citizens.

Those days, government wasn't quite as big or rapacious. But even back then, we learned that we had to work together to keep government growth and interference with free enterprise in check.

That's what I'm asking that we do today -- to do it -- urgently. I have a solid plan to get America moving again -- and keep it strong for the long haul.

So when you go up to Capitol Hill, give your congressmen and senators a message from me: Get moving or get out of the way. (Applause.) Let me tell you something, and I say this not out of flattery, but you, you men and women in this room really can make a difference. There's never been a more urgent moment to win a victory for jobs for all Americans. We've won battles before, and we'll win this one, too. Together we can get our country moving swiftly and surely to a better future.

Thank you all for what you are doing. And may God bless the United States of America. Thank you. (Applause.)

END 11:29 A.M. EST

REMARKS OF

RICHARD C. BREEDEN, CHAIRMAN
U.S. SECURITIES AND EXCHANGE COMMISSION

NATIONAL PRESS CLUB
WASHINGTON, D.C.

FEBRUARY 18, 1992

U. S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

FINANCING AMERICA'S GROWTH

REMARKS OF

RICHARD C. BREEDEN, CHAIRMAN
U.S. SECURITIES AND EXCHANGE COMMISSION

NATIONAL PRESS CLUB
WASHINGTON, D.C.

FEBRUARY 18, 1992

Ladies and Gentlemen. It is a very great pleasure for me to be with you this afternoon for my maiden voyage before the National Press Club. As such, this is a somewhat daunting occasion, as I have been used to the luxury of sitting where you are sitting, and waiting for the speaker to carry the ball. On the other hand, no matter how critical the audience, I am pleased that I have gotten this far. I understand that after my press conference last week on our new rules for executive compensation, an anonymous CEO called offering to cater the lunch -- for the head table only. What a time to be caught with your food taster on vacation and your kevlar vests at the cleaners.

When thinking about the missions of the SEC, the subject of investor protection is invariably the first thing that comes to mind. That is an appropriate reaction, for protection of the more than 40 million Americans who own securities directly -- more than 50 million if you count participants in stock mutual funds -- is unquestionably the first and foremost assignment of the SEC. Protecting investors against fraud and manipulation is a task that

is deeply ingrained in the traditions of the agency, and it is a mission that is every bit as important today as it was when the nation's federal securities laws were first enacted in the 1930s.

Indeed, since the percentage of the U.S. population (21%) that is investing in the equity securities markets and the value of their investments (more than $4 trillion at current values) have never been higher in our history, just perhaps we have been doing something right for the last 59 years. Indeed, with ownership of roughly 50% of the value of the equities of over 12,000 public companies in the hands of individual investors, the U.S. has by far the widest dispersion of ownership among the general public of its productive base of any developed country. That is a major asset for our economic future.

To be sure, there are a few academic theorists out there who believe that the development of modern techniques for hedging, and new financial instruments, have eliminated the need for the SEC. Of course that theory requires that you overlook newspaper accounts of BCCI, Robert Maxwell, Salomon Brothers, Nomuragate, Michael Milken and a few other situations that suggest that fraud and investor rip-offs may not have disappeared from human history. Indeed, this view is a bit like arguing that the development of high performance cars, for which I have a weakness, has eliminated the need for traffic cops, for whom I have infinite respect.

A second critical mission of the SEC is to promote market stability, and the integrity of the critical operating systems that today handle trades of hundreds of millions of shares -- and settlement of tens of billions of dollars of transactions -- worldwide everyday. These systems have to be efficient, reliable, and ready to absorb sudden and massive surges of trading volumes.

As important as these responsibilities for investor protection and market stability are, I would like to spend the remainder of my time today on our third critical assignment. That is, quite simply, overseeing the capital-raising activities of a securities market that last year provided approximately $700 billion in public and private offerings of all types to meet the financing needs of America's economy. Last year's financings in the securities market exceeded the largest total in our history by around 50%. In public offerings, every individual sector showed enormous gains such as:

- Equity securities --- UP 185%
- Convertible debt --- UP 56%
- Investment grade debt --- UP 84%

Several factors other than sheer volume were significant. One was that we saw a <u>net</u> formation of new equity in U.S. businesses for the first time since 1983, with an estimated total of around $35 billion. However, at last year's pace, it will be around the second quarter of the year 2007 before we replace the one-half

trillion dollars in equity that was retired during the years 1984-1990. Therefore, we need not a year, but a generation of equity building in the private sector. From my perspective, the three point plan for our national economic future ought to be:

1. Invest.
2. Invest.
3. Invest.

Numerous changes, including a tax system that does not consistently reward the issuance of debt and penalize the holding of equity investments, will be needed if we are to come anywhere near to the investment levels that will be needed.

Of all the sectors that require investment, the financing of America's small businesses is especially critical. Indeed, this challenge represents no less than the financing of our economic future.

The roughly 20 million small businesses in the U.S. economy employ more than half our labor force and produce about half our gross domestic product. Firms with less than 20 employees created 4,016,000 new jobs during 1988-1990, while firms with more than 20 employees lost 1,352,000 jobs during the same period. Small firms also accounted for a disproportionate share of new technology and productivity growth.

While the statistics tell one part of the story, if anything they significantly understate the importance of small businesses -- and particularly brand new startup companies -- in our economy. These small businesses keep our economy dynamic, provide new technologies, and indeed, create whole new industries.

Indeed, many of the new technologies that have revolutionized our lives have come from startup companies of individual entrepreneurs. For example, few among us today could imagine a world without convenient air transportation for people and goods, yet the entire aviation and air transport industries sprang from a bicycle shop run by two brothers in Dayton, Ohio.

Though the Wright Brothers have passed on, the spirit of Kitty Hawk is still to be found in tiny companies across this country. This speech was prepared on the omnipresent contribution of another pair of small business entrepreneurs -- the personal computer. Who knows where my kids would learn math if Steve Jobs and Steve Wozniak hadn't started Apple Computer by soldering circuit boards in their parents' garage, and if Wozniak hadn't been willing to sell his VW bus to help raise their initial seed capital.

The good news about financing small businesses is that the securities markets are providing very significant flows of equity capital. Last year more than $16 billion was raised in initial public offerings, a nearly three-fold increase over the $4.6

billion in 1990. Hawk Marine Power, Precision Optics, Candy's Tortilla Factory, Osteotech, Inc., Au Bon Pain, Laser Pacific Corp., Platinum Technology, Dianon Systems, Marvel Entertainment, and many, many others were able to offer their common stock to the public last year through IPOs.

The bad news about financing small businesses is that the number of startup businesses every year has fallen since 1986, with about 70,000 fewer new businesses formed in 1991 than in 1986. In addition, the number of companies that survive the challenge to grow large enough to be a candidate for a NASDAQ or AMEX listing may be in the process of shrinking still further. This is due to the impact of changes in financing opportunities at early stages of company growth.

Typically, a newly formed company begins operations using the savings of his or her founder, and often investments from parents, family and close friends or acquaintances. Once the resources of these early investors are exhausted, the startup firm must typically finance its growth through venture capital firms and commercial banks. Both of these sources of funds tend to be very expensive (reflecting the high risk of these enterprises), and bank financing has become increasingly difficult for small firms to obtain. Indeed, the disparity between the financing channels for small firms and those of large companies, with access to commercial paper funded by money market funds and other institutions, as well

as medium and long term securities of all types, has never been greater.

This situation is not one that should be ignored, as it represents a significant increase in the obstacles that face the very firms that have traditionally provided the greatest component of U.S. economic strength. Here regulatory costs due to non-financial programs like environmental laws can also have a very damaging impact on startup and small businesses. Though the SEC does not have the ability to address many aspects of the broader problem, there are a number of areas where I believe that it may be possible in the short term to reduce the costs and other barriers to access to capital markets for small firms without weakening the protection of investors.

SEC's Small Business Initiative

The current process for registering securities that will be offered to the public is carefully designed to provide analysts and investors with the information that they need to make informed decisions concerning investment. Small companies often involve large risks, and investors must have the information that they need to evaluate risks carefully. If this information was not provided, liquidity for financings would most likely disappear. Similarly, if the information that is provided proved misleading and inaccurate, investor willingness to commit funds could well be

sharply diminished, and the cost of financing would inevitably rise. Certainly the lessons that we learned the hard way with respect to penny stock frauds cannot be ignored in any review of the overall system.

While any system must continue to provide a high quality of disclosure and vigorous antifraud efforts, there are many aspects of the current system that may add to the difficulty of raising capital without necessarily contributing to good disclosure. For example, under the current system, a company may have to spend $200,000 or more just to prepare the mandated disclosure forms and financial statements <u>without</u> knowing whether there would be any investor interest in the company. For a company whose shares are already trading in the public markets, the existence of a market for its shares is already established, thereby making the pre-offering expenses reasonably certain to be recoverable in an ultimate offering.

To improve this situation, I intend to propose that the Commission issue proposed rule changes that would significantly increase flexibility in structuring early stage securities transactions. Final action, of course, will depend on formal action by the Commission acting as a group, and each of our Commissioners will have to give careful consideration whether or not to support these ideas. Nonetheless, I believe they make sense. These steps would include:

- allowing issuers conducting an offering of "seed capital" securities under Rule 504 to issue up to $1 million dollars per year in unrestricted securities, and to broadly canvass the public for interest from investors.

- raising the annual ceiling for use of Regulation A, which is a limited public offering using a simplified disclosure document, from $1.5 to $5 million dollars per year. This would utilize existing statutory authority.

- allowing use of a simplified "Q&A" form for Reg. A offerings, and streamline existing procedures.

- allowing pre-offering publication of <u>factual</u> information about the company and its business prior to filing actual Reg. A disclosure documents; <u>provided</u> that any such material, which would be subject to antifraud requirements, is filed with the SEC simultaneously to its first use.

In addition to simplifying the Regulation A and Rule 504 offering processes, the SEC will propose to create new forms for the registration of securities by small companies, and for their ongoing disclosure requirements. At present, the SEC utilizes "Form S-18" for small offerings. This is a more simplified form

than the traditional S-1, but it is only available for an IPO of up to $7.5 million, or repeat offerings within the same year of the IPO.

Under the new system, the SEC will create a new form for small companies, rather than small offerings. This new "Form S-B" would be available for IPOs and repeat offerings by any company below a specified size, such as a market capitalization of $20 or $25 million. To go with the new streamlined offering document, the SEC will also propose to create a new "10-K Junior" and a "10-Q Junior" for the periodic disclosures of smaller companies. While these forms would still require the use of audited financial statements and disclosure of all material information, the complexity of the forms will be streamlined to reduce significantly the filing costs for smaller companies.

To accompany these proposed changes in the requirements of the 1933 and 1934 Acts, I believe that the SEC should also propose changes in the Investment Company Act of 1940 designed to make it easier for investment companies to invest in the securities of smaller companies, as well as to form specialized financing devices tailored to small business financing without registration as a mutual fund where this is not necessary to protect investors.

Among other things, I will suggest that the Commission should consider:

- raising the eligible volume of "illiquid" holdings of open-end mutual funds from 10% to 15%. This would enable significant new investments in U.S. small businesses, whose securities are by nature less liquid, without creating risks to the safety of funds choosing to utilize this flexibility.

- seeking public comment on allowing funds to be organized in a way that would, subject to full disclosure, allow "redemptions" at intervals less frequent than the daily requirement under current law. This would enable funds to be created with a much greater orientation to venture capital-style investments; and

- seeking public comment on raising the current limitations on funds that can be raised by Small Business Investment Companies and Business and Industrial Development Companies.

In addition to these rulemaking initiatives, the SEC should also consider proposing several legislative steps to Congress. One of the most important of these proposals would be to create a new class of venture capital fund that would be exempt from registration as a mutual fund so long as all its investors are highly sophisticated individuals or entities such as pension funds

or insurance companies.

Securitization

For the longer term, the SEC also needs to help those who are attempting to find ways to securitize the receivables of small businesses into debt securities that can be sold into a liquid secondary market. Here the objective is to develop an ability to pool the securities of smaller firms into larger packages that can be underwritten and purchased by large institutions and other purchasers. To be successful, techniques of standardizing documentation and credit underwriting that are now widely utilized in mortgage-backed and other asset-backed securities, with inevitable adaptions and modifications, will have to be utilized.

This would represent a big change from current practices. However, these problems have been faced -- and overcome -- before. Huge volumes of securitizations of mortgages, credit card receivables, auto loans, boat loans, aircraft leases and other assets prove that these hurdles can be overcome.

Indeed, though the first mortgage-backed securities were offered as early as the 1880s, the "modern" use of the mortgage-backed security did not arise until the first GNMA pools were issued in late 1970, barely 20 years ago. From a tiny beginning, that market has grown to include over $1.1 trillion in mortgage-backed securities outstanding, representing interests in over 40%

of all U.S. single family homes.

By seeking to adapt the techniques of securitization to small business loans -- especially short term debt instruments, we have an opportunity to facilitate a market that will improve the availability, and hopefully reduce the cost, of capital for small firms. Indeed, by giving banks the option to obtain liquidity from their small business loans, such a new market could help allow many banks to remain more active small business loan originators, with fewer capital and other constraints.

Adapting the techniques of securitization to small business instruments is a long term project. To help facilitate the process, however, I believe that the SEC should propose to expand the use of shelf registrations under Rule 415 for investment grade securities backed by non-mortgage assets. Necessary relief under the Investment Company Act should also be designed to help achieve a coordinated regulatory response to developments in the securitization field.

Conclusion

The steps that I have outlined today represent in some cases a significant new approach to the registration procedures in use today. For the long run we should seek to maintain investor protection and the quality of disclosure, while cutting costs, reducing barriers and improving flexibility. Certainly we will

weigh public comments carefully as we move forward, and I'll be working closely with my fellow Commissioners as we consider each of these ideas.

Less than one month ago, the President put forward a wide-ranging program of steps his Administration proposed to take to curtail unnecessary regulatory costs that can stifle economic growth. Indeed, regulatory costs often fall heaviest of all on the small firms least able to afford non-productive expenses. Several of the steps that I have outlined today were included in the President's message. Of course the ultimate decision on all of these proposals will rest with the full Commission, acting in its independent capacity. However, it is worth noting that lowering the cost of capital and seeking to facilitate financing for the small businesses of America is a challenge that is of great importance, and one that Republicans and Democrats, Legislative and Executive branches, should work together to meet.

In a very real sense, the small companies of today represent the gnp of the year 2000. Without the innovation and energy of newly formed companies, our economic future will indeed be different than we might wish. By mobilizing our talents to make sure that new companies have a chance to obtain the capital that is essential to fueling their development, we will be taking critically important steps to build a strong and prosperous economic future. Thank you.

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SMALL BUSINESS INITIATIVE

In connection with the State of the Union address, the Administration announced that Chairman Breeden would be proposing for consideration by the full Securities and Exchange Commission a series of initiatives designed to ease access to capital markets by small businesses. Following up on that announcement, and as part of the top-to-bottom review of existing regulations and programs Chairman Breeden has launched in response to the President's request, the SEC today announced its Small Business Initiative.

At present, the federal regulatory process for startup and small businesses raising capital from the public creates significant costs and other barriers to market access. To facilitate more flexible and less costly procedures, the Small Business Initiative includes numerous proposals to modify current SEC requirements. At the same time, these proposed changes are carefully designed to avoid compromising the integrity of the capital raising process and the protection of investors.

As part of the Small Business Initiative, a number of steps also will be proposed to facilitate the ability of investment companies to make investments in small businesses. Several of these initiatives would facilitate capital formation generally, while others would be specifically directed towards the capital needs of small business. The Commission would also be initiating regulatory changes in the treatment of asset-backed securities under the Investment Company Act to diminish the constraints the Act may impose, on, among other activities, the securitization of loans to small businesses.

I. Capital Formation

Today, a small businessman who needs capital beyond his or her resources and that of his or her family and close friends is faced with an array of regulations that require law and accounting degrees even to understand. Under current procedures, an entrepreneur who wants to tap outside savings has to incur the full costs of preparing the mandated disclosure and financial statements -- costs that frequently exceed $200,000 -- without knowing whether there is any interest in investing in his or her business.

There are, of course, exemptions for limited offerings to more sophisticated professional investors that may reduce or avoid these compliance costs. The restricted nature of these offerings, however, does not replace the advantages of having access to the public marketplace in seeking capital, and the potentially greater liquidity that publicly offered securities

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enjoy. The Small Business Initiative, therefore, focuses on facilitating access to the public market for startup and developing companies. It is also designed to lower the costs for small businesses that undertake to have their securities traded in the public markets.

Seed Capital - Startup Companies

Currently, under Rule 504, the Commission exempts from registration annual offerings of up to $1 million of securities by companies that are not reporting companies under the Securities Exchange Act of 1934. 1/ While Rule 504 does not restrict the kind or number of investors, it does limit the company's ability to engage in general advertising or other general offering activity, and results in the investor receiving restricted securities, unless the securities are state registered. Similarly, state registration is required to rely on the exemption for securities offered in excess of $500,000.

The Small Business Initiative would revise Rule 504 to permit:

- unconditional use of the $1 million exemption;
- unlimited ability to solicit investors; and
- free transferability of securities by investors.

Of course, these offerings would continue to be subject to antifraud prohibitions.

Pre-NASDAQ - Developing Companies

Many developing companies have not reached a size or stage of development at which they would be able to make a successful initial public offering (IPO), or may not believe that they could raise sufficient funds to justify the very significant costs of an IPO. In addition to offerings under Rule 504, any such company currently has the option to make a limited private or intra-state offering, or to make a limited exempt public offering under Regulation A. In order to utilize Regulation A, a company must file with the SEC and deliver to investors a simplified disclosure document. However, the company does not become obligated automatically to file 10-K and other periodic reports

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1/ Under the Securities Exchange Act of 1934, any company with 500 record holders of a class of equity securities and $5 million in assets must register its securities under the Exchange Act and file annual and other periodic reports.

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on an ongoing basis. Regulation A offerings are currently limited to an annual $1.5 million.

Under the Small Business Initiative, revisions to Regulation A would be proposed to:

- raise the ceiling to the full $5 million authorized by Section 3(b) of the Securities Act;
- allow use of a simplified, user-friendly form in a question/answer format; and
- streamline procedural requirements

To address the problem of a company having to incur the full costs of compliance before knowing whether there is adequate investor interest, the initiative would allow a company to "test the waters" prior to filing its required offering document. Under this proposal, companies undertaking a Regulation A offering would be allowed to publish factual information about the company and its business, and to solicit indications of interest in investing, prior to preparing the mandated disclosure. If no one is interested, the company could avoid incurring unnecessary legal, accounting, and other compliance costs. Any such soliciting material would be submitted to the Commission at the time of its first use and would be subject to antifraud prohibitions.

In view of the proposed simplification of registration and reporting for small businesses and the increased offering ceiling, the proposal would revise Regulation A so that it would not be available to companies already reporting under the Exchange Act. It also would not be available for commodity fund, investment partnership or blank check offerings.

Securities Act Registration and Reporting for Small Business

Since 1979, the Commission has provided a simplified registration form for small IPO's -- Form S-18. Form S-18 is currently available only to register up to an aggregate of $7.5 million in an IPO and subsequent offering in the same fiscal year. Form S-18 permits the company to go to market with:

- GAAP rather than the more detailed S-X financial statements;
- two rather than three year financial statements; and
- simplified business disclosure.

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Issuers can file S-18 registration statements with the regional offices of the Commission.

New Small Business Registration and Reporting System

Recognizing that smaller businesses are disproportionately affected by complexities in the disclosure requirements for both initial registration of securities and ongoing periodic disclosure, the Small Business Initiative includes proposals of a new set of forms under both the Securities Act and the Exchange Act tailored expressly for small businesses.

Securities Act. In this new system, old Form S-18 would be eliminated and replaced with a new small business registration form. This new form would be useable by a small business for both its IPO and subsequent offerings. There would not be any dollar limitation on the amounts registered on the new Form, unlike the current Form S-18.

Exchange Act. For small businesses, periodic disclosure is certainly important, but the requirements should be and can be simplified, without loss of basic material information to investors. There would be proposed for public comment new "10-K Junior" and "10-Q Junior" forms. These forms would require small business issuers to provide investors with clear, concise and straightforward disclosures as to material information concerning the company. Audited financial statements and all material information would still be required without diminution in the quality of information disclosed to investors.

Eligibility for Small Business Filings. Public comment will be specifically solicited on the appropriate definition of small business. A likely starting point in developing the definition will be the $25 million market capitalization standard used in the Small Business Investment Incentive Act of 1980.

Shelf Registration to Facilitate Securitization Efforts

In a companion proposal to the Investment Company Act initiatives to reduce impediments to securitization of small business loans, shelf registration would be made available to all investment grade asset-backed financings. Offerings of mortgage related securities are already entitled to full use of shelf registration. As part of the initiative, the shelf registration rule, Rule 415, would be revised to permit issuers to register investment grade asset-backed securities well before specific financing needs arise, and to sell those securities from time to time in the future when market conditions are favorable without further SEC preclearance.

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Currently, most non-mortgage asset-backed offerings are made by special purpose financing entities such as grantor trusts or limited purpose subsidiaries that do not qualify for the registration form entitled to use the shelf registration procedures. Consequently, before each offering by an issuer of a series of nearly identical asset-backed securities (such as multiple series of securities backed by pools of car loans or credit card receivables), a new registration statement, subject to prior Commission review, must be filed. Under the revised shelf rule, the issuer would be able to register in a single registration statement the aggregate of all the series of the asset-backed securities it intends to offer from time to time over the next two years. At the time of each offering, it would deliver a prospectus, supplemented with the terms of the offering, including the composition of the specific pool, and file the supplemented prospectus with the Commission. No Commission preclearance of the supplemented prospectus would be required.

2. Investment Company Act Initiatives

Investment companies are particularly well suited to allow investors to invest in small businesses because they offer the twin benefits of professional management and diversification of risk. In mutual funds ("open-end" funds) alone, there are approximately 1800 equity and corporate bond funds with aggregate assets of $475 billion that potentially could invest in greater amounts of the securities of small businesses. There are also tens of billions of dollars invested in so-called "closed-end" funds.

Open and closed-end companies differ in the way they price and redeem securities. Open-end companies must price their shares daily and pay redemption proceeds to investors within seven days of redemption. So that a fund may always be able to meet the possibility of redemptions, the Commission historically has required that at least 90% of the fund's securities be invested in liquid securities. Closed-end companies, whose shares are traded in the marketplace like those of any public company, do not redeem shares directly from investors. Therefore, they may invest in less liquid securities. Their shares, however, tend to trade at a discount from net asset value, which makes them unattractive to many investors, particularly those who would purchase in the initial public offering.

In addition to traditional investment companies, there are private and public investment companies that specialize in small business investing. These include:

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- **Private "venture capital" pools:** These are partnerships organized privately for limited numbers of primarily institutional or sophisticated investors to make venture capital investments.

- **Business and Industrial Development Companies (BIDCOs) and Intrastate Investment Companies:** BIDCOs are created and regulated under state laws designed to promote local economic development. Currently, forty-five states have these laws. Current law, enacted in 1940, only allows intrastate companies with total outstanding securities of not more than $100,000 to be exempt from registration under the Investment Company Act.

- **Small Business Investment Companies (SBICs):** SBICs are licensed and regulated by the Small Business Administration to provide capital to businesses with net worth of $6 million or less, and an average net income after taxes in the preceding two years of $2 million or less. Typically, SBICs issue SBA-backed debentures (of up to three times their equity capital) and loan the proceeds to, or invest in, small businesses. There are approximately 350 SBICs with total assets of $4 billion, most operating as private investment companies. Only thirteen, with total assets of $200 million, are registered investment companies.

- **Business Development Companies (BDCs):** BDCs are public venture capital companies that invest in small companies and make available significant managerial assistance to companies in which they invest. BDCs are regulated as closed-end investment companies, that is, their shares may not be presented back to the issuer for redemption, but the Investment Company Act has been modified to permit these companies to meet modified requirements concerning leverage and conflicts of interest.

Certain provisions of the Investment Company Act of 1940 make it more difficult for investment companies to invest in small businesses. Some of these provisions are appropriate where the company is owned by small investors, but are not necessary to protect sophisticated investors. Others simply have not been updated to reflect changes in the structure or practices of the market since 1940.

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Securitization:

The present treatment of securitized offerings under the Investment Company Act is largely the result of historical accident. Certain securitized pools, because the assets in them primarily are mortgages or receivables generated from the sale of goods or services, are not investment companies under the Act. These kind of receivables historically were the assets of factors or mortgage finance companies. Trusts created for the special purpose of receiving these sorts of assets were largely unknown fifty-two years ago.

Today, whether these trusts are investment companies, requiring a full board of directors, strict rules against transactions with affiliates, and other provisions of the Act, depends on the fortuity of whether the assets they hold are the sort exempted from the act half-a-century ago. The Act thus distorts the operation and growth of the securitized (or "structured") finance market by enforcing distinctions that do not reflect economic reality. This problem will be addressed by:

- Proposing to adopt a new exemptive rule that would exempt structured financings from the Act, subject to requirements that would address the potential investor protection concerns presented by these financings. For example, the proposed rule would require that the securities issued be in the highest two ratings categories and be subject to separate custodial requirements.

Registered Investment Companies:

The requirement that open-end funds redeem shares daily for payment in seven days, makes it almost impossible for these popular mutual funds to invest in somewhat illiquid securities such as those often issued by small businesses. The Commission will address this problem by:

- Proposing to adopt a new exemptive rule permitting new variations on the open-end form, offering alternative redemption and offering procedures to investors. These companies would be either "extended payment companies," which would redeem shares continuously but take longer to make payments than seven days, or "interval companies," whose shareholders could redeem at regular intervals, such as quarterly, or semi-annually.

The liquidity requirements for open-end investment companies may also be constraining investment by these funds in the securities of small businesses. Giving mutual funds limited

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additional flexibility to hold illiquid securities can provide needed capital to small businesses without significantly increasing the risk to any mutual fund. To address this problem the Commission will:

- Consider raising the informal limit on mutual fund investments in illiquid assets from 10% to 15%. While the Commission will impose no requirement that the additional 5% be devoted to investments in U.S. small businesses, this additional investment flexibility will make significant new small business investments possible.

Private Investment Companies:

The creation of private venture capital pools is at present constrained by a provision in the Investment Company Act (section 3(c)(1)) that prohibits these pools from offering their shares publicly, and limits them to 100 or fewer investors, no matter how sophisticated the investor and how unnecessary the protections of the Investment Company Act. Section 3(c)(1) also generally constrains investment in these companies by registered (public) investment companies. To make it easier for venture capital funds to be organized and to raise funds from institutional investors, legislation will be proposed to:

- Create a new exclusion for investment companies sold publicly or privately to an unlimited number of investors, so long as they are highly sophisticated investors such as pension funds, insurance companies, and mutual funds.

- Amend section 3(c)(1) to make it easier for corporations and registered investment companies to invest in these companies.

BIDCOs and Intrastate Investment Companies:

At present, for BIDCOs to be exempt from registration under the Investment Company Act, they must obtain exemptions on an individual basis from the Commission. This process is frequently time consuming and costly. For intrastate companies the current cap of $100,000, set in 1940, is much too low. These problems would be addressed by:

- Proposing to create an automatic exemption for BIDCOs whose operations are subject to regulation in the state in which they operate.

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- Raising to $10 million the cap for intrastate investment companies.

Small Business Investment Companies:

While certain restrictions on investment company leverage are modified for public SBICs, and they can use simplified procedures to offer their securities (Regulation E), the amount of capital they can raise pursuant to these simplified procedures, $5 million per year, is insufficient in today's marketplace. This problem would be addressed by:

- Proposing to amend Regulation E to permit SBICs to raise the amount of securities they can offer from $5 million to $15 million annually.

Business Development Companies:

The Investment Company Act was modified in 1980 to give greater flexibility to BDCs. Nonetheless, certain provisions of the legislation have proven to be impediments to the successful use of BDCs to raise capital for small business. These problems would be addressed by proposing legislation to:

- Modify the requirement that BDCs make available significant managerial assistance to at least 70% of the portfolio companies.

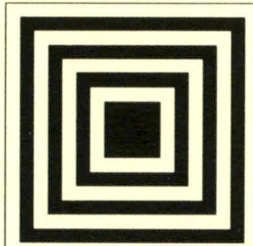
- Modify certain 1940 Act requirements to allow BDCs more flexibility to issue public debt and options, rights and warrants.

- Permit BDCs to acquire securities from companies other than the portfolio companies in which they invest. This would permit BDCs to purchase the securities of small businesses from the financing companies that often provide initial financing to these businesses.

The foregoing proposals taken in full will provide a variety of ways to stimulate the flow of capital from pooled investments into small business. Some proposals seek to make investment in these issuers more attractive to managers of investment pools. Others seek simply to remove unnecessary constraints on capital formation generally.

1991 Legislative Action Forums

A grassroots legislative action program led by the national federation of the U.S. Chamber of Commerce consisting of state/local chambers of commerce, trade/professional associations and businesses.



BUILDING THE NATIONAL BUSINESS LEGISLATIVE AGENDA

Philadelphia, Pennsylvania
September 24, 1991

Host Organization

The Greater Philadelphia Chamber of Commerce
Philadelphia, Pennsylvania

8:15 a.m. **Registration/*Lower Level Foyer***

9 a.m. **General Session/*Exhibition Hall, Lower Level***

Call to Order
William T. Archey, Senior Vice President, Policy, U.S. Chamber of Commerce

Welcome
Robert McClements, Past Chairman, Greater Philadelphia (Pennsylvania), Chamber of Commerce; Chairman and CEO, Sun Company, Inc.

"Building the National Business Legislative Agenda"
C. J. "Pete" Silas, Chairman of the Board, U.S. Chamber of Commerce; Chairman and Chief Executive Officer, Phillips Petroleum Company

Breakouts: Objectives/Format
William T. Archey

9:45 a.m. **Breakout Sessions**

Issue Areas:

#1 BUDGET & TAXES/*Grand Ballroom A*
Chair: William J. Short, CCE, President, Worcester (Massachusetts) Area Chamber of Commerce

Facilitator: Ronald E. Zooleck, CCE, Executive Vice President, South Shore Chamber of Commerce, Quincy, Massachusetts

Issue Information: Dr. Richard W. Rahn, Vice President and Chief Economist, Economic Policy, U.S. Chamber of Commerce

#2 GLOBAL ECONOMICS & TRADE/*Constitution A*
Chair: James P. Gifford, Executive Vice President, New York Chamber of Commerce

Facilitator: Walter M. Lee, III, President, Jacksonville (Florida) Chamber of Commerce

Issue Information: Willard A. Workman, Vice President, International, U.S. Chamber of Commerce

#3 BUSINESS & GOVERNMENT REGULATION/*Adams Ballroom A*
Chair: John S. Dexter, Jr., President, Maine Chamber of Commerce and Industry

Facilitator: Harry L. Cowan, Manager, Southern Region, U.S. Chamber of Commerce

Issue Information: Jeffry L. Perlman, Manager, Legal and Regulatory Affairs, U.S. Chamber of Commerce

#4 ENVIRONMENT & ENERGY/*Franklin 1&2*
Chair: Jim Sinclair, First Vice President, New Jersey Business and Industry Association

Facilitator: Steven E. Woolley, Manager, Eastern Region, U.S. Chamber of Commerce

Issue Information: Dr. Harvey Alter, Manager, Resources Policy Department, U.S. Chamber of Commerce

#5 WORKFORCE & LABOR ISSUES/*Constitution B*
Chair: Charles Krautler, Senior Vice President, Maryland Chamber of Commerce

Facilitator: Daniel C. Witmer, President, Lancaster (Pennsylvania) Chamber of Commerce

Issue Information: Damon Tobias, Manager, Labor and Human Resources Policy, U.S. Chamber of Commerce

#6 WAGES, COMPENSATION & BENEFITS/*Adams Ballroom B*
Chair: Bev Smalt, Executive Director, Hamburg (New York) Chamber of Commerce

Facilitator: Richard E. Loomis, Director, Chamber Services, U.S. Chamber of Commerce

Issue Information: Lisa M. Sprague, Manager, Employee Benefits Policy, U.S. Chamber of Commerce

#7 HEALTH CARE/*Grand Ballroom B*
Chair: James C. Moford, Vice President, Governmental Affairs, New Jersey State Chamber of Commerce

Facilitator: Lee R. Weimer, Senior Public Affairs Manager, Western Region, U.S. Chamber of Commerce

Issue Information: Jeffrey H. Joseph, Vice President, Domestic Policy Division, U.S. Chamber of Commerce

12 noon **Break**

12:15 p.m. **Working Lunch/*Grand Ballroom C&D***
Presiding
William T. Archey

Introduction
Charles P. Pizzi, President, Greater Philadelphia Chamber of Commerce

"1992 Washington Outlook"
Dr. Richard L. Lesher, President, U.S. Chamber of Commerce

Luncheon/Table Discussion on Breakouts

1:20 p.m. **Break**

1:40 p.m. **General Session/*Exhibition Hall, Lower Level***
Presiding
William T. Archey

Summary Reports on Breakouts

Discussion/Consensus

3 p.m. **Call to Action**
C. J. "Pete" Silas

3:15 p.m. **Adjournment**
William T. Archey

National Action Rally

American businesses nationwide are participating in *Building the National Business Legislative Agenda* to develop a unified business voice to make a major difference in Congress and with the Bush Administration in 1992.

The regional *Legislative Action Forums* are **STEP 1.**

STEP 2
is the *National Action Rally* at which businesses will join their state delegations in Washington on February 24 to announce the Agenda.

STEP 3
involves *State Delegation Visits to Capitol Hill* where businesses will meet — immediately after the *National Action Rally* — with their legislators to present personally the *Agenda*.

You'll want to participate in all three steps of *Building the National Business Legislative Agenda* to ensure that the Bush Administration and your Senators and Representatives hear what *you* have to say.

Thank you

Thanks to Xerox Corporation for making possible the immediate printing and distribution of the Breakout Session reports.

Thanks also to the Greater Philadelphia Chamber of Commerce for helping to organize this Action Forum and ensuring the success of **Building the National Business Legislative Agenda**.

U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062

SLUG	ANCHOR	WRITER	CREATED	STATUS	TIME
RALLY TAPE		KUSH	Tue Jan 21 09:16	READY	5:56

NATIONAL BUSINESS AGENDA SCRIPT:

VO NARRATION:

OUR NATION, AND THE AMERICAN BUSINESS COMMUNITY, CONFRONT PROBLEMS AND CHALLENGES UNLIKE ANY IN OUR HISTORY.

1600 BUSINESS MEN AND WOMEN CAME TOGETHER UNDER THE U. S. CHAMBER FEDERATION'S BANNER LAST FALL TO PLAN A PROGRAM OF ACTION TO MEET THESE CHALLENGES.

IN SIX PIVOTAL MEETINGS ACROSS THE COUNTRY, THESE BUSINESS LEADERS RAISED CONCERNS AND IDENTIFIED THE REAL PROBLEMS BUSINESS FACES TODAY.

THESE FORM THE CORE OF THE NATIONAL BUSINESS AGENDA.

IT IS THE AGENDA OF THE BUSINESS COMMUNITY.

IT IS YOUR AGENDA!

AS WE APPROACH THE START OF A NEW CENTURY, WE FIND THAT MUCH OF THE WORLD HAS CHANGED IN FUNDAMENTAL WAYS:

THE LONG COLD WAR BETWEEN EAST AND WEST IS OVER. THE THREAT OF A GLOBAL NUCLEAR WAR HAS RECEDED. COMMUNISM HAS COLLAPSED THROUGHOUT EUROPE AND SCORES OF NATIONS ARE NOW EXPERIENCING DEMOCRACY AND MARKET-ORIENTED ECONOMIES FOR THE FIRST TIME IN DECADES. FOR SOME, THE FIRST TIME EVER.

OUR WORLD IS RAPIDLY SHIFTING FROM MILITARY TO ECONOMIC COMPETITION. THE EUROPEAN COMMUNITY CONTINUES TO UNIFY AND EXPAND... JAPAN AND OTHER ASIAN NATIONS ALSO CONTINUE TO AGRESSIVELY EXPAND THEIR TRADING MARKETS.

AMERICA'S ABILITY TO COMPETE IN WORLD MARKETS HAS BEEN CRIPPLED BY THIS RECESSION AND GOVERNMENT POLICIES THAT CONTRIBUTE TO ECONOMIC STAGNATION. AFTER EXPERIENCING 92 MONTHS OF GROWTH SINCE 1982, THE NATION'S ECONOMY WENT INTO RECESSION IN JULY, 1990. UNFORTUNATELY, THIS RECESSION HAS TURNED OUT TO BE AS DEEP AND LENGTHY AS PREDICTED BY THE U.S. CHAMBER.

*IT HAS BEEN COMPOUNDED BY A MAJOR RESTRUCTURING OF AMERICAN BUSINESS...

*DRIVEN BY INTERNATIONAL COMPETITIVE PRESSURES......

*RECORD NUMBERS OF BUSINESSES, LARGE AND SMALL, ARE DECLARING BANKRUPTCY...

*VIABLE, WELL-MANAGED BUSINESSES ARE FINDING IT DIFFICULT TO GET CREDIT...

*CONSUMER CONFIDENCE IS FALLING...

*GROWING NUMBERS OF AMERICANS ARE PESSIMISTIC ABOUT THEIR FUTURES...

*FORECASTS INDICATE THAT OUR ECONOMY WILL NOT EXPERIENCE ROBUST GROWTH SOON UNLESS OUR ECONOMIC POLICIES AND PRIORITIES ARE CHANGED.

CONGRESS AND THE BUSH ADMINISTRATION CONTINUE TO DEBATE PROPOSALS TO DEAL WITH THIS RECESSION, STIMULATE ECONOMIC GROWTH AND IMPROVE OUR ABILITY TO COMPETE MORE EFFECTIVELY IN WORLD TRADE MARKETS.

WHILE THE DEBATE CONTINUES, THE AMERICAN PEOPLE INCREASINGLY DEMAND REAL SOLUTIONS TO REAL PROBLEMS. THEY WANT ACTION, NOT PARTISAN RHETORIC OR PARALYSIS IN GOVERNMENT.

TO DEAL WITH THESE VERY REAL CHALLENGES TO AMERICA'S FUTURE, THE U.S. CHAMBER OF COMMERCE FEDERATION DEVELOPED A COMPREHENSIVE BUSINESS AGENDA FOR the PRESIDENT AND CONGRESS TO CONSIDER.

REGIONAL MEETINGS WERE HELD IN PHILADELPHIA... CHICAGO...DENVER... SAN FRANCISCO.... DALLAS....AND ATLANTA.

ALL ELEMENTS OF THE U.S. CHAMBER FEDERATION PARTICIPATED: STATE AND LOCAL CHAMBERS OF COMMERCE; LARGE AND SMALL ASSOCIATIONS AND COMPANIES; CONCERNED CITIZENS AND PUBLIC OFFICIALS.

PEOPLE WHO EXPERIENCE THE REAL PROBLEMS FACING AMERICA.

FROM THESE FORUMS, AUGMENTED BY INPUT FROM CHAMBER POLICY COMMITTEES, MEMBERSHIP SURVEYS AND OTHER SOURCES, EMERGED A PLAN FOR BUILDING A STRONG AMERICAN FUTURE:

FIRST, ESTABLISH A NEW FOUNDATION FOR ECONOMIC GROWTH...

*AVOID SHORT-TERM INITIATIVES DESIGNED TO "JUMP START" THE ECONOMY. INSTEAD, CHANGE THE TAX CODE TO STIMULATE SAVINGS AND INVESTMENT...

*REDUCE WASTEFUL FEDERAL SPENDING...

*REMOVE EXCESS REGULATION OF BUSINESS...

*AND MODERNIZE AND REFORM OUR DEPOSIT INSURANCE SYSTEM, TO PROMOTE SOUND, EFFICIENT BANKS.

SECOND, DEVELOP OUR MOST PRECIOUS ASSET...THE AMERICAN WORKER...CREATE A HIGHLY MOTIVATED, TRAINED WORK FORCE ORIENTED TOWARDS LIFETIME EDUCATION.

*ESTABLISH AN AFFORDABLE AND ACCESSIBLE HEALTH CARE SYSTEM, AND MORE EFFECTIVE AND EFFICIENT WORKPLACE SAFETY PROGRAMS.

THIRD, ENCOURAGE BUSINESS, GOVERNMENT AND ACADEMIC INSTITUTIONS TO COOPERATE IN DEVELOPING NEW TECHNOLOGIES.

FOURTH, CREATE THE BEST TRANSPORTATION INFRASTRUCTURE IN THE WORLD. AND, DEVELOP AN ADVANCED NATIONAL TELECOMMUNICATIONS INFORMATION NETWORK THAT DRAMATICALLY IMPROVES THE DELIVERY OF EDUCATION, HEALTH CARE AND BUSINESS

SERVICES.

FIFTH, THE NATION NEEDS A COMPREHENSIVE AND BALANCED ENERGY POLICY, WITH ENVIRONMENTAL POLICIES THAT ARE SCIENCE-BASED AND COST-EFFECTIVE.

SIXTH, AGREE ON POLICIES TO ENHANCE AMERICA'S ABILITY TO BETTER COMPETE IN INTERNATIONAL TRADE MARKETS...

* PRESS FOR A SUCCESSFUL CONCLUSION TO THE G.A.T.T. WORLD TRADE TALKS...

* CREATE AND IMPLEMENT A NORTH AMERICAN FREE TRADE AGREEMENT...

*GAIN MORE ACCESS TO MARKETS IN JAPAN AND OTHER NATIONS...

*ENCOURAGE MORE U.S. EXPORTS,

*AND HELP THE BALTIC NATIONS, COUNTRIES IN EASTERN AND CENTRAL EUROPE, AND THE FORMER SOVIET UNION TO MAKE SUCCESSFUL TRANSITIONS TO DEMOCRATIC INSTITUTIONS AND MARKET ECONOMIES.

SEVENTH, MAKE OUR LAWS AND GOVERNMENT PROCESS MORE RESPONSIVE TO OUR NATIONAL NEEDS...

*STOP STATE AND LOCAL GOVERNMENTS' MOMENTUM IN IMPOSING NEW LAWS AND REGULATIONS THAT IMPEDE INTERSTATE COMMERCE.

*REDUCE EXCESS PAPERWORK AND REPORTING REQUIREMENTS...

*REFORM THE ELECTORAL AND LEGISLATIVE PROCESSES AND THE FEDERAL BUDGET PROCESS, AS WELL AS GOVERNMENT CONTRACTING AND PROCUREMENT PROCEDURES

THE U.S. CHAMBER FEDERATION, REPRESENTING HUNDREDS OF THOUSANDS OF BUSINESS PEOPLE, CALLS UPON THE PRESIDENT AND CONGRESS TO ACT ON THESE RECOMMENDATIONS.

BUT THE WORK OF THE FEDERATION DOES NOT END WITH A CALL FOR ACTION, NO MATTER HOW FIRM AND CLEAR. THE AGENDA IS ALSO A PLAN FOR ACTION. WE ALL FACE THE SAME PROBLEMS AND OPPORTUNITIES. WE MUST WORK TOGETHER TO IMPLEMENT OUR AGENDA AND CREATE A BETTER FUTURE FOR AMERICA.

THE NEW ERA IN WHICH WE LIVE CALLS FOR UNPARALLELLED COOPERATION AMONG BUSINESS, LABOR, CONSUMERS, AND GOVERNMENT.

WE MUST JOIN TOGETHER TO ESTABLISH POLICIES THAT WILL STIMULATE LONG-TERM ECONOMIC GROWTH AND HELP AMERICA COMPETE MORE EFFECTIVELY IN WORLD TRADE MARKETS.

LET US BUILD A FUTURE THAT WE, OUR CHILDREN, AND THEIR CHILDREN CAN BE PROUD OF.

USE THIS NATIONAL BUSINESS AGENDA TO RESTORE LONG-TERM PROSPERITY TO AMERICA AND THE WORLD.

OUR FUTURE IS TRULY WHAT WE MAKE IT. THE TIME TO BUILD THAT FUTURE IS NOW!

Executive Summary

I. LAYING A NEW FOUNDATION FOR ECONOMIC GROWTH

1- A New Foundation: An Overview

To provide a new foundation for economic growth, secure enactment of a four-part economic growth agenda -- involving taxation, regulation, spending, and infrastructure -- which will increase the average annual real growth rate of the economy by 1.5 percentage points per year (from the expected 2.5 percent to 4 percent) during the next five years, thus returning the economy to its historical post-World War II trend.

(In addition to those topics addressed under LAYING A NEW FOUNDATION FOR ECONOMIC GROWTH, the new foundation includes Foreign Tax Provisions (under SUCCEEDING IN INTERNATIONAL MARKETS) and Transportation (under REBUILDING AMERICA'S INFRASTRUCTURE)

2- Alternative Minimum Tax

Secure repeal or comprehensive reform of the corporate and individual alternative-minimum tax provisions of the Internal Revenue Code, and oppose any attempt to increase the alternative-minimum tax rates for individuals and corporations.

3- Cost of Capital

Secure enactment of legislation that reduces the cost of capital by reducing the capital-gains tax and establishing a neutral cost-recovery system.

4- Cost of Labor

Secure enactment of legislation that reduces the cost of labor by reducing the Social Security (FICA) payroll tax rate.

5- Deposit Insurance

Secure enactment of revisions to the deposit-insurance system which will promote stability within the banking system, remove taxpayers from future liability for failures of depository institutions, free up capital, alleviate the credit crunch, and help the economy by creating sound, efficient banks.

6- Expiring Tax Provisions

Secure the permanent extension of selected expiring tax provisions, including the Research and Experimentation tax credit and allocation rules, the educational assistance exclusion, and the 25 percent deduction for health insurance for the self-employed.

II. HUMAN DIMENSION OF ENTERPRISE

1- Education

Develop and implement a community-based, coordinated, and comprehensive plan to improve dramatically elementary and secondary education and provide incentives for life-long learning. Support these goals by further mobilizing business leaders and chamber executives for education reform at the local level.

2- Health Care
Secure enactment of legislation emphasizing key incremental reforms, and promote public policies which support private-sector initiatives to increase access to health care, control costs, and maintain quality of care, while opposing government-mandated coverage.

3- Occupational Safety and Health Act
Secure enactment of legislation to further improve health and safety in the workplace while ensuring a balanced regulatory approach that protects the legitimate interests of employers and employees.

4- Striker Replacement
Prevent enactment of the Strike Bill, and thereby maintain the right of employers -- union and nonunion -- to hire permanent replacement employees when their employees engage in a work stoppage or strike over economic issues.

5- Workplace Drug Policies
Create a Center on Workplace Drug Policies to assist small and mid-sized firms in the development and implementation of effective, affordable drug- and substance-abuse programs.

LAUNCHING FUTURE TECHNOLOGIES

1- Business/Government Cooperation
Encourage collaboration and cooperation among business, government, and academic institutions in the development of technologies and production processes.

2- Production Joint Ventures
Secure the amendment of the National Cooperative Research Act of 1984 to relax the legal restraints on collective manufacturing efforts.

REBUILDING AMERICA'S INFRASTRUCTURE

1- Telecommunications
Relying on state and local chambers of commerce, ensure that development of an advanced national information network meets the needs of businesses and communities at the local level. The goal: a dramatic improvement in the delivery of education, health care, and business services.

2- Transportation
Monitor closely the implementation of the 1991 Surface Transportation Act to remedy any deficiencies. Should it become clear that the Act as implemented will not meet the nation's surface-transportation needs, secure enactment of legislation which will do so, and secure enactment of airport/airway infrastructure legislation to repair, improve, and expand that system as needed to improve the overall productivity of the economy. Funds already exist for these purposes. It is projected that by the end of 1992 the Airport and Airways Trust Fund will have an uncommitted surplus of some $7.5 billion. Monies in this Trust Fund are currently being used to offset the federal budget deficit. The Highway Trust Fund balance is approaching $16 billion, and grows by $2 billion annually. Trust fund monies should be used only for their intended purposes, not for deficit reduction.

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V. ENVIRONMENT AND NATURAL RESOURCES

1- Environment: Solid Waste, Water Quality, Global Climate Change

Secure enactment of legislative initiatives which provide for environmentally sound, market-driven solutions to problems of solid-waste management and water-quality improvement. Such legislation should be based upon sound scientific evidence and incur the least possible economic cost. In 1992, reauthorization of the Resource Conservation and Recovery Act (RCRA) and the Federal Water Pollution Control Act (Clean Water Act) will serve as the principal vehicles for legislative activity. To address the uncertain threat of global climate change, public policies should promote global cooperation, be based on sound scientific analysis, and encourage voluntary measures that make sense in their own right, such as reforestation and greater energy conservation and efficiency.

2- Food Safety

Secure enactment of legislation to achieve national uniformity in the regulation of food production, distribution, and marketing. Support legislative and regulatory reforms to harmonize and modernize food-inspection systems and achieve scientifically sound methods of risk assessment.

3- National Energy Policy

Secure enactment of energy legislation that promotes development and distribution of adequate supplies of energy at affordable prices. Toward this end, promote 1) the streamlining of licensing procedures for natural gas pipelines and nuclear power plants; 2) greater access to traditional energy sources on federal lands; 3) clean-coal and renewable technologies; and 4) voluntary, cost-effective conservation measures. Also needed is opposition to 1) federal conservation mandates; 2) government interference in the marketplace to promote one fuel over another; and 3) energy taxes and required set-asides.

4- Superfund

Develop comprehensive recommendations for a major overhaul of the federal toxic-waste site cleanup program (Superfund) that results in the quicker cleanup of a large number of such sites at the least economic cost to business and taxpayers.

VI. SUCCEEDING IN INTERNATIONAL MARKETS

1- Access Mature/Strategic Markets: GATT Uruguay Round

Secure the strengthening of international trade rules through 1) adoption of more effective dispute-settlement provisions; 2) expansion of the scope of the General Agreement on Tariffs and Trade (GATT) to intellectual property, investment, and trade in services and agriculture; and 3) improvement of existing GATT rules.

2- Commonwealth of Independent States (Former USSR)

Secure the removal of residual U.S. government impediments to doing business with the countries of the former USSR. Secure expansion of U.S. government assistance to enable American firms to succeed in these markets. Support U.S. government technical-assistance programs that accelerate the transition of these countries to market economies.

3- Economic Relations with Asia

Secure increased access to Asian markets for U.S. investors and exporters through reductions in the discriminatory impact of Asian trade and business practices, with particular emphasis on structural impediments.

4- Economic Relations with the New Europe

Assist U.S. companies in pursuing increased trade and investment opportunities in the evolving new European market. Continue to encourage the completion of the single-market program of the European Community and the establishment of an open pan-European trading area. To this end, support the political and economic transformation to market economies by the Central and Eastern European countries through the extension of the Support for East European Democracy Act.

5- Export Enhancement

To increase U.S. exports, secure the strengthening of the Export-Import Bank and the expansion of public/private cooperation in export promotion, and help make foreign assistance more supportive of U.S. business interests.

6- Foreign Tax Provisions

Secure amendments to the foreign provisions of the Internal Revenue Code to enhance the competitive standing of U.S. businesses in global markets.

7- North American Free Trade Agreement

Secure enactment of a North American Free Trade Agreement consistent with the Chamber's criteria: comprehensiveness (agriculture, investment, services, intellectual property, rules of origin, and tariff and non-tariff barriers); appropriate phase-in periods; and temporary safeguards and adjustment assistance.

VII. MAKING GOVERNMENT RESPONSIVE

1- Federal Budget Process

Achieve reform of the federal budget process through amendment of the Constitution and existing laws so as to restrain the unchecked growth of federal taxation and spending. This includes presidential line-item veto power, tax/spending limitation and a balanced-budget amendment, and elimination of deceptive federal budget accounting procedures.

2- Federal Government Contracting: Procurement/Acquisition

Secure the simplification and streamlining of the federal-government contracting process through legislative and/or regulatory reforms. Key features of such initiatives will include: 1) the federal government's use of less-costly, commercial-style procurement practices and 2) increased purchasing of "off-the-shelf" commercial products.

3- Government Process

Secure enactment of legislation to reform the congressional committee system and federal campaign laws, and extend uniform coverage of federal law to the entire federal government, in particular Congress.

4- Litigation and Product Liability

Obtain legislative and judicial reforms to control costs of litigation and excessive liability claims.

5- Paperwork Reduction

Secure enactment of a Paperwork Reduction Act which will reduce costly, burdensome federal paperwork and reporting requirements.

6- Preemption/Uniformity of Law

Facilitate interstate commerce by securing enactment of legislation which preempts certain conflicting or non-uniform local and state laws, targeting those areas in which the proliferation of differing regulations has created barriers to interstate trade.

7- Voter Registration

Promote the election or reelection of members of Congress sympathetic to the concerns and needs of American business by encouraging voter registration among members of the business community.

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November 14, 1990

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Which Boss Should a Poor Regulator Believe?

Rule of Law

By L. Gordon Crovitz

It's easy to dismiss President Bush's 90-day moratorium on federal regulations by predicting a superfat edition of the Federal Register on Day 91. Maybe. It's also possible, though, that 90 days can become happily ever after. Intentionally or not, Mr. Bush has created the greatest chance in years to bring political accountability to the "independent regulatory agencies."

Mr. Bush announced a freeze on regulations and ordered a review of all existing federal rules in his State of the Union. His order, styled "Memorandum for Certain Department and Agency Heads, Subject: Reducing the Burden of Government Regulation," is addressed to cabinet officers, but also to the heads of agencies such as the Securities and Exchange Commission, Federal Trade Commission and Environmental Protection Agency.

This is key because if these "independent" regulators fail to comply, we could finally get a challenge to their constitutionality. No one thinks any agency will sponsor a bonfire of its inanities, but Mr. Bush set up an intriguing test of his control over the bureaucracy if agencies fail to comply, as the EPA already threatens. At the end of the 90 days, Mr. Bush expects a written report from each agency that includes "a summary of any regulatory programs that are left unchanged and an explanation of how such programs are consistent with the regulatory standards" excerpted nearby.

One congressman is already gunning for a constitutional High Noon. John Dingell wrote a dozen agency heads, including Richard Breeden at the SEC and Alfred Sikes at the Federal Communications Commission, warning that they'd better not comply with Mr. Bush's regulatory moratorium or his order to review their current rules. Rep. Dingell warned against being "impeded, subtly or otherwise . . . voluntarily or not, at the urging of the White House." The Dingellgram also warned agency heads not to consult with "anyone in the executive branch about this letter or the content of your reply."

So independent agencies are supposed to be independent of the president, but not of the chairman of the House Commerce Committee. This isn't how the constitutional system was supposed to work. The Founders set out three branches—legislative, executive, judicial. There is no reference to a quasi-anything branch of government. Even FDR, who created many of these agencies, eventually complained that they "constitute a headless 'fourth branch' of the government, a haphazard deposit of irresponsible agencies and uncoordinated powers" that "cannot be controlled by the president."

There are few constitutional questions as stark as whether these agencies fit in our constitutional system. Theodore Olson, a former Reagan Justice Department official, has a telling anecdote. He recalls he was perplexed when he looked up the rules of succession when President Reagan was shot, only to see that his pocket copy of the Constitution was printed before adoption of the 25th Amendment. "So when I started thinking about independent agencies and could not find a fourth branch of government mentioned in my Constitution," Mr. Olson said in a recent speech, "I thought that maybe I had another defective Constitution, or perhaps that two of the pages had become stuck together."

For years, Mr. Olson and other strict constructionists have wanted the Supreme Court to review the legal status of independent agencies. Justice Antonin Scalia has said in several opinions that the constitutionality of these agencies remains an open question. The difficulty has been finding a way to get one of these cases before the Supreme Court.

Regulated businesses might be able to go to court to oppose burdensome regulations that remain on the books after the 90 days are up. Or the Bush administration could take the opportunity of quasi-compliance with a presidential order by quasi-constitutional regulatory agencies to resolve the question. Whether or not the administration planned a confrontation with Congress on who, if anyone, controls the regulators, Mr. Bush's Justice Department should be ready if called.

The confirmation hearings for Attorney General William Barr in November were so affable that few noticed an important exchange on this question between Sen. Joseph Biden and Mr. Barr. Mr. Biden, who during the Clarence Thomas hearings publicized the Takings Clause and property rights, also drew attention to this area of separation of powers.

"There is a whole, well-informed, articulate school of thought that argues that the present regulatory agencies, which I believe if they got before the court, adopting Scalia's rationale, would all be declared unconstitutional," Sen. Biden said. "I can't think of a single administrative agency that isn't quasi-judicial, quasi-legislative and quasi-administrative. Those who believe the government interferes in the lives of Americans too much already aren't real crazy about any of those agencies, whether it's the FDA or the FCC or I mean, just go down all the alphabets."

His point is that limiting independent agencies would limit regulatory intervention. "We are not capable of determining whether or not there should be .005 parts per billion of a carcinogenic substance in the effluent of a factory coming out of the wall of a factory," Sen. Biden told Mr. Barr. If Congress is "held up to that, which is part of the scheme that you may not be part of, or part of the intellectual construct that's under way, then that obviously is going to tie us up so long, in such mire and detail, that we're not going to be able to make policy judgments."

In other words, Congress can't regulate so broadly or deeply into the economy as the independent agencies do. The problem is that Congress also refuses to put the agencies under the control of the executive branch. The Founders, who envisioned a much less intrusive federal government, might have said that if no politically accountable body can regulate, then no one should.

The key exchange occurred when Sen. Biden said, "Well, if the president asked you to pursue a litigation strategy that would challenge the constitutionality of independent agencies, how would you respond?" The diplomatic Mr. Barr said, "I'd have to see if we could make reasonable, good-faith arguments."

Sen. Biden cited Justice Scalia for the good-faith argument that Mr. Bush's lawyers could bring. "I will promise you that before the next several years are out," Sen. Biden said, "there's going to be a direct constitutional attack on the constitutionality of a number of the independent regulatory agencies."

Maybe sooner, not later.

If Regulators Answer The President's Call

President Bush's State of the Union called for a 90-day moratorium on new federal regulations. It also ordered a review of all existing regulations, which he said should be repealed unless they:

- Include benefits that clearly outweigh the costs
- Use performance standards, not command-and-control edicts
- Use market mechanisms
- Provide clarity and certainty to avoid needless litigation

Statement of the U.S. Chamber of Commerce

ON: THE U.S. ECONOMY AND PROPOSALS FOR LONG-TERM ECONOMIC GROWTH

TO: HOUSE COMMITTEE ON WAYS AND MEANS

BY: DR. LAWRENCE A. HUNTER

DATE: FEBRUARY 5, 1992

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

Richard E. Loomis
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The U.S. Chamber of Commerce is the world's largest federation of business companies and associations and is the principal spokesman for the American business community. It represents nearly 185,000 businesses and organizations, including 2900 local and state chambers of commerce, 1200 trade and professional associations, 64 American Chambers of Commerce Abroad, and 11 bialateral international business councils.

More than 93 percent of the Chamber's members are small business firms with fewer than 100 employees, 60 percent with fewer than 10 employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business – manufacturing, retailing, services, construction, wholesaling, and finance – numbers more than 10,000 members. Yet no one group constitutes as much as 32 percent of the total membership. Further, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the 61 American Chambers of Commerce Abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of its members serving on committees, subcommittees, and task forces. Currently, some 1,800 business people participate in this process.

TESTIMONY
on
THE U.S. ECONOMY AND PROPOSALS FOR LONG-TERM ECONOMIC GROWTH
before the
HOUSE COMMITTEE ON WAYS AND MEANS
for the
U.S. CHAMBER OF COMMERCE
by
Dr. Lawrence A. Hunter
February 5, 1992

I am Lawrence A. Hunter, Acting Chief Economist of the U.S. Chamber of Commerce. On behalf of our 185,000 member businesses, associations and state and local chambers of commerce, we thank the House Ways and Means Committee for this opportunity to present our thoughts on the U.S. economy and proposals for long-term economic growth.

The House Ways and Means Committee should be commended for holding these most important hearings. As stated in the committee press release of November 27, 1991, "these hearings will be an effort to understand the magnitude of the problem and sort out various proposed legislative responses." The Chamber supports this effort, including the committee's objective of developing a consensus on the fundamental problems confronting the economy and the necessary remedies to enhance long-term economic growth.

The debate over growth legislation should begin with one thought clearly understood: We cannot fashion a growth package if the ultimate measure of the package is taken to be its ability to redistribute income. Changes in tax policy affect incentives. The task is to improve incentives to invest, save, work and produce so the economy will improve and *everyone* will benefit. In short, we must pursue any policies that improve long-term economic growth. Tax rate increases do not improve these incentives and should be avoided. We view tax rate increases to be a clear back-tracking from our current national policy of low marginal tax rates available to both individuals and corporations. Low marginal rates reduce the bias against work, saving and investment, and promote long-term economic growth. The soundness of a low tax-rate policy is highlighted by the fact that the tax reform movement has spread worldwide. Tax increases would only serve to undercut any growth package and lead to further economic stagnation for the nation.

Since 1989, the economy has been virtually stagnant. This is an abrupt shift from six years of strong economic growth from 1983 through 1988. There is only one other period of stagnation like we have now since the end of World War II: The economy was also virtually stagnant from 1979 through 1982. Pro-growth policies worked to bring the economy back in 1983 and must be considered again. We find that:

- The economy is not going to recover robustly under current policies. The economy's resilience -- or its innate bounce-back capacity -- has been lost. As a consequence, a considerable growth gap -- the difference between what would have happened if the postwar trend in Gross Domestic Product was maintained and actual GDP -- has been created and is increasing.

- The origin of this recent period of slow growth and recession is mistaken federal tax, spending, regulatory and monetary policies. The underlying economy is still strong, but has been battered and held down by anti-growth policies that continue to mount.

- Recent studies show that federal government policy changes could be adopted with the effect of raising growth potential by one full percentage point. This would result in economic growth of 4 percent beginning in 1993 and lasting until the growth gap is closed.

- o Based on the results of these studies, the Chamber believes it has developed a significant comprehensive program for economic growth. The recommended policies would reduce the cost of capital and labor and spur more investment, savings, work and production.

- o The President's proposals are designed to help the expected 1992 recovery along. Elements of other legislation already introduced in Congress could be added to the President's proposal to generate improved long-term growth potential.

Resilience Lost

We believe the American economy entered 1992 as it entered 1991 -- in recession. Throughout the fourth quarter of last year, major economic indicators pointed to a deteriorating economy: employment fell, unemployment rose, consumer expenditures dropped and industrial production plunged downward. Although the initial report on GDP shows a 0.3 percent fourth quarter rise, we expect revisions will reduce that number and put it in slightly negative territory.

As 1992 begins, Americans are gloomy. Consumer confidence, as measured by the Conference Board's Consumer Confidence Survey, plunged to a recession level of 50.4 in January. According to the U.S. Chamber's "Business Ballot" for December 1991, the predominant view among the business community is that over the first six months of 1992 the economy will continue its decline, sales will fall, and employment will drop. The Chamber's index of over 8,000 respondents' confidence, nearly 60 in June, was at 39.4 in December.

However, the major problem of the economy is not that the current recession is long nor that the recovery is slow to come about. Rather the key problem is a deterioration in long-term economic growth. Since the beginning of 1989, the economy has been virtually stagnant resulting in an amount of real Gross Domestic Product that lies far below the amount consistent with postwar trend economic growth. This gap is growing. If the economy grows no more than the optimistic Bush administration forecast of 2.2 percent in 1992, the gap by the end of this year will again widen.

In its recent forecast of the economy, the Congressional Budget Office indicates that this growth gap will get wider over the next several years. A major reason for this is CBO's reduced estimate of growth potential in the 1990s, down to 2.1 percent. Such low growth potential, an estimate of the upper limit of long-term economic growth, is a result of anti-growth federal policies and not a failure of our private economy to grow. Low potential growth estimates greatly limit economic forecasts. CBO forecasts that real GDP will rise at an average annual rate of about 2.6 percent over the next six years before falling down to meet potential. If we accept the notion that growth potential lies this low, the growth gap is a measure of output that is lost forever.

At the beginning of the 1980s, growth potential estimate was lowered from 3 percent to 2.5 percent. After pro-growth policies were enacted in 1981, growth potential increased back to 3 percent and the economy was able to get above its potential for several years to close the growth gap that had opened up after the 1981-82 recession.

The Bush administration is no more optimistic than the CBO. Instead of moving rapidly back to the trend amount of real GDP as in past economic recoveries, the economy is projected to grow slower than the postwar trend of about 3 percent during this decade, or at about 2.5 percent. This seemingly small difference in growth rates adds up to hundreds of billions of dollars in lost output over the course of ten years. Indeed, growth potential estimates among many prominent forecasters are currently falling. We estimate that growth potential under current economic policies is somewhere between 1.5 percent and 2.0 percent. It is such low growth potential estimates that need to be addressed. By raising growth potential, both short-term and long-term economic growth will rise.

Origins of Recession and Slow Growth

In Each decade, from the 1950s to the present, government spending as a proportion of Gross Domestic Product has grown. Averaging 18.2 percent in the 1950s, it grew to 19.2 percent in the 1960s, 20.7 percent in the 1970s, reaching 23.2 percent in the 1980s. In 1992, federal spending will hit over 25 percent of GDP. Empirical studies show that, as government spending increases as a share of the total economy's output, economic growth rates tend to slow. Countries in the world with smaller shares of government spending as a percent of GDP have tended to grow more rapidly.

Over the past two decades, both government spending and regulation have grown faster than the U.S. economy. Despite a doubling of tax revenues throughout the 1980s, the federal government continues to run a persistently high and growing budget deficit. And because of the record tax hikes passed in 1990, direct tax burdens continue to increase, as do regulatory "taxes" on businesses forced to comply with costly mandates.

Federal spending on its programs and federal regulation of business are viewed by program and regulation proponents as exceedingly helpful to the economy. Proponents argue successfully to expand their favored programs by citing the alleged benefits. When government attempts to pay for these programs directly, the impact on the economy can be dramatic. For example, the 1986 Tax Reform Act greatly reduced the return to businesses' capital investment. The economy has since lost approximately $300 billion in growth-creating investments in the private sector. More specifically, by raising the cost of capital, government policy has discouraged the formation of new businesses by making investment too costly and less rewarding.

When the economy is growing at a healthy rate, entrepreneurial spirits are generally very high. Although new businesses continue to fail and mature businesses seek to restructure under policies that keep the cost of capital low, new business growth more than compensates for the losses of jobs and output resulting from failing and stagnant enterprises. As a result, overall business and consumer confidence remains high even though major restructuring and normal business mistakes are causing certain sectors and areas of the country to contract. In a market economy, resiliency is not assured by government-managed stability, but by the prospects for and pursuit of new opportunities according to new discoveries and shifting consumer demands.

The problem is not the private economy's failure, but rather the failure of government policies. The 1986 Tax Reform Act was not only strongly anti-growth toward investment, but it led to declining real estate values. With the retroactive disallowance of passive losses and increased capital gains tax, real estate, especially commercial real estate, has declineed in value and created a crisis in banking by reducing the value of collateral behind business loans. Of course, stringent regulatory enforcement has also contributed to this "collateral crunch."

In 1988, the Federal Reserve embarked upon an ill-conceived plan to deliberately slow credit growth. Its intent was to reduce economic growth in order to quell inflationary fears. However, history shows that inflation is lower when economic growth is above trend so that the supposed trade-off between inflation and growth is just bad theory. The Fed's job is to provide enough money supply to facilitate maximum economic growth without adding inflationary pressures in the economy. The job is not to act as a brake or accelerator to counter movements in employment and production. It is obvious that Fed policy has failed to help the economy in any way. Inflation, as measured by core rates, is no lower than it was in 1988. The Fed has had to reverse its 1988 course entirely by dropping short-term interest rates to 14-year lows as the recession hit and continued. Unfortunately, the long episode of Fed misdirection has added to the series of anti-growth fiscal and regulatory policies and cannot by itself get the economy going again.

In 1989, federal regulation, after years of being held in check, began to accelerate. In 1992 alone, we estimate that federal regulation will add $70 billion to business compliance

costs, thereby cutting productive investments and output and raising the price level further. The 1990 tax increases, coming at a time when the economy was already in recession, also contributed to poor economic growth performance. In 1992, federal, state and local taxes are scheduled to rise by approximately $50 billion, further dampening any hopes for significant recovery this year.

But the largest anti-growth policy has been the increasing burden of federal spending in the economy that diverts resources from their most productive use in the private sector. Since 1988, federal spending has grown at an average annual rate of 8.0 percent while the economy has stagnated. More taxes, more borrowing and more money supply have been necessary to fund these excessive spending increases. That means less has been available for private sector investment and production. Projected spending in 1992 will be a full four years ahead of an equivalent amount of revenues. Revenues won't hit this year's spending amount until 1996. Unfortunately, nothing in the budget agreement reduces this amount of overspending. In fact, the newest budget estimates show that projected spending growth is far outstripping projected revenue growth, and the structural deficit has been ratcheted up dramatically over the past three years.

What the federal government must do now to promote long-term growth is reduce, and eliminate where possible, the burdens of past policy mistakes on market processes to restore economic growth. This entails cutting taxes, reducing the rate of growth in federal spending sharply, holding the line on new regulations and keeping the Fed from wandering off on its own again following suspect theories of how the economy works. This means Congress should jettison the 1990 budget agreement and pursue policies that hold the promise of actually enhancing long-term economic growth and providing a boost in short-term business and consumer confidence.

How To Raise Economic Growth

The Chamber held a conference last month to hear from four prominent economists who were asked to use their economic models to determine what government policies serve to raise long-term economic growth. These models are the best economists have, but they are limited in their ability to simulate many policy changes. For example, it was not possible to obtain estimates of the impact of regulation in these models. However, these models can readily address changes in fiscal policies.

A strong consensus emerged from these studies. Long-term economic growth could be enhanced by increasing depreciation allowances for investment, cutting the capital gains tax sharply and indexing gains, and by reducing the rate of growth in federal spending. The first two policies are tax cuts aimed at increasing investment because in the longer-term what is important to the economy is the supply of goods and services. Investment is the key to raising supply and propelling productivity growth upward.

The latter policy, spending control, is often used differently, especially for short-run stimulus of the economy. That is, many analysts argue for more federal spending to stimulate demand in the economy. The researchers indicated, however, that while overall spending growth should be reduced, the priorities in federal spending should change toward public investment. Thus, over the long-term and perhaps in the short-term, policy makers should focus on ways to increase infrastructure spending and reduce all other types of expenditures as a proportion of total federal spending. By limiting the overall growth in federal spending, the deficit could come down over time.

These studies zeroed in on the only method by which the federal government could reduce its deficit: more sustained economic growth coupled with severe spending restraint. This is a prescription that almost everyone now understands will work. What we lack is the political will to keep spending under control. And, in acknowledgement of that shortcoming, the political process is quite unwilling to give up any revenue in the short-term by fashioning tax cuts for fear of exposing that failure.

Comprehensive Strategy For Economic Growth

Building upon the results of this research, the Chamber has fashioned a comprehensive strategy that would lay a new foundation for economic growth. The goals of such a comprehensive strategy for economic growth and opportunity should be to raise economic growth on average to 4 percent for the remainder of the 1990s and to enhance long-term growth potential to at least 3 percent, the postwar average. A coordinated set of actions by the federal government involving tax changes, regulatory relief, spending restraint, and measures to bolster the financial system should be implemented to correct the course of the economy.

Tax Policies

Key building blocks of the new foundation consist of a capital gains tax cut to reward investment and raise asset values, reform of the capital cost recovery system to permit full and quicker write-offs of investment in plant and equipment, reform of the Alternative Minimum Tax to eliminate the disincentives to invest, payroll tax relief, reinstatement and expansion of Individual Retirement Accounts and other savings incentives, and permanent extension of various expiring tax provisions, such as the R & E tax credit.

Spending Restraint

These tax changes should be accompanied by budget changes to bring federal spending in line with revenues. Spending must be reduced from 25 percent of GDP -- a peacetime high -- to rates far more conducive to stronger economic growth. If tax cuts are enacted, part of the work will be done. That is to say, tax cuts will spur more GDP growth. However, current federal spending is three years ahead of projected federal revenues. To move quickly to get spending in line with what the economy can afford, discretionary spending can be "frozen" at 1992 levels for a few years or held quite a bit below projected increases in economic growth. This is relatively easy to accomplish since $150 billion can be cut from defense spending over the next five years.

Another way to contain federal spending growth is to cut waste. This is easy to say, but difficult to do. As P. J. O'Rourke has observed in *Parliament of Whores* about our government, "It takes enormous effort and elaborate planning to waste this much money." Waste can be cut if federal spending is shifted away from purely consumption activities into investments. Over the long-term, the federal government must cut the growth in the fastest growing programs. Accordingly, a commission to reform entitlement spending should be established to alleviate the increasing burden on unaffordable future federal expenditures.

Regulatory Relief

Until economic growth targets are reached, the federal government should adopt a moratorium on new regulations and create a sound process for evaluating regulations in the future. In 1992 alone, regulations that will cost business approximately $70 billion to comply with are already in the pipeline. Halting their implementation and requiring an economic growth impact statement for these and all future regulations would improve the prospects for long-term economic growth. In addition, the federal government should allow business immediate expensing for any capital investment necessitated by mandated actions to meet current and future regulatory requirements.

Infrastructure Investment

By way of expanding government investment, the federal government should accelerate funding to repair and expand specific components of the nation's transportation infrastructure where required to improve the overall productivity of the economy. The money for infrastructure improvements is available without having to increase taxes. The Airport and Airways Trust Fund has an uncommitted surplus of some $8 billion that is

currently being used to fund other federal government programs. The Highway Trust Fund balance is approaching $16 billion. Currently, the annual increase in this fund is $2 billion.

Evaluating the Administration's Program

The administration has recommended a number of useful policies to improve economic performance. The outline of the President's initiative can serve as a fine starting point for Congress. We need to go beyond the specific details of the administration's plan, however, if we hope to achieve the long-run economic policy objectives laid out above. Incentives aimed toward investment should be broad based and permanent, not temporary. Changes to the tax code should be made with an eye to improving the supply side of the economy, i.e., reducing the cost of capital and labor, not jump starting aggregate demand.

As the Ways and Means Committee develops its growth initiative, the Chamber recommends that the committee give strong consideration to the measures contained in two bills. The first bill is (H.R. 960/S. 381) "The Economic Growth and Jobs Creation Act," introduced by Representative DeLay (R-TX) and Senator Wallop (R-WY). Representative Weber (R-MN) and Senator Kasten (R-WI) are the authors of the second bill -- (H.R. 3744/S. 1920) the "Economic Growth and Family Tax Freedom Act." These bills, which share a number of similar provisions, should enhance the long-term portions of the administration's proposal sufficiently to raise growth potential.

Incentives in the housing industry appear quite strong and helpful to the economy. A major part of the economy's problem in this recession is that asset values, especially real estate values, have been falling. Along with capital gains tax rate reduction and reform of passive loss rules, other proposals by the administration should work to keep asset values from falling. Of course, this isn't enough for a recovery plan which is why Congress's efforts must be focused on raising investment over time.

The major shortcoming of the administration's plan is a lack of tax cuts for working Americans and small businesses. Cutting the payroll tax rate by 1 percent for employees and 1 percent for employers would provide much needed tax relief. Since for many workers the payroll tax is now higher than the income tax, this cut will be particularly welcome. Unlike other proposals, taxpayers would realize the benefit immediately through lower payroll tax withholdings. It would eventually provide increased incentive to work, especially among lower income people. Moreover, the cut in the payroll tax would be significant relief for small businesses which must pay this tax regardless of whether they earn a profit. Like cutting any cost of operation, a payroll tax rate cut would increase funds available for business expansion.

Two years ago the administration projected $160 billion more revenues for 1993 than they now anticipate. The only reason for this shortfall is much lower than then anticipated economic growth in 1990 and 1991. In addition, growth in 1992 is now projected to be 1 percentage point lower than it was in January 1990. The record increase in taxes in the budget agreement has been totally wiped away by slow economic growth. However, federal spending projections for 1993 are now $185 billion higher than they were two years ago. Evidently, the budget agreement had even less impact on holding down spending increases.

The administration now projects a budget deficit for 1993 that will be $345 billion more than the deficit they predicted for 1993 just two years ago. This is not merely a large error. It is symbolic of why Americans are so fed up with the federal government. It does no good to defend this error by noting that OMB was $150 billion off the budget deficit estimate for 1993 in its report just one year ago or about $100 billion from last July's estimate. Revenue estimates for 1993 have dropped $65 billion and spending adjusted upward by $35 billion since the Mid-Session review last July. It makes little sense to the American public that the economic leadership that produced such glaring errors should be trusted with the task of turning things around when it is apparent that over the past three years neither Congress nor the administration has had any idea what needs to be done.

One point upon which all of the economists who worked on the Chamber's economic growth project agreed was that in the long run we must strengthen the supply side of the economy. Efforts to correct the long-run problems of the economy by artificially stimulating the demand side of the economy will only lead to inflation and an inefficient allocation of resources throughout the economy.

Concluding Remarks

The following appendix presents specific arguments and evidence in support of the Chamber's long-term growth package. The recent research performed for the Chamber indicates that one change alone will not promote increased long-term growth. It is the combination of key elements working together that adds to increased productivity and growth potential.

This result is clearly in keeping with what we believe is the underlying problem facing the economy today -- a plethora of federal policy mistakes. If we can reverse those mistakes, changing anti-growth policies into pro-growth policies, the economy should return to a long period of expansion and all Americans would benefit.

APPENDIX

CAPITAL GAINS

The Omnibus Budget Reconciliation Act of 1990 reduced the top capital gains tax rate from the then high rate of 33 percent to 28, percent effective beginning in 1991. Even at 28 percent, the U.S. still taxes long-term capital gains at a higher rate than nearly all of its major Asian and European competitors.

The current level of capital gains taxation discriminates against capital income, discourages venture capital formation, impedes job creation, and hinders U.S. international competitiveness by raising the cost of capital relative to that of its competitors. Lower capital gains tax rates would stimulate the economic growth, promote technological innovation, and create new opportunities. A lower capital gains tax rate would increase asset values, improve the solvency of financial services institutions, cut the costs of the savings and loan bailout and stimulate economic growth.

The imposition of a tax at rates higher than the growth-maximizing rate not only punishes entrepreneurial success, it imposes what Gerald Scully calls a "growth tax" on every individual participating in the economic process. If the tax is too high, as is the current capital gains rate, taxpayers are discouraged from investing in capital assets which begins a chain reaction where everyone loses. The nation loses because economic growth is constrained due to a shift in investment to nonproductive assets. Middle income individuals lose because of the loss of actual, or forfeiture of potential jobs. The Treasury loses because it receives less revenue not only from decreased capital gains realizations but because of lost income tax receipts from foregone jobs and economic expansion.

There is a negative relationship between capital gains tax rates and economic growth. Empirical evidence from a number of studies indicates that the revenue-maximizing rate for capital gains is in the short run between 9 and 20 percent. However, as Dr. Lawrence Lindsey, Federal Reserve Board Governor and formerly Associate Director of Domestic Policy at the White House, has persuasively argued, "the revenue-maximizing [rate] is far from being optimal. It is better described as the point at which the taxpayer is being soaked for as much money as possible. Indeed, the capital gains tax rate that maximizes revenue indicates the point at which increased revenue is most expensive to society." The long-run growth-maximizing rate may well approach zero. Surely, it is significantly lower than the current capital gains tax rates of 28 percent for individuals and 34 percent for corporations.

One of the unjust aspects of the present method of taxing capital gains is that much of the gains from the sale of a capital asset is attributable to inflation. When gains are due, in part or entirely, to inflation a capital gains tax serves to confiscate existing wealth generated from past income that has already been taxed at least once. The taxation of inflationary gains is economically counterproductive. In fact, Congress recognized that it was wrong to tax inflation when the income tax brackets were indexed for inflation in 1981 and the personal exclusions and standard deductions were indexed as well.

The taxation of illusionary gains is no minor point. If, for example, a taxpayer bought $1,000 of stock invested in the Standard and Poor's 500 index in 1970, that stock would have sold for $3,677 in late 1990. This would have resulted in a taxable capital gains of $2,677. At the current 28% tax rate, the taxpayer pays $750 in tax. However, inflation since 1970 has been over 218%. This means the taxpayer's real gain was only $257. He was taxed $750 on a real gain of $257, an outrageous tax rate of 292%.

Under the current law, all capital gains are subject to taxation, but capital loss deductions are limited to $3,000 per year. Congress recognized years ago that businesses should be taxed on net revenue, not gross capital proceeds; however, many members fail to see the inherent inequity of limiting capital losses. The capital loss limitation introduces an asymmetry into the taxation of risky ventures that discourages investment in new firms. In effect, the government is saying: heads I win, tails you lose. If we wish to avoid discouraging

people from investing in what are often risky start-up ventures and abide by fundamental fairness, the treatment of capital losses and gains must be symmetrical.

Many opponents of a rate reduction want us to believe that this debate is about tax breaks for the wealthy. They resort to the politics of envy and use statistics designed to give the appearance that those who realize capital gains are overwhelmingly wealthy.

Few myths are as enduring as the belief that reductions in the capital gains tax rate redistribute the tax burden to the benefit of the wealthy. Data used by opponents of a rate cut overstate the extent to which the truly wealthy realize gains. This is because such data include the nonrecurring capital gains of those normally in the lower- and middle-income tax brackets. These people appear to be temporarily quite wealthy. For example, when a middle class business owner retires and sells a business or when a retired person sells a family home, his income that year may increase several hundred thousand dollars. They are "rich" for one year. The next year, however, they are back among the middle class. Realized capital gains tend to be nonrecurring events. Yet, when combined with a taxpayer's income, those gains appear to be realized predominantly by wealthy people.

A more realistic picture of the capital gains benefit distribution is portrayed by using data based on levels of ordinary income. IRS data show that capital gains realizations are actually spread quite evenly throughout ordinary income groups. In 1987, over 70 percent of those reporting capital gains had ordinary income under $50,000. Another important point is that over 14 million Americans reported a capital gain in 1987, and 26 percent of these taxpayers were elderly. One fourth of the taxpayers with ordinary incomes between $20,000 and $50,000 reported a capital gains at least once during the five year period 1979-1983.

International Competitiveness

By pursuing the politics of envy, we not only harm lower- and middle-income Americans, we also imperil America's economic position in the world economy. At a time when most of the industrialized world have no or minimal taxes on capital gains, America is moving in the opposite direction. In an increasingly competitive and global economy, America cannot afford to pursue foolhardy economic policies.

Our nation's tax policy has been well chronicled by other countries. According to the article entitled "Taxes on Individuals' Equity Investments", the Quality of Markets Review, the London Stock Exchange, Summer 1991, "Equity investors are most heavily taxed in France and the USA. It is particularly surprising that the USA, as the nation which has the most consistently adopted the capitalist ethic, currently treats its equity investors so harshly."

The London Exchange article also points out that among the so-called G-7 countries, Japan offers the most attractive fiscal environment for most types of investors. For example, while Japan leaves high net worth taxpayers with 88 percent of their real gains, France, Canada, and the U.S. provide the worst fiscal environment. In these three countries, high net worth investors retain approximately 50 percent of their real gains. When comparing low net worth investors, the U.S. still treats its taxpayers the harshest of all G-7 countries. This is because the U.S., alone among all G-7 countries, does not provide for a capital gains tax threshold below which investors do not pay tax on capital gains.

A recent study conducted by Arthur Anderson & Co. for the Securities Industry Association demonstrates that U.S. capital gains tax rates are among the highest in the industrialized world. As Table I shows, Germany, Italy, the Netherlands, Belgium, Hong Kong, Taiwan, South Korea, and Singapore all completely exempt long term capital gains in stock investments from taxation. Even France and Sweden tax long-term capital gains at 16 percent and 16.80 percent, respectively.

Table I

International Comparison of Individual Capital Gains Rates

Country	Short Term Capital Gains	Long Term Capital Gains	Holding Period/ Long Term Gains
United States	28.00	28.00	1 Year
Australia*	49.25	49.25	1 Year
Belgium	0.00	0.00	N.A.
Canada	19.33	19.33	N.A.
France	16.00	16.00	N.A.
Germany	56.00	0.00	6 months
Hong Kong	0.00	0.00	N.A.
Italy	0.00	0.00	N.A.
Japan**	1.00/20.00	1.00/20.00	N.A.
Netherlands	0.00	0.00	N.A.
Singapore	0.00	0.00	N.A.
South Korea	0.00	0.00	N.A.
Sweden	42.00	16.8	2 years
Taiwan	0.00	0.00	N.A.
United Kingdom*	40.00	40.00	N.A.

Source: Data Compiled by the American Council for Capital Formation, 1990
(Rates apply to the sale of securities)
* Long-term capital gains indexed for inflation
**Tax is the lesser of 1% of the sales price or 20% of the capital gain.

The Revenue Impact of a Rate Reduction

The effect on tax revenues of changes in the capital gains tax rate is a major point of contention between proponents and opponents of a rate reduction. Yet the historical evidence and a number of recent academic and government studies indicate that revenues will increase significantly following a rate reduction.

Those who have predicted revenue losses from past capital gains tax cuts have been proven wrong. The Joint Committee on Taxation (JTC) estimated that the 1978 rate reduction would cost the government more than $2 billion annually. It did not. Revenues actually increased.

What evidence we do have only underscores the fundamentally flawed methodology of the JTC. In 1989, Senator Bob Packwood (R-OR) asked the JTC to estimate the revenues produced by a 100 percent confiscation of all of the income of all those individuals earning over $200,000. They responded with a 1989 revenue estimate of $104 billion. Even more amazing, they also estimated that figure would increase to $204 billion in 1990, $232 billion in 1991, $263 billion in 1992, and $299 billion in 1993. In Senator Packwood's words, the JTC's models "do not account for any behavioral response. [They] assume people will work if they have to pay all their money to the Government. They will work forever and pay all of the money to the Government, when clearly anyone in their right mind will not."

Despite the dire predictions of the JTC that a capital gains tax cut would result in a loss of revenue, capital gains tax revenue rose following the 1978 cut. The increase was not simply in the year following the rate cut but continued in successive years. Capital gains tax revenue rose from $9.1 billion in 1978 to $11.7 in 1979 and $12.5 billion in 1980. JTC projections missed the mark by over $4.4 billion in 1979 and $5.3 billion in 1980. The 1981 rate reduction brought about a similar increase in revenue. Revenue rose from $12.7 billion in 1981 to $26.5 billion in 1985. In 1986, when taxpayers saw the capital gains tax increase coming, tax revenue exceeded $49 billion.

Dr. Lawrence Lindsey has examined the relationship between tax rates and capital gains. His findings confirm the negative effect of high capital gains taxes on federal revenues and indicate that large revenue gains are likely from a reduction in the capital

gains tax rate. Dr. Lindsey based his findings on a review of five of the recent leading academic and government investigations of capital gains taxation. The methodology used in all but one of the studies predicted revenue losses from the 1986 capital gains rate increase. Dr. Lindsey estimates that a reduction in the capital gains rate to 15 percent would increase revenue by nearly $15 billion over three years. Data from the Internal Revenue Service (IRS) show that following the rate increase in 1987, capital gains realizations dropped significantly, yielding revenue of $32 billion. Preliminary 1988 and 1989 IRS data indicate the trend of lower realizations continued, generating revenues of $38 billion and $37 billion respectively.

In 1988, the Department of the Treasury published an updated version of its 1985 study of the revenue effects of capital gains taxation. The 1985 Treasury study, using statistical evidence available at that time, concluded that the 1978 act caused a substantial increase in revenue in the first year after the tax cut and in the long run either increased or slightly decreased federal revenue. Similar conclusions were drawn regarding the 1981 capital gains rate cut. The 1988 update, entitled "The Direct Revenue Effects of Capital Gains Taxation: A Reconsideration of the Time Series Evidence," written by Michael Darby, Robert Gillingham, and John Greenlees, extended the sample used in the 1985 study and corrected several flaws in that earlier study. The update concludes unequivocally that both the 1978 and 1981 capital gains tax changes significantly increased revenue.

Even a 1988 Congressional Budget Office study on the historical effect of a rate change on revenue, often cited by opponents of a rate reduction, found that changes in tax rates on capital gains produced a significant change in behavior on the part of investors. That study concluded that the revenue-maximizing rate was probably below the current top rate of 33 percent. The study made four point estimates of the revenue-maximizing rate. They were all below the present top rate. Equally important, the study did not rule out, based on the data, that 15 percent was the revenue-maximizing rate.

Several economists have released "studies" purporting to demonstrate that a higher capital gains tax rate would lead to higher revenues. Regretfully, all of these studies ignore increased capital gains caused by higher economic growth, which ultimately produce higher tax revenues.

History shows that rate reductions increase revenue. Even if revenue did not increase, it seems clear that a revenue-neutral tax policy change that encouraged investment and savings, reduced the cost of capital, and increased jobs would be a wise policy change.

The President's Proposal

President Bush has renewed his call for a capital gains tax cut. The Administration's capital gains proposal is based on a sliding scale. The proposal provides for a 15, 30, or 45 percent exclusion for one, two or three years respectively. The holding period requirements would be phased in over three years. The proposal applies only to individual capital gains, but includes a broad range of capital assets, including stocks, bonds, real estate, and timber. The Department of the Treasury estimates that the Bush Administration's capital gains proposal will raise a total of $6.9 billion through 1997.

Although the Chamber finds the Administration's proposal is a step in the right direction, it believes that a number of changes should be made. A simple exclusion approach with one short holding period is preferable to the sliding scale. An exclusion is less complex and does not involve lengthy and unwarranted holding periods. In order for a rate cut to be a significant incentive for investment, the exclusion should yield an effective rate of between 15 percent and 20 percent and the holding period should be no longer than one year.

The proposal should apply to all capital assets but, most importantly, it should cover corporate as well as individual capital gains. Corporate income is already subject to double and sometimes triple taxation. Failure to provide a capital gains differential for corporations

would exacerbate existing distortions and inequities. All of the sound economic arguments that favor a capital gains tax cut apply to corporations as well as individuals.

Traditionally, a significant amount of funding for the organized venture capital market has been supplied by corporations. Venture capital support financed by corporations would be stimulated by a corporate capital gains rate reduction, and corporations would be encouraged to fund their own "spin-off" ventures. In addition, lowering capital gains tax rates on corporations as well as individuals would reduce the attractiveness of debt finance and encourage equity finance. Many argue that a corporate capital gains rate reduction would cost the Treasury a great deal of revenue. This analysis is often based on the limited response to the two percent corporate capital gains rate cut from 30 to 28 percent effective in 1979. In 1986, corporations realized 94 percent more capital gains in response to the 1987 six point rate increase in the 1986 act. The conclusion that should be drawn from this data is that if the incentive is substantial, corporations will alter their behavior just as individuals do. Therefore it is unlikely that a substantial corporate rate reduction would lose revenue. To the contrary, if the rate differential is substantial, a corporate capital gains reduction is likely to be self-financing.

Reform of The Capital Cost Recovery System

Although the Tax Reform Act of 1986 was pro-growth with respect to the cut in marginal tax rates for individuals and corporations, the Act greatly raised the cost of capital and stifled economic growth. The 1986 Act was designed to raise business and corporate taxes by approximately $120 billion over five years. By limiting proper deductions on capital investment, the Act raised taxes on capital-intensive industries -- the backbone of the U.S. export business. Thus, even though the 1986 Tax Act contained numerous positive elements, the law was anti-growth and harmful to the competitiveness of U.S. industry.

By repealing the investment tax credit and slowing depreciation, the Tax Reform Act dramatically raised the average effective tax rate on capital. The Department of the Treasury's Office of Tax Analysis has calculated that the average effective tax rate on investment in the corporate sector has increased from 38.7 percent prior to tax reform to 44.4 percent after tax reform. [1]

Dr. John Shoven of Stanford University has studied the cost of capital in the United States relative to Japan. His research shows that for a typical piece of equipment financed with equity and having a five-year life, the cost of capital in 1988 in the United States was 10.4 percent, compared to 4.1 percent in Japan. The U.S. cost is 153 percent above the Japanese cost. Similarly, U.S. plants financed with equity face a cost of capital 147 percent above Japanese plants. The low cost of capital in Japan is one reason why the Japanese have such a high level of investment relative to the U.S. [2]

In order to improve U.S. competitiveness in world markets, we should adopt policies which encourage, rather than discourage, business investment. This can best be done by enacting tax code provisions that reduce the cost of capital acquisition. President Bush has proposed one such measure as part of his 1992 economic recovery program. His proposal calls for a temporary increase in the first-year depreciation allowance for new investments. The depreciation measure is structured so that companies subject to the alternative minimum tax would benefit.

By making sure that companies subject to the AMT also benefit from his depreciation proposal, President Bush shows an appreciation for the perverse nature of the AMT rules. Should Congress enact any type of new investment incentive as part of the individual or corporate income tax systems, it is essential that similar relief be added to the

[1] "Economic Report of the President," (January 1989), pg. 92.

[2] Shoven, John B., "Consumption Taxes vs. Income Taxes for Deficit Reduction and Tax Restructuring," (October 1989).

AMT rules. Without offering similar relief under the AMT, the perverse nature of the current AMT will make the relative position of AMT taxpayers worse, thereby short-circuiting the positive effects of the growth package.

The Administration's depreciation proposal is a step in the right direction. Nevertheless, we believe the adoption of a neutral cost recovery system (NCRS) would be a more powerful stimulus for economic growth. NCRS would hold investment harmless for the time value of money and protect tax depreciation write-offs against inflation. The Chamber supports proposals to adjust current depreciation schedules each year so that at the end of the depreciation period companies would be able to recover the inflation-adjusted replacement value of the asset. This system would ensure that companies are allowed to recover the present value equivalent of expensing the total amount of the investment. This system would ensure that companies are allowed to claim the present value of the amount of depreciation. Neutral cost recovery has a minimal short-term revenue impact because it adds only a small amount to the tax depreciation that would have been written off under existing law and because it will be more than offset by economic growth.

As the Bush Administration and Capitol Hill continue discussions on growth initiatives in 1992, considerable attention is being given to a temporary, targeted, or incremental investment tax credit. Congress is correct to be looking for ways to lessen the tax burden on investment in plant and equipment. But temporary, targeted or incremental investment tax credits would do little to address fundamental long-term growth needs. Unless carefully crafted, such an ITC would distort economic decisions and lead to an inefficient allocation of resources.

If an ITC is to be part of a package to promote long-term economic growth, it should be permanent, broad-based in terms of the type of qualifying assets and applicable to the full investment. We need only to look at the effects of the nearly annual rite of expiring tax provisions to understand how temporary measures distort long-term business planning. A targeted plan discriminates against industries outside the narrow target segment. An incremental credit fails to generate investment over the long-term and penalizes those firms which maintained their levels of investment.

An investment tax credit is a cumbersome way to go about providing necessary tax relief, and is particularly subject to political manipulation. If policy makers are serious about enacting effective capital cost recovery measures, they should consider permanent changes to the Tax Code, such as NCRS. Currently, investors are only able to recover through depreciation approximately 85 percent of the true cost of capital acquisition. To be competitive, our capital cost recovery system must allow the present value of expensing. A neutral cost recovery system, by indexing depreciation schedules, would allow investors to recover the value of their investments over the life of an asset.

Corporate Alternative Minimum Tax

The 1986 Tax Act significantly raised the cost of capital for U.S. companies through repeal of the investment tax credit and the lengthening of write-off periods for depreciable assets. Congress also raised the cost of capital for American firms by inclusion in the 1986 Act of the alternative minimum tax (AMT). The corporate AMT has had a substantial negative impact on the international competitiveness of U.S. companies.

Prior to 1986, corporations paid an add-on minimum tax of 15 percent on certain tax preference items to the extent the aggregate amount of the preferences exceeded the greater of regular tax paid or $10,000. The 1986 Act broadened the corporate minimum tax base and dramatically increased the complexity of complying with the law. The AMT was intended to ensure that corporations with significant economic and accounting income would not be allowed to escape tax liability through the use of exclusions, deductions, or credits. The AMT is in essence a second complete and parallel corporate income tax system.

The international competitiveness of large segments of American businesses has been

hurt by the AMT, especially capital-intensive and rapidly expanding industries. During the recession, as the economy slows and corporate profits decline, even more corporations will be subjected to minimum tax treatment as the effect of AMT preferences becomes magnified when applied to a shrinking income base. This is particularly true for those companies who are long-term AMT taxpayers and are therefore prevented from utilizing the AMT credit. Thus, when profits decline, although total tax liability is reduced, the rate of decline in tax liability is smaller that the overall decline in profits. Relative corporate tax burdens would be increased at a time when businesses are least able to absorb the cost.

Aside from increased tax liability, the AMT has several negative economic impacts on business. For companies which are subject to it, the AMT significantly increases the cost of capital. The AMT discourages investment in productive capital assets by treating accelerated depreciation as a tax preference. This can further push companies into, or increase, minimum tax treatment -- penalizing companies for past investment and making them more wary of future investment. For these reasons, the Chamber strongly recommends that the Congress adopt measures in 1992 to achieve comprehensive reform of the corporate alternative minimum tax.

Cutting the Social Security Tax

The U.S. Chamber was one of the earliest advocates of cutting the Social Security payroll tax and returning the system to a pay-as-you-go basis. In 1987, the Chamber's Board of Directors fully endorsed the recommendation of the 1986 White House Conference on Small Business to freeze FICA taxes. Since that time, the Social Security tax burden has increased substantially.

In 1990, the Chamber's Board reaffirmed its support of a reduction of the payroll tax rate and urged that the study of private alternatives to ensure the long-run soundness of the nation's retirement system be accelerated.

Reducing the Social Security tax burden is all the more important this year because of the current stagnant economy. Jobs have been lost and incomes are suffering. In a 1990 study co-sponsored by the Chamber, economist Gary and Aldona Robbins estimated that by lowering the cost of labor, a cut in the payroll tax would stimulate much-needed economic growth, substantially increasing GNP and creating thousands of jobs. As authors of a study released on March 14, 1991 by the Institute for Policy Innovation, the Robbins's have reaffirmed these earlier results, finding that a reduction in Social Security taxes on both employers and employees would produce 650,000 new jobs and a $226 billion increase in GNP by the year 2000.

The Chamber's Board once again went on record last year in favor of a payroll tax cut. At that time, the Chamber's Board made it clear that it opposes rasing the Social Security taxable wage base. Raising the wage base to $82,200 in 1996 from the current law projection of $69,300 in 1996, for example would cut the number of new jobs created by the tax reduction in half. While such a proposal still contains a net tax reduction, large numbers of workers would receive only a tiny tax cut, and the macroeconomic benefits would be substantially less than those generated by cutting the payroll tax rate without tampering with the wage base.

Chairman Rostenkowski has introduced H.R. 3730. The bill provides for a two-year refundable income tax credit for 20 percent of Social Security and Medicare payroll taxes paid by employees. H.R. 3730 caps the credit at $400 for joint returns, and $200 for all other individuals. While we commend the Chairman for recognizing the insidious burden that payroll taxes place on the economy, we believe a more simple, straight-forward approach would be to cut the payroll taxes directly.

A properly crafted reduction in the Social Security payroll tax will create much-needed new jobs and substantially boost economic growth. However, we vigorously oppose any attempt to restrict the cut to those taxes paid by workers. Such a proposal would offer

no incentive to businesses to hire more workers and would break the historical linkage of equal contributions by employees and employers. The Rostenkowski proposal must be viewed in this fashion.

Savings Incentives

Business growth depends largely on the availability and cost of capital. By curtailing Individual Retirement Accounts (IRA's), lowering 401(k) plan contribution limits, and denying 401(k) plans to organizations that are tax exempt under Section 501(c) of the Internal Revenue Code, the Tax Reform Act of 1986 reduced incentives for saving and capital formation.

Since 1974, over $200 billion has been deposited in IRAs. In 1986, 15 million tax returns reported $38 billion in IRA contributions -- almost a third of all personal saving that year. But in 1987, only 7 million returns reported IRA contributions and these totaled only $14 billion.

IRA deposits consist largely of new saving. Based on data they have collected and reviewed, Steven F. Venti and David Wise estimate that 80 percent of IRA contributions are new saving.[3] A 1989 Study By Daniel Feenberg and Jonathan Skinner and earlier study by Martin Feldstein and Daniel Feenberg support the assertion that IRAs consist largely of new saving.[4] As the Feenberg and Skinner study states: " . . . [W]e find little or no evidence which favors the view that IRAs are funded by cashing out existing taxable assets."[5]

The Venti and Wise study estimates that over half of each marginal IRA dollar came from reduced consumption; another 20 to 30 percent from reduced taxes; and at most 20 percent from other saving. The study further concludes that IRAs were not largely financed by borrowing.

The Chamber supports H.R. 1406, the IRA legislation introduced by Representatives Pickle and Thomas. This bill would remove the income restrictions placed on IRAs by the 1986 Tax Reform Act and allow Americans to make fully deductible IRA contributions of up to $2,000 annually. In the alternative, taxpayers would not receive a deduction for their IRA contribution, but would be allowed to withdraw all earnings after five years, tax-free. This alternative approach is called the back-loaded IRA. We also support H.R. 960 and H.R. 3744 which include a number of pro-growth initiatives, including a back-loaded IRA.

H.R. 1406, H.R. 960, and H.R. 3744 would increase the national savings rate and promote long-term economic growth. This is critical because most of our trading partners have higher savings rates than the U.S. These high savings rates translate into ever-increasing standards of living and greater economic strength for our foreign competitors. To ensure a more competitive and prosperous America, we must adopt policies designed to encourage personal savings. These House bills would help accomplish that objective.

Employer-sponsored 401(k) plans are another incentive for saving. These plans allow employees to save for their retirement via a tax-favored plan, which may or may not feature employer contributions as well. They are extremely popular with employees, and indeed are the fastest-growing segment of the nation's private retirement system. The Tax Reform Act

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[3]Venti, Steven F. and David Wise "IRAs and Saving" in M. Feldstein (ed.) Taxes and Capital Formation, University of Chicago Press, (1986). Have IRAs Increased U.S. Saving?: Evidence from consumer expenditure surveys" National Bureau of Economic Research, Working paper No.2217, (April 1987). "The Evidence on IRAs," Tax Notes (January 25, 1988).

[4]Feldstein, Martin and Daniel R. Feenberg, "Alternate Tax Rules and Personal Saving Incentives: Microeconomic Data and Behavioral Simulations" in M. Feldstein (ed.), Behavioral Simulation Methods in Tax Policy Analysis, Chicago: University of Chicago Press, (1983).

[5]Feenberg, Daniel and Jonathan Skinner, "Sources of IRA Saving," National Bureau of Economic Research, Working Paper No.2845, (February 1989).

eliminated from 401(k) eligibility organizations that are exempt under Section 501(c) of the Internal Revenue Code and did not have plans in place prior to July 1, 1986. President Bush has proposed to permit tax-exempt employers to adopt 401(k) plans for their employees. The Chamber strongly supports this proposal and urges Congress to restore retirement equity to employees of 501(c) organizations.

Research and Experimentation Tax Credit

Industrial progress depends on the development of innovative products and methods. Research and Experimentation (R&E) conducted by business is the primary means by which innovation is generated. Scientific developments are transformed into new products and processes that result in increased productivity, improved living standards and sustained economic growth.

According to the Administration's fiscal year 1992 budget, the federal government funds about 50 percent of total national investment in R&E. Industry performs over 70 percent of total national R&E.

These statistics highlight the Chamber's viewpoint that a successful national R&E policy is best served through reliance on private R&E expenditures. The Chamber, therefore, strongly supports a permanent R&E tax credit.

A permanent R&E credit is necessary to ensure that the U.S. remains the largest investor in absolute size regarding R&E expenditures and to ensure that American business remains competitive abroad. A 1989 National Science Foundation report on national R&E resource patterns indicates that the United States spends more money on R&E activities than France, West Germany, the United Kingdom and Japan combined.

These statistics mask the real trends on an international basis. For example, although the same National Science Foundation Report states that U.S. R&E expenditures (on a combined civilian and defense basis) were roughly comparable to West Germany and Japan's expenditures as a proportion of Gross National Product (GNP) during the late 1980's, the statistics dramatically diverge when compared on a civilian R&E basis. On a civilian basis, the U.S. spent about 1.7 percent of GNP on research and experimentation during the same time period. In contrast, Japan and West Germany spent approximately 2.8 percent and 2.6 percent of GNP, respectively, on civilian R&E in the late 1980s.

Other National Science Foundation statistics elaborate on the international competitiveness issue. The U.S. had the highest proportion of scientists and engineers engaged in R&E per 10,000 population until the mid-1980s. From 1964 to 1985, the U.S. had roughly 64.7 scientists and engineers per 10,00 population. In contrast, Japan nearly tripled their number of these technical professionals during the same time period. West Germany has more than doubled its percentage of these technical persons on a population basis since the mid-1960s as well.

The research and experimentation credit is an important component of a productivity growth strategy, especially when weighted against the dramatic slowdown in the rate of productivity growth which began in the mid-1960s, and became progressively worse from 1973 to 1981. There is a virtual consensus that rapidly growing R&E is a prerequisite of rapid productivity growth. John W. Kendrick, a recognized expert on productivity with the American Enterprise Institute, has emphasized that the slow-down in R&E spending was a major contributor to the decline in productivity growths from the mid-1960s through 1981. By enacting the R&E credit into law in 1981, Congress recognized the need to maintain U.S. competitiveness with major trading nations and the importance of reversing the dismal productivity trends of previous years.

Corporate R&E spending produces benefits to society as a whole beyond the private rewards reaped by the companies involved in the R&E operation. The excess social gains accrue both to consumers and to firms that compete with the companies conducting the

R&E. consumers benefit from lower prices on products as a result of cost-saving innovations and from the availability of new products. Competing firms are able to develop their own applications of innovative technology.

These is a substantial gap between the social and private rates of return for R&E and innovation. As a result, without an incentive such as the R&E tax credit, businesses will spend less in the U.S. on R&E than would be desirable from the prospective of society as a whole. The nation's R&E shortfall cannot be cured in a short period of time. R&E is inherently long-range. In industries such as electronics product cycles can last three to five years. Each cycle also builds on earlier cycles. In other high technology industries, such as aerospace, product cycles can last 10-15 years. In either case, high levels of R&E must be performed each year. American industry is committed to undertaking the necessary efforts. But to enable this, it needs sensible and stable policies.

By extending the R&E tax credit it is estimated private companies will increase their R&E investment more than $18 billion between now and 1995. To maximize the benefits from the R&E tax credit for both businesses and society as a whole, the Chamber urges making the R&E tax credit permanent. Research and experimentation is an investment in the nation's future. The uncertainty surrounding the future existence of the credit no doubt leads to businesses reducing commitment to long-term R&E projects, and in turn reduces the social benefits from R&E spending to all Americans.

Allocation of U.S. R&E Expenditures to Foreign Source Income

A U.S. corporation's foreign tax credit is limited to 34 percent of the company's foreign source taxable income. Sections 861, 862 and 863 of the Internal Revenue Code were created to define whether the source of income was within or outside the United States. Treasury regulation Section 1.861 requires that indirect expenses be apportioned to the sources of income. Presumably, if this defining process is properly carried out, that which is U.S.-source income will be taxed in the U.S. and that which is foreign-source income will be eligible for the relief provided by the foreign tax credit mechanism.

The allocation of indirect expenses to foreign-source income, without a corresponding foreign deduction, has the inherent effect of taxing the same earnings twice as a corporation runs up against its foreign tax credit limitation. Under the Tax Reform Act of 1986, multinational corporations are likely to face such a double-taxation scenario. This, of course, defeats the very purpose of the foreign tax credit, which is to prevent double taxation.

Double taxation results or can result, depending on the particular circumstances, because the U.S. expenses allocated under the Section 1.861 regulations to foreign-source income are not deductible in any foreign jurisdiction. No other country treats its domestic research and experimentation as if it were conducted elsewhere, and U.S.-incurred expenses allocated to foreign-source income are not deductible in foreign jurisdictions. Thus, a U.S. taxpayer in effect has its foreign tax credit limitation proportionately reduced to the extent that it conducts U.S. R&E.

The allocation rules are a disincentive to domestic research and experimentation. As a result, some companies have moved their R&E activities abroad. The Section 861 allocation regulations have discouraged domestic research, encumbered U.S. multi-national companies with higher overall tax burdens than those of their foreign competitors, and made it difficult, if not impossible, for companies to implement long-range R&E plans.

The Chamber believes that R&E expenses incurred in the U.S. should be 100 percent allocated to U.S.-source income. Short of that, the Chamber believes a permanent extension of the moratorium on the Section 861 regulations is a good step forward.

Passive Losses

The Tax Reform Act of 1986, in an effort to curb abusive tax shelters, subjected all

rental real estate activities to the passive loss rules. Under current law, all rental real estate owners are deemed to be passive investors regardless of their day-to-day involvement in the real estate business. The result of this application is that real estate professionals are subject to tax on the gross income of their overall real estate operations and not on their net income, as other types of businesses.

There is no question that the passive loss rules have had a negative impact on all segments of the real estate industry. The resulting declines in asset values have exacerbated the problems of the nation's financial institutions and had spillover effects on the overall health of the economy. The President has proposed to amend the passive loss rules to eliminate this unfair distinction for rental real estate. The Chamber strongly supports this effort.

THE WHITE HOUSE

WASHINGTON

DATE: 2/7/92

TO: Speechwriting

FROM: **J. FRENCH HILL**
Special Assistant to the President and
Executive Secretary to the
Economic Policy Council
Room 228, OEOB, x7968

FYI - These are the latest pieces on the credit curnch and banks not lending.

AMERICAN BANKER Tuesday, February 4, 1992

Treasury Official Calls for Pickup in Lending

By STEPHEN KLEEGE

SAN DIEGO — Speaking to more than 1,000 commercial real estate specialists on Monday, Deputy Treasury Secretary John E. Robson stepped up pressure from the Bush administration for increased bank lending.

"Frankly, it's about time banks came out of hibernation and started lending," Mr. Robson said here at the Mortgage Bankers Association's annual conference on commercial real estate.

'This Is Not Banking'

"I don't think that federal and state agencies charter these institutions simply to take deposits and invest them in U.S. Treasury securities. That is not banking."

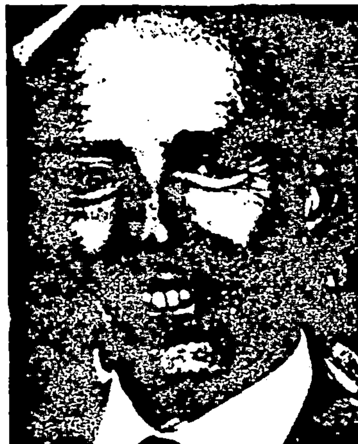
Mr. Robson's remarks drew a muted response from bankers in the audience, many of whose institutions wrote off huge amounts of bad real estate loans last year.

Nevertheless, many attendees expressed guarded optimism about the commercial market in wake of President Bush's State of the Union message and budget plan, which included many of the key objectives of the Mortgage Bankers Association of America.

In addition, to providing a stimulus for residential mortgage lending, the President's package called for the rollback of tax laws that the association and other real estate industry lobbyists complained have made real estate a less attractive investment.

Mr. Robson said the administration also supports changes in regulatory law to allow the Office of Thrift Supervision to grant extensions to those thrifts that have not set aside the required capital for real estate subsidiaries.

And he renewed the call for bank reform, saying Depression-era restrictions prevent the banking industry from being competitive.



John E. Robson
Banks in 'hibernation'

Kemp Criticized

The one association plank the President failed to include was an easing of federal housing administration rules, said Angelo R. Mozilo, president of the group.

Mr. Mozilo said Housing Secretary Jack Kemp has tightened requirements for FHA loans, hurting apartment developers.

Despite authorization to use outside contractors to build federal housing projects, Mr. Kemp "has done zero ... to bring multifamily projects to fruition," Mr. Mozilo complained.

Many in the audience expressed disappointment at the lack of detail in Mr. Robson's address.

For example, only a plan to allow direct electronic payment of payroll tax by small business and another plan to allow for a single tax force for state and federal payroll deposits were offered as examples of steps to reduce regulatory burdens.

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U.S. TREASURY'S ROBSON URGES MORE RATE CUTS

LAS VEGAS, Jan 27, Reuter - Deputy Treasury Secretary John Robson told a builders' conference recent interest-rate cuts will help the economy but said more reductions should be considered.

"... With inflation in check, there would seem to be room for even additional easing of interest rates," he told the National Association of Home Builders in Las Vegas, Nev.

A text of his address was released in Washington.

Robson said the economy now was "unsatisfactorily sluggish," partly because consumers and businesses are working off debt from the 1980s.

"The debt workoff and restructuring hurt us now but will make the economy stronger in the long run," he said.

Robson said construction executives will like President Bush's scheduled State of the Union address Tuesday night.

"The President's plan will include measures helpful to your industry because we realize that home building is one of the keys to a solid economic recovery and robust long-term growth," he said.

"I can tell you, quite specifically, that the President's plan will provide incentives for homebuyers to enter the market," Robson added.

The Treasury official also promised continued efforts to ease the "credit crunch" that builders have faced in getting credit and critcized bankers for being timid.

"Frankly, banks are just not performing the function they were put in business to perform if they continue their timid approach to lending," Robson said.

Bankers should be "stepping forward" to lend, not just taking deposits and buying U.S. Treasury securities, he said.

REUTER
Mon Jan 27, 1992 13:50

3564
DOW-ZB TREASURY"S ROBSON SAYS CREDIT
E1136

CRUNCH ISN"T OVER, BUT LIFTING

SAN DIEGO -(DJ)-- JOHN ROBSON, THE DEPUTY SECRETARY OF THE TREASURY, SAID HE IS SEEING SIGNS THAT THE CREDIT CRUNCH IS EASING.

HE SAID BANK REGULATORS ARE GETTING FAR FEWER LETTERS OF COMPLAINT AND CITED INCREASED COMMERCIAL AND INDUSTRIAL LENDING AFTER SEVERAL MONTHS OF DECLINE.

BUT ROBSON, SPEAKING TO REPORTERS AT THE MORTGAGE BANKERS ASSOCIATION MEETING HERE, SAID THAT "BANKS ARE USING EXAMINERS AND REGULATORS AS A CONVENIENT SHIELD FOR LOANS THEY DON"T WANT TO MAKE."

"THE CREDIT CRUNCH ISN"T OVER. IT ISN"T," HE SAID. BUT "I BELIEVE REGULATORS, EXAMINERS AS CONTRIBUTORS TO CREDIT UNAVAILABILITY HAS GREATLY DIMINISHED."

REGARDING THE BUSH ADMINISTRATION"S HOPES FOR ADOPTION OF LEGISLATION, ROBSON SAID HE WAS OPTIMISTIC THAT SOME PARTS OF THE PLAN COULD BE ADOPTED BY MARCH 20. "IT OUGHT NOT TO BE HELD HOSTAGE TO POLITICAL CLASS WARFARE THAT THE DEMOCRATS WANT TO ENGAGE IN," SAID ROBSON.

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Mon Feb 3, 1992 16:23

12228
DOW-ZB BUSH"S REVIEW OF BUREAUCRACY
E1358

GIVES QUAYLE GREATER POWERS

BY CARL JOHNSTON
DOW JONES STAFF REPORTER

WASHINGTON -(DJ)-- PRESIDENT BUSH"S LATEST MOVE TO HOLD A 90-DAY REVIEW OF NEW REGULATIONS GIVES BROAD POWERS TO VICE PRESIDENT DAN QUAYLE"S COUNCIL ON COMPETITIVENESS TO PUSH THROUGH A BROAD RANGE OF POSSIBLY CONTROVERSIAL REFORMS THAT AFFECT FINANCE AND BUSINESS.

IN HIS STATE OF THE UNION ADDRESS, BUSH CALLED ON REGULATORS TO IMPLEMENT A 90-DAY REVIEW OF THEIR REGULATIONS AND MAKE CHANGES TO CUT BACK ON BUREAUCRATIC BURDENS.

AT THE END OF THE 90 DAYS, THE COUNCIL ON COMPETITIVENESS WILL REVIEW AND ENDORSE PROPOSED CHANGES COVERING A BROAD SWATHE OF ECONOMIC ACTIVITY, FROM BANKING TO BIOTECHNOLOGY. THE COUNCIL IS CHAIRED BY QUAYLE AND MEMBERSHIP COMPRISES MOST OF PRESIDENT BUSH"S CABINET WITH ECONOMIC RESPONSIBILITIES.

THE REVIEW COMMITTEE WITHIN THE COUNCIL WILL BE HEADED BY THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS MICHAEL BOSKIN AND WHITE HOUSE CHIEF COUNSEL C. BOYDEN GRAY.

THE ADMINISTRATION HOPES THE REFORMS COMING OUT OF THE REVIEW PROCESS WILL BE SUBSTANTIAL AND HOPEFULLY BUILD ON PREVIOUS EFFORTS TO GET RID OF REGULATORY BARRIERS THAT CAUSE PROBLEMS SUCH AS THE CREDIT CRUNCH.

"OVERZEALOUS REGULATORS, YOU"VE MET THE ENEMY, AND IT"S CALLED THE COMPETITIVENESS COUNCIL," VICE PRESIDENT DAN QUAYLE TOLD A GROUP TODAY CALLED TO THE WHITE HOUSE COMPOUND TO DISCUSS THE REVIEW.

BUT MANY OF THE CHANGES BEING CONSIDERED ARE ALREADY CONTROVERSIAL, AND THE COUNCIL ITSELF IS UNDER FIRE BECAUSE IT OPERATES WITHOUT STATUTORY AUTHORITY OR CONGRESSIONAL OVERSIGHT.

THE NEW REVIEW ALSO INVITES CRITICISM THAT THE ADMINISTRATION IS OPENING A BACKDOOR TO SHORT-CIRCUIT THE REGULATORY PROCESS.

SOME PROPOSALS MAY ALSO BE TAINTED BY CHARGES OF ELECTION-YEAR POLITICS.

NEVERTHELESS, THE COUNCIL"S DIRECT LINK TO THE WHITE HOUSE MIGHT BRING OUT MORE DARING NEW PROPOSALS ON HOW TO CUT BACK ON GOVERNMENT WASTE, AND GIVE EXTRA IMPETUS TO AMBITIOUS REFORMS ALREADY IN THE PIPELINE THAT SEEMED HEADED FOR TROUBLE.

AT A BRIEFING, DEPUTY TREASURY SECRETARY JOHN ROBSON SAID TREASURY, FOR EXAMPLE, INTENDS

12228
TO PUSH AHEAD WITH A CONTROVERSIAL IDEA TO ALLOW BANKS TO COUNT A PERCENTAGE OF PURCHASED MORTGAGE SERVICING RIGHTS AND CREDIT CARD RELATIONSHIPS AS PART OF THEIR SO-CALLED TIER ONE CAPITAL.

THE IDEA IS TO EXPAND BANKS" CAPITAL BASE AND THEREBY MAKE MORE OF THEIR ASSETS AVAILABLE FOR LENDING AND HOPEFULLY ALLEVIATE THE CREDIT CRUNCH.

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Thu Jan 30, 1992 18:38

3294
DOW-QA US TREASURY"S ROBSON/FED -3: SAYS "TIME IS THE ENEMY"
E1050

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DEPUTY TREASURY SECRETARY ROBSON, IN HIS REMARKS TO THE MORTGAGE BAMKERS ASSOCIATION MEETING IN SAN DIEGO, POINTED OUT THAT "ALL THE NATIONS THAT ARE AMERICA"S PRINCIPAL ECONOMIC COMPETITORS HAVE A CAPITAL-GAINS TAX DIFFERENTIAL.

"IT IS ABOUT TIME CONGRESS GOT WITH IT AND PROVIDED ONE FOR THE U.S.," ROBSON SAID.

THE TREASURY OFFICIAL CALLED ON THE MORTGAGE BANKERS ASSOCIATION TO STAND BEHIND THE BUSH ADMINISTRATION"S ECONOMIC PROPOSALS.

"TIME IS THE ENEMY OF GETTING AN ACCEPTABLE GRWOTH PROGRAM ENACTED BY CONGRESS," ROBSON SAID. "YOU, AND MANY OTHER AFFECTED GROUPS, MUST DECIDE WHETHER YOU WILL JOIN US AND GET FULLY BEHIND THE ADMINISTRATION"S PLAN, OR ATTEMPT TO PRESS FOR CHANGES THAT, IF OTHERS DO THE SAME, RISK PRODUCING LEGISLATION THAT CANNOT GET THROUGH CONGRESS OR, IF IT DOES, CANNOT BE SIGNED BY THE PRESIDENT."

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Mon Feb 3, 1992 14:57

TREASURY NEWS

Department of the Treasury • Washington, D.C. • Telephone 566-2041

PREPARED FOR DELIVERY
EMBARGOED UNTIL 1:00 P.M. (EST)
January 27, 1992

Contact: Anne Kelly Williams
202-566-2041

The Honorable John E. Robson
Deputy Secretary of the Treasury
Remarks to the
National Association of Home Builders
Las Vegas, Nevada
January 27, 1992

Good morning, and thanks for inviting me here to discuss with the nation's home builders a number of important economic issues that affect not only your industry but the economic vitality of the entire country.

I think it is hard to overstate the importance of home building and home ownership to the economic and spiritual well-being of American society. That is why the Bush Administration has shared your deep concerns about the recent condition of the residential real estate markets, why we have already done some things to help the industry, and why we are committed to doing even more.

Right now we would have to characterize the overall economy as unsatisfactorily sluggish. This is due in part to transitional factors such as consumers and businesses working off debt that was piled up during the 1980's and some fundamental restructuring of U.S. business that is going on. The debt work-off and restructuring hurt us now but will make the economy stronger in the long run.

The statistics are mixed. For example, consumer confidence is weak and so are retail sales. Unemployment is higher than any of us want. And diminished state and local government spending has removed that stimulus from the economy.

On the other hand, exports and inventories are up and the trade deficit is down. And of course we all welcomed the recent encouraging news on December housing starts. Inflation is well under control at just a hair over three percent and only about half of what it was a year ago. And interest rates are significantly down.

NB-1637

The President, the Secretary of the Treasury and others in the Administration recognize the importance of low interest rates to the real estate markets as well as the overall economy. That is why we have been continuously urging the Fed to bring down interest rates. Finally, after a year of taking quarter-of-a-point-baby-step decreases, the Fed dropped the discount rate a full point last December and we now have the prime rate down to a more attractive level and mortgage interest rates at a fourteen-year low. However, with inflation in check, there would seem to be room for even additional easing of interest rates.

But even though there are some positive economic signs -- signs that have led the Congressional Budget Office, the Federal Reserve and a number of private economists to forecast a pretty sturdy economic recovery by about the middle of this year -- the Bush Administration is not content to simply let nature take its course. Therefore, when President Bush delivers his State of the Union Address tomorrow, he will present a comprehensive series of actions to foster more economic growth. And you home builders are going to like what is in the President's plan.

The President's plan will include measures helpful to your industry because we realize that home building is one of the keys to a solid economic recovery and robust long-term growth. If you look at the past three recessions, slow or declining housing starts preceded the economic downturn and an upturn in housing starts preceded and helped drive the post-recession recovery.

So we know that a strong homebuilding market has a lot to do with the strength of the overall economy. And, we know that five million jobs -- carpenters, electricians, architects, plumbers, painters, and many others, are directly supported by the homebuilding industry, and that there are many other businesses whose fortunes are directly affected by homebuilding.

Having formed a certain affection for my job at Treasury, I shall leave to the President the announcement of the details of his economic program. However, there are some things I can tell you today about what his economic growth program will contain and what it will not.

I can tell you that the President's plan will contain actions to provide both short-term economic stimulus and long-term economic growth. Indeed, the President's program will rest firmly on what I consider to be the four pillars of long-term economic growth: savings, investment, education, and health.

I can tell you that the President's plan is designed to stimulate the investment needed to create jobs, bolster real estate values, increase home sales, make American business more competitive, and continue our efforts to control the federal deficit.

I can tell you, quite specifically, that the President's plan will provide incentives for homebuyers to enter the market. We want to help families capture their part of the American dream by buying their first home. And we want to boost home values which will help millions of Americans who have much of their entire wealth in their homes.

And the President's plan will also address other concerns and objectives of the real estate community.

For example, the President will propose a reduction in the capital gains tax, something to which this Administration has been committed since it first came to office. But for three years running, Congress has stymied a capital gains tax reduction even though it would encourage business investment and entrepreneurship, and help create new jobs. All of the nations which are America's principal economic competitors have a capital gains tax differential and it is about time Congress got with it and provided one for the United States of America.

So I'm confident you will find the President's program far reaching, promotive of economic growth both in the short and long-term, and entirely responsible.

That word "responsible" is important -- because there are some ideas being promoted out there that sound good but are going to create bigger problems. We are simply not going to recommend actions that will damage our economic future.

For example, we will not propose actions that blow a big hole in the federal budget and create an increased burden for you, your children and your grandchildren to pay off in future decades. In 1990 we got an enforceable budget agreement that for the first time imposes some fiscal discipline and starts getting a handle on our big deficit that is siphoning money away from productive investment. We are going to stick with the principles embodied in that agreement.

Moreover, if we go on a budget-busting binge we risk raising interest rates, which is about the worst thing we can do to your industry and to business investment generally.

And the Administration's plan will be responsible because we're not going to propose fly-by-night programs that have short-term political sex appeal but don't make long-term economic sense. And we are not going to walk down the primrose path of trade protectionism that is going to lose American jobs and hurt American consumers.

So I think you will like the President's economic growth plan.

However, we are not going to rest on our oars with just the State of the Union in our efforts to foster economic growth and help the homebuilding and real estate industries. There are other things that we will do.

For example, we are going to continue and intensify our efforts to alleviate the credit crunch. As many of you in this room know, we have been working hard at this problem for well over a year now, often hand in hand with representatives of the homebuilding industry.

The credit-crunch problem has a number of causes, but the result is an environment in which many businesses and individuals are unable to borrow, and many bankers are reluctant to lend.

No one knows this better than you home builders who haven't been able to get the credit when you needed it. We don't want situations where the demand for new housing is there but the capital to build it is not.

Frankly, the banks are just not performing the function they were put in business to perform if they continue their timid approach to lending. Just last week I saw statistics showing that, while bank loans fell $47 billion for the year ending September 30th, bank portfolios of Treasury securities grew $27 billion. Folks, the federal and state regulators don't charter these institutions to take deposits and invest them in U.S. Treasury securities. That isn't banking. They charter banks to make loans.

Banking is a business where reasonable risks are taken to make capital available to businesses and consumers so that economic activity can be fostered. And bankers should be stepping forward now -- as President Bush, Secretary Brady and many others of us have been saying for many months -- to make loans to worthy borrowers.

I'm delighted to see others stepping forward to provide financing for homebuilders that they can't get from banks. Just across the border in California the state pension fund plans to invest $220 million for the development of new homes. Perhaps other pension funds will do the same.

But our goal isn't for the banks to lose good business. Our goal is to create a confident lending environment where banks are making loans to worthy borrowers. That is why Treasury has been working with the leadership of the bank and thrift regulatory agencies to make sure that over-regulation of financial institutions is not causing the lack of credit and dampening economic growth. We want the regulators to be part of the solution, not part of the problem.

I hope you've heard of the "credit crunch guidelines". These changes and clarifications in the instructions to bank and thrift examiners -- over 30 in number and more than a year in the making -- are the product of the four regulatory agencies. The goal is to promote balance and good judgment in bank and thrift examinations with straightforward commonsense ideas that simply need equally commonsense application in the field.

For example, it makes sense for bank and thrift examiners to encourage lenders to work with borrowers experiencing temporary problems. And it makes sense for examiners not to assume doomsday scenarios. Our economy will turn around, and so will troubled credits. That's common sense and responsible regulation.

The guidance to bank and thrift examiners addresses a number of important issues that affect the real estate community.

For example, examiners are instructed to take a reasonable, long-term view of real estate values. We want them to get away from a rigid mark everything to market attitude that assesses real estate loans based on liquidation values in markets that are simply not functioning normally. Examiners are instructed to look out beyond the immediate market conditions and expect some return to normalcy over time.

We have also seen a tilt toward conservatism in the appraisal process, so the credit crunch guidelines address these issues as well. I might add that I met with a large group of appraisers last year and we specifically discussed the importance of balanced appraisals in restoring confidence in the lending environment.

Another important issue in the credit crunch guidelines is the injunction to examiners to distinguish between commercial and residential real estate in portfolio examinations. We don't want the concerns of examiners or bankers about overbuilt commercial real estate markets to penalize lending for residential building.

We have also tried to improve communication among the regulators, the bank and thrift management, borrowers and businesses. We want to make sure the credit crunch message gets through and that the guidelines are faithfully applied. In the past year we held over 200 meetings around the country to discuss credit crunch issues and to improve the understanding and implementation of the credit crunch guidelines.

Besides that, there are two changes in regulatory law that we believe will help credit availability for your industry and which we support. The first will give OTS some flexibility in granting extensions relating to the need for thrifts to set aside

capital against their investments in real estate subsidiaries. And the second is a proposal that will reduce the amount of capital thrift institutions must hold against certain residential construction loans. Tim Ryan, will address these issues in his remarks.

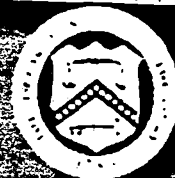
Finally, let me say a word about the continuing need for fundamental reform in the banking industry. One of the main reasons we have a credit crunch is because the banking system is weak. And the main reason the banking system is weak is because it operates under antiquated laws that prevent it from becoming financially healthy. Last year, the Bush Administration submitted a comprehensive bank reform bill to Congress. But Congress totally failed to adopt anything resembling the needed degree of reform. Instead, they passed flawed legislation that imposes more regulation, higher costs, and offers no opportunity for the banks to strengthen themselves financially. If we don't correct the fundamental problems in the banking system we are going to unnecessarily expose the American taxpayers to the costs of a potential bank cleanup.

And if we get fundamental bank reform, we'll have a banking system that will be able to make credit available to you homebuilders in good times and bad, and we won't be confronting these credit crunches.

We think fundamental bank reform is so important that we are going to keep pushing it forward this year and see if we can get Congress to act responsibly on that urgent national problem.

Ladies and gentlemen, I hope I have been able to convey to you just how important we believe the homebuilders are to the economy and the country. We intend to convert that belief into continued actions to promote home ownership and homebuilding and to a continuing commitment to work with you to achieve our common goals. Thank you.

TREASURY NEWS



Department of the Treasury Washington, D.C. Telephone 566-2041

AS PREPARED FOR DELIVERY
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Contact: Anne Kelly Williams
202-566-2041

The Honorable John E. Robson
Deputy Secretary of the Treasury
Remarks to the
Mortgage Bankers Association
February 3, 1992
San Diego, California

Good morning, and thanks for inviting me here to join you to discuss some important economic issues that affect not only your industry, but the economic vitality of the entire country.

I'm glad to be here because, for one thing, the Bush Administration recognizes that a stronger real estate industry will provide a major boost to the economy and help to ensure robust growth over the long term. We know the real estate industry supports close to ten million people -- architects, builders, brokers, engineers, plumbers, carpenters, and building managers to name a few -- and that many other businesses depend on it. And I'm also glad to be here because we recognize that you mortgage bankers are a vital cog in that powerful economic machine.

I know very well how tough things have been in the real estate industry and for those tied to it. But, today, economic problems extend well beyond real estate, and we would have to characterize the entire economy as unsatisfactorily sluggish. In part, this is caused by forces of the business cycle. But there are also some strong transitional factors at work. Consumers and businesses are working off debt piled up during the 1980's -- which means less money is being spent by consumers and invested by businesses. And there is also some permanent restructuring of American business going on.

The economic statistics are mixed and sometimes appear contradictory. Consumer confidence and retail sales are weak. Key sectors such as the automobile industry have been hit extremely hard. New home sales and the leading indicators are reported down. And unemployment is higher than any of us want. So, a lot of American businesses and American people are hurting.

On the other hand, the stock market is up and exports have been strong. December housing starts were up. The trade deficit is down, which helped lead to positive growth for the last quarter. Inflation is well under control at just about three percent -- only half of what it was a year ago -- and interest rates are down significantly.

As to interest rates, let me just say that the President, the Secretary of the Treasury and others of us in the Administration appreciate fully the importance of low interest rates to the real estate markets -- as well as the overall economy. That's why we have been continuously pressing the Fed to bring the rates down. Finally, after a year of taking quarter-point baby step decreases, the Fed dropped the discount rate a full point last December. Now, the prime rate is down to a much more attractive level and mortgage interest rates are at a fourteen-year low.

But with inflation so clearly under control, there may well be room for even further easing by the Fed to stoke the fire of our slow-burning economy.

However, with the economic signals mixed, and despite some signs of improvement -- signs that have led the Congressional Budget Office, the Federal Reserve Chairman and a number of private economists to forecast a pretty sturdy economic recovery by about mid-year -- the Bush Administration is not content to simply let nature take its course.

Last week, the President announced his plan to accelerate job-creating economic growth right now, while at the same time establishing a solid path for future growth. It is a balanced and comprehensive plan. There are no gimmicks. It is a plan that rests firmly on what I consider to be the pillars of long-term economic growth: savings, investment, education, and health -- and fiscal discipline.

Most important to this group, the President's plan should bolster real estate values and strengthen real estate markets.

First, President Bush's plan proposes some passive loss relief to put the real estate development business on a more level playing field with other businesses that net their gains and losses for tax purposes.

Second, the President's plan proposes to facilitate real estate investments by pension funds. With nearly $2 trillion in assets, America's pension funds are a major capital source. And, by modifying existing tax impediments, we can hope that pension funds will pursue newfound opportunities in commercial properties -- following in the direction of the California State Pension fund, which has announced its plan to invest $225 million in the development of new homes.

And for those in the multi-family sector, we propose extending the low-income housing tax credit to stimulate private-sector construction and refurbishing of rental housing for lower-income Americans.

But the President's growth package does more: it proposes a deep cut in the capital gains tax -- down to as low as 15 percent for assets held three years or more.

Since this Administration came to office, it has proposed, and Congress has stymied, a capital gains tax reduction. It's time to unlock the American financial resources that are imprisoned by punitive capital gains tax rates. It would encourage business investment, entrepreneurship, create new jobs, and strengthen real estate values. All the nations that are America's principal economic competitors have a capital gains tax differential, and it is about time Congress got with it and provided one for the United States of America.

Another focus of the President's plan is residential real estate, and it's worth noting that homebuilding and home buying have played major roles in fueling the recoveries after the past three recessions. Here, we propose a $5,000 credit and penalty-free IRA withdrawals for first-time home buyers -- plus the deduction of losses on personal home sales.

Other features of the President's growth plan include tax incentives to foster new business investment, enterprise zones to promote entrepreneurship in distressed areas, and a permanent research and development tax credit to help foster the new technology upon which America's long-term prosperity depends.

The President's plan will also uphold the fiscal discipline necessary to ensure long-term growth. Today, the limits on spending and the pay-as-you-go features of the budget agreement are working to restrain Congress' appetite to spend and spend and spend. We want to keep it that way.

Besides, if we go on a budget-busting binge, we risk raising long term interest rates -- which is about the worst thing we can do to your industry and to business investment generally. American investors, and our foreign trading partners, are counting on us to keep the deficit under control, and we will.

But our economic growth efforts should not stop at the State of the Union message. And they won't. As many of you know, we at Treasury have been working on the credit crunch problem for well over a year now -- often hand in hand with representatives of the real estate and mortgage banking industries.

There has simply been too little credit available to finance the needs of your industry and of business generally. The credit crunch has a number of causes. But the result is an environment in which too few are able to borrow, and too many are reluctant to lend. And, frankly, it's about time the banks came out of hibernation and started lending.

Recently I saw some statistics showing that -- while bank loans fell $47 billion for the year ending last September 30th -- bank portfolios of Treasury securities grew by $27 billion. I don't think that federal and state agencies charter these institutions simply to have them take deposits and invest them in U.S. Treasury securities. That is not banking.

Banking is the business of making loans to provide capital. It is not risk-free and not intended to be so. And bankers should be stepping forward now to make loans to sound borrowers.

I know many of you work with banks and thrifts on a limited basis and that your funds come primarily from other sources such as insurance companies and pension funds. And I know it isn't just banks that are holding back real estate credit. But in numerous ways your sources of funds are affected by general economic conditions, as well as factors peculiar to the real estate markets -- and both of those are directly affected by the credit crunch.

That is why the Administration has worked hard to create an environment where banks are once again taking appropriate risks. And that is why Treasury has been working with the leadership of the bank and thrift regulatory agencies to make sure that over-regulation of financial institutions is not contributing to the lack of credit. We want regulators to be part of the solution -- not part of the problem.

I hope you've heard of the "credit crunch guidelines." These instructions to bank and thrift examiners -- over 30 in number and more than a year in the making -- are the product of the four bank regulatory agencies. The goal is to promote balance and good judgment in bank and thrift examinations with straightforward commonsense ideas that simply need equally commonsense application in the field.

The guidance to bank and thrift examiners addresses a number of important issues that affect the real estate community. This includes guidance on mini-perm loans so banks can prudently refinance these vital commercial real estate credits without fear of regulatory retribution.

Examiners are also instructed to take a reasonable, long-term view of real estate values. We cannot have examiners hanging a scarlet letter on real estate. We cannot have examiners taking a rigid, formula-driven approach to real estate concentrations.

And, we want examiners to get away from a mark-everything-to-market attitude that appraises real estate loans based on liquidation values in markets that are simply not functioning normally. Examiners are instructed to look out beyond the

immediate market conditions and expect some return to normalcy over time. The same is true of real estate appraisals.

Frankly, we hope someone is giving these same perspectives on real estate to the insurance companies and their regulators and rating agencies.

We want to make sure the credit crunch message gets through and that the examiner guidelines are faithfully applied in the field. So, in the past year we held over 200 meetings around the country -- including more than 75 with developers and mortgage bankers -- to discuss credit crunch issues and to improve the understanding and implementation of the credit crunch guidelines.

And we are working on other credit crunch fronts as well. For example, we support two changes in regulatory law that we believe will help credit availability for the real estate industry. The first will give OTS some flexibility in granting extensions relating to the need for thrifts to set aside capital against their investments in real estate subsidiaries. And the second is a proposal that will reduce the amount of capital thrift institutions must hold against certain residential construction loans.

We have worked with the Environmental Protection Agency to get a sensible rule for Superfund lender liability. And we have pushed forward on a number of regulatory changes to help lending institutions raise or maintain capital levels -- such as including purchased mortgage servicing rights and credit card relationships in Tier I bank capital, and changing the risk rating on certain residential construction credits.

One of the main reasons we have a credit crunch is because the banking system is weak. And the main reason the banking system is weak is because it operates under antiquated laws that prevent it from becoming financially healthy and internationally competitive.

Last year, the Bush Administration submitted a comprehensive bank reform bill to Congress. But Congress totally failed to adopt anything resembling the needed degree of reform. Instead, they passed flawed legislation that imposes more regulation, higher costs, and offers no opportunity for the banks to strengthen themselves financially.

If we don't correct the fundamental problems in the financial services system, we are going to unnecessarily expose the American taxpayers to the costs of a potential bank cleanup. That's why we're going to try again this year to get fundamental bank reform.

Finally, let me say a word about an Administration-wide effort to take a hard look at what we are doing as regulators and to strip away or modify as many regulations as possible that retard economic growth or impose unnecessary burdens on business. This is being done intensively throughout the entire government under a 90-day regulation moratorium declared by the President.

Let me give you a couple of examples of what we're doing at Treasury:

One is to simplify and make less costly the payroll tax deposit system for small businesses by allowing direct electronic payment without a bunch of paperwork. And another is to require only a single tax form that serves the payroll deposit needs for both state and federal purposes.

There are countless examples of opportunities for large or small regulatory relief that doesn't take Congressional action. You know better than anyone where the shoe pinches or where some government regulation seems senseless. Let us know where you think something can be done. We'll listen. We may not always agree, but we really want to hear from you. I urge you, do not pass up this opportunity!

All of us must do what we can to get the economy on the right track. President Bush has put forward his proposals to boost the economy now and to strengthen long-term growth. We now look to Congress to cooperate. And your support will be essential if we are to accomplish our mutual goals.

I know there are elements of the President's plan you would like to see improved, expanded, or changed -- passive loss and depreciation recapture for example. But let me just observe that time is the enemy of getting an acceptable growth program enacted by Congress. You, and many other affected groups, must decide whether you will join us and get fully behind the Administration's plan, or attempt to press for changes that -- if others do the same -- risk producing legislation that cannot get through Congress or, if it does, cannot be signed by the President.

Economic growth must come first. We all share in a commitment to secure growth for our nation. Now, I hope we can work together to fulfill that commitment.

Thank you.

ORAL STATEMENT

BY

LAWRENCE A. HUNTER

ACTING CHIEF ECONOMIST

ON BEHALF OF

U.S. CHAMBER OF COMMERCE

BEFORE THE

HOUSE WAYS & MEANS COMMITTEE

FEBRUARY 5, 1992

THANK YOU, MR. CHAIRMAN. ON BEHALF OF OUR 185,000 MEMBER BUSINESSES, ASSOCIATIONS AND STATE AND LOCAL CHAMBERS OF COMMERCE, THANK YOU FOR THIS OPPORTUNITY TO PRESENT OUR VIEWS ON THE NATION'S CURRENT ECONOMIC DIFFICULTIES AND ACTIONS NEEDED TO REMEDY THEM.

UNLESS BOLD NEW POLICIES ARE ENACTED, THE UNITED STATES FACES A DECADE OF SLOW ECONOMIC GROWTH. SINCE THE BEGINNING OF 1989, THE ECONOMY HAS SWERVED SERIOUSLY OFF COURSE, AND THE ECONOMY NOW SITS WELL BELOW THE LEVEL OF REAL OUTPUT IT WOULD PRODUCE IF IT HAD GROWN SINCE 1989 AT ITS HISTORIC TREND RATE OF ABOUT 3 PERCENT. THIS DIFFERENCE BETWEEN TREND GROWTH AND ACTUAL GROWTH CONSTITUTES A GROWTH GAP. THE GROWTH GAP IS PROJECTED TO WIDEN IN COMING YEARS.

CONGRESS HAS AT ITS DISPOSAL THE MEANS TO PREVENT THIS ECONOMIC STAGNATION IF IT WOULD CHANGE POLICIES THAT THWART ECONOMIC EXPANSION AND HOLD DOWN GROWTH. AMERICAN BUSINESSES AND WORKERS DO NOT NEED EXTRAORDINARY *HELP* FROM GOVERNMENT. ALL WE NEED IS FOR GOVERNMENT TO REMOVE THE OBSTACLES IT HAS PLACED IN OUR PATH. THE TIME FOR CONGRESSIONAL ACTION IS NOW, AND WE BESEECH CONGRESS TO ACT WITH DISPATCH TO REDUCE TAXES ON ALL AMERICANS AND RAISE THEM ON NO ONE.

IT WOULD BE WRONG FOR CONGRESS TO MISTAKE THE SHORT-RUN RECESSION, AND ITS ACCOMPANYING FALL OFF IN DEMAND, FOR THE LONG-RUN SICKNESS INFECTING OUR ECONOMY -- AN ASPHYXIATION OF CAPITAL. GOVERNMENT POLICIES

ARE LITERALLY SUFFOCATING BUSINESS EXPANSION AND JOB CREATION BY LEVYING BURDENSOME AND DISTORTING TAXES; BY ACCELERATING REGULATIONS THAT BRING FEWER AND FEWER SOCIAL BENEFITS AT SKY-ROCKETING COST TO BUSINESSES AND CONSUMERS; AND BY EXTRAVAGANT PUBLIC SECTOR SPENDING THAT DIVERTS DESPERATELY NEEDED RESOURCES FROM THE PRIVATE SECTOR WHERE NEW JOBS AND BUSINESSES GO WANTING.

A RECENT STUDY CONDUCTED BY THE RESEARCH DIVISION OF THE LONDON STOCK EXCHANGE COMPARES TAX POLICIES ON EQUITY INVESTMENT AMONG THE G-7 NATIONS AND CONCLUDES THAT THE UNITED STATES HAS ONE OF THE MOST CAPITAL-UNFRIENDLY TAX SYSTEMS AMONG DEVELOPED NATIONS. THE AUTHORS PUT IT BEST:

> IT IS PARTICULARLY SURPRISING THAT THE USA, AS THE NATION WHICH HAS MOST CONSISTENTLY ADOPTED THE CAPITALIST ETHIC, CURRENTLY TREATS ITS EQUITY INVESTORS SO HARSHLY. . . . JAPAN OFFERS BY FAR THE MOST ATTRACTIVE FISCAL ENVIRONMENT TO MOST TYPES OF INVESTOR.

IF WE HOPE TO BE COMPETITIVE IN THE 21ST CENTURY, SOMETHING MUST BE DONE TO REMEDY THIS SITUATION.

THE CHAMBER RECENTLY COMPLETED A PROJECT ON ECONOMIC GROWTH IN WHICH WE ASKED FOUR PROMINENT ECONOMISTS TO ADDRESS THE QUESTION: WHAT POLICIES WORK TO INCREASE LONG-RUN ECONOMIC GROWTH. A STRONG CONSENSUS EMERGED ON WHAT IS TO BE DONE: CUT THE CAPITAL GAINS TAX SHARPLY AND INDEX IT TO INFLATION; INCREASE DEPRECIATION ALLOWANCES FOR CAPITAL INVESTMENT SO THAT FIRMS CAN RECOVER THE FULL ECONOMIC VALUE OF THEIR INVESTMENT; AND REDUCE THE RATE OF GROWTH IN FEDERAL SPENDING.

NOW, MR. CHAIRMAN, I KNOW THE CAPITAL GAINS TAX ISSUE HAS BECOME CONTENTIOUS AND HIGHLY POLITICIZED, BUT IT IS TIME TO LAY ASIDE PARTISAN RHETORIC AND SEE IF THERE IS SOME COMMON AREA WHERE WE CAN COME TO AGREEMENT TO HELP THE COUNTRY. RATHER THAN US CONTINUING TO ARGUE THE UNRESOLVABLE, LET ME OFFER AN APPROACH THAT I HOPE CAN BRING BOTH SIDES TOGETHER. EVERYONE NOW AGREES, I BELIEVE, THAT WE NEED TO INCREASE CAPITAL INVESTMENT. AND, AS THE FAMOUS BANK ROBBER WILLY SUTTON SAID WHEN ASKED

WHY HE ROBBED BANKS, YOU GO WHERE THE MONEY IS -- TO GET MORE INVESTMENT, YOU HAVE GOT TO GIVE INCENTIVES TO THOSE WHO HAVE THE INCOME TO INVEST. THE OPPONENTS OF CUTTING THE CAPITAL GAINS TAX HAVE ARGUED THAT DOING SO WILL NOT INCREASE INVESTMENT, IT WILL ONLY GIVE RICH PEOPLE A WINDFALL TO FUEL THEIR CONSUMPTION. WELL, MR. CHAIRMAN, LET'S DEFUSE THIS ISSUE BY CHANGING THE LAW IN A WAY THAT *GUARANTEES* PEOPLE WILL REINVEST. CUT THE RATE TO SPUR REALIZATIONS, ALLOW INVESTORS TO REINVEST CAPITAL GAINS REALIZATIONS WITHOUT HAVING TO PAY THE CAPITAL GAINS TAX, AND INDEX THE BASIS FOR INFLATION TO GIVE AN INCENTIVE FOR LONGER TERM HOLDINGS. THIS PROPOSAL WILL NOT ONLY GIVE INVESTORS AN INCENTIVE TO UNLOCK CAPITAL GAINS, IT WILL ALMOST DICTATE THAT MOST OF THOSE GAINS BE ROLLED OVER INTO NEW INVESTMENTS, WHICH IS PRECISELY WHAT IS NEEDED TO RAISE LONG-TERM ECONOMIC GROWTH.

CONGRESS MUST ALSO REDUCE THE COST OF LABOR, AND CUTTING THE SOCIAL SECURITY TAX FOR BOTH EMPLOYERS AND EMPLOYEES IS THE BEST WAY. AS SENATOR MOYNIHAN HAS SO ELOQUENTLY STATED, THE CURRENT SOCIAL SECURITY SURPLUS IS NOT SAVED TO PAY FUTURE BENEFITS -- IT IS PILLAGED BY THE TREASURY TO PAY CURRENT GOVERNMENT BILLS -- THEREFORE CUTTING THE TAX WILL NOT AFFECT THE PAYMENT OF FUTURE BENEFITS ONE WHIT!

I CANNOT EMPHASIZE ENOUGH HOW PERNICIOUS PAYROLL TAXES ARE. THEY ARE A DIRECT EXCISE TAX ON JOBS. AND, AS ANY ECONOMIST WILL TELL YOU, THE MORE YOU TAX SOMETHING THE LESS OF IT YOU GET. PAYROLL TAXES ARE PARTICULARLY DESTRUCTIVE DURING HARD ECONOMIC TIMES WHEN MANY SMALL BUSINESSES ARE STRUGGLING TO SURVIVE UNTIL THE ECONOMY IMPROVES AND SALES PICK UP ONCE AGAIN. PAYROLL TAXES MUST BE PAID REGARDLESS OF WHETHER OR NOT A BUSINESS IS PROFITABLE.

FINALLY MR. CHAIRMAN, WE URGE CONGRESS TO ENACT A NEUTRAL COST RECOVERY SYSTEM TO INDEX THE DEPRECIATION SCHEDULE FOR INFLATION SO THAT FIRMS CAN REALIZE THE PRESENT VALUE EQUIVALENT OF EXPENSING. VIRTUALLY EVERY ECONOMIST WILL TELL YOU THAT EXPENSING OR ITS PRESENT VALUE

EQUIVALENT IS THE APPROPRIATE MANNER TO TREAT CAPITAL INVESTMENT. THE BEAUTY OF THE NCRS APPROACH IS THAT IT ACHIEVES THE ECONOMIC OBJECTIVE WITHOUT RADICALLY ALTERING THE TAX SYSTEM, AND THE BUDGETARY COST CAN BE KEPT UNDER CONTROL.

IN SUMMARY: CUT THE CAPITAL GAINS TAX RATE AND INDEX IT TO INFLATION BUT CHANNEL THE CAPITAL GAINS REALIZATIONS RIGHT BACK INTO NEW INVESTMENTS BY ALLOWING TAX-FREE ROLLOVERS; CUT THE SOCIAL SECURITY PAYROLL TAX FOR BOTH EMPLOYEES AND EMPLOYERS TO LESSEN THE EXCISE TAX BURDEN ON JOBS; AND INDEX THE DEPRECIATION SCHEDULE FOR INFLATION BY ADOPTING A NEUTRAL COST RECOVERY SYSTEM.

THE QUESTION, OF COURSE IS WHAT WILL THESE POLICY CHANGES "COST," AND CAN WE AFFORD THEM? WE CANNOT AFFORD *NOT* TO MAKE THESE CHANGES.

MR. CHAIRMAN, I WOULD ASK THAT THE TABLE I HAVE DISTRIBUTED TO THE COMMITTEE BE INTRODUCED INTO THE RECORD AT THIS TIME. WHAT THIS TABLE SHOWS IS AN ESTIMATE OF THE FIVE YEAR BUDGETARY EFFECTS OF THE INITIATIVE I HAVE JUST OUTLINED. ALL OF THE REVENUE ESTIMATES ARE TAKEN FROM EITHER THE JOINT TAX COMMITTEE OR THE CONGRESSIONAL BUDGET OFFICE -- NOT BECAUSE WE BELIEVE THEM, BUT RATHER TO DEMONSTRATE HOW POWERFUL AND PRACTICAL THIS INITIATIVE IS EVEN UNDER THE MOST STRINGENT ASSUMPTIONS.

THE JOINT TAX COMMITTEE ESTIMATES THE FIVE YEAR REVENUE LOSS OF THE NEUTRAL COST RECOVERY SYSTEM TO BE $58 BILLION AND THE FIVE YEAR COST OF A 1.8 PERCENTAGE POINT REDUCTION OF THE SOCIAL SECURITY PAYROLL TAX TO BE $254 BILLION. IN THE CASE OF CAPITAL GAINS, WE HAVE BEEN DOUBLY CONSERVATIVE BY ASSUMING, UNREALISTICALLY, THAT *NO* CAPITAL GAINS ARE EVER REALIZED FOR CONSUMPTION THUS COMPLETELY ELIMINATING CAPITAL GAINS AS A SOURCE OF FEDERAL REVENUE. WE ALLOW FOR A FIVE YEAR STATIC REVENUE LOSS OF $165 BILLION FOR THE CAPITAL GAINS COMPONENT.

THE COMBINED FIVE YEAR COST OF THE PROGRAM COMES TO $462 BILLION UNDER THE REVENUE ESTIMATING METHODOLOGY USED BY CONGRESS. NOW LET'S LOOK AT THE OTHER SIDE OF THE LEDGER. FIRST, WE HAVE ADOPTED CBO'S

ESTIMATE OF THE LARGER OF TWO POTENTIAL "PEACE DIVIDENDS." WE ASSUME DEFENSE SPENDING IS PARED TO $250 BILLION BY 1997, WHICH YIELDS A SAVINGS OF ABOUT $143 BILLION. SECONDLY, WE PROPOSE THAT CONGRESS TAKE A PAGE FROM CORPORATE AMERICA'S BOOK AND FACE THE REALITIES OF THE '90S. IT IS TIME FOR CONGRESS TO BEGIN RESTRUCTURING AND DOWNSIZING THE FEDERAL GOVERNMENT. WE PROPOSE A MODEST FIRST STEP THAT ANY CEO IN THE COUNTRY WILL TELL YOU IS EMINENTLY FEASIBLE IN ANY ORGANIZATION WITH A LITTLE WILL POWER. WE PROPOSE THAT CONGRESS SIMPLY REDUCE THE RATE OF INCREASE IN NONDEFENSE FEDERAL SPENDING [EXCLUDING SOCIAL SECURITY AND NET INTEREST] BY 5 PERCENT BELOW THE CBO BASELINE. THIS AMOUNTS TO A FIVE YEAR SAVINGS OF $110 BILLION.

FINALLY, WE REFER BACK TO THE FINDINGS OF OUR PROJECT ON ECONOMIC GROWTH. THERE WAS GENERAL AGREEMENT THAT A DRAMATIC REDUCTION IN CAPITAL GAINS TAXES COUPLED WITH SUBSTANTIAL IMPROVEMENT IN THE CAPITAL COST RECOVERY SYSTEM WOULD, IF ACCOMPANIED WITH A SIGNIFICANT REDUCTION IN THE GROWTH RATE OF FEDERAL SPENDING, INCREASE THE ECONOMY'S GROWTH POTENTIAL PERMANENTLY ON THE ORDER OF ONE FULL PERCENTAGE POINT PER YEAR. IF ENACTED SWIFTLY, SUCH A PROGRAM WOULD RAISE AVERAGE ANNUAL REAL GROWTH IN EXCESS OF ONE FULL PERCENTAGE POINT A YEAR IN THE NEAR TERM AS THE ECONOMY REGAINED LOST GROUND AND SOUGHT ITS NEW GROWTH POTENTIAL.

AGAIN, TO BE CONSERVATIVE WE HAVE USED CBO'S OWN RULE OF THUMB TO ESTIMATE THE DEFICIT REDUCTION THAT RESULTS FROM A PERMANENT ONE PERCENTAGE POINT INCREASE IN REAL GROWTH. WE ESTIMATE AN ECONOMIC GROWTH DIVIDEND AMOUNTING TO $236 BILLION IN DEFICIT REDUCTION OVER FIVE YEARS.

THUS MR. CHAIRMAN, AS THE TABLE DEMONSTRATES, THE INITIATIVE I HAVE SUGGESTED SHOULD ON BALANCE ACTUALLY REDUCE THE FIVE YEAR DEFICIT SLIGHTLY. WE ESTIMATE IT WOULD CREATE 1.2 MILLION JOBS BY 1996 AND SPUR INVESTMENT THAT WOULD INCREASE THE STOCK OF U.S. CAPITAL BY $3.9 TRILLION BY 1996.

IN 1961, JOHN F. KENNEDY SET AN AMBITIOUS NATIONAL GOAL: PLACING A MAN ON THE MOON AND RETURNING HIM SAFELY TO EARTH BY THE END OF THE DECADE.

IN 1992, IT SEEMS A MODEST GOAL BY COMPARISON TO LAUNCH THE ECONOMY OVER THE COURSE OF THE DECADE BACK TO NORMAL LEVELS OF HEALTH -- BOOSTING ECONOMIC GROWTH, ACCELERATING PRODUCTIVITY INCREASES, BRINGING INFLATION DOWN TO EARTH AND RETURNING AMERICANS SAFELY TO WORK.

THANK YOU, MR. CHAIRMAN.

I have the Midland, Texas Chamber of Commerce researching the question of whether President Bush was ever a member of their organization. Once I hear from them, I will let you know.

Bob, I'm pleased to provide you with this information and encourage you to give me a call if you have any questions or need any additional material. I will follow-up with you with the other information very soon.

I look forward to working with you and Bob Duggin on this speech.

Delegations from the U.S. Chamber Federation Speaking Out in Washington/February 1992*

At press time, these delegations from the U.S. Chamber of Commerce Federation are scheduling events in Washington, D.C., in conjunction with the *National Business Action Rally* on February 24.

We encourage more of our members — chambers of commerce, associations and businesses — to make plans to meet with their Senators and Representatives either individually or as part of a delegation.

If you need help in developing your delegation or in arranging your trip to Washington, contact Bill Mitchell, Manager of the Office of Chamber of Commerce Relations, at 202/463-5580.

State	*Organization*	*Event*	*Contact*
ALABAMA	Chamber of Commerce Executives of Alabama	Individual Briefings Monday, February 24	Victor Cross 205/298-3639
ARIZONA	Arizona Chamber Executives	Individual Luncheons	John Parrott 602/453-3444
ARKANSAS	Arkansas State Chamber of Commerce	Reception, 6 p.m. Dinner, 7 p.m. Monday, February 24 Marriott-Crystal City	Ron Russell 501/374-9225
CALIFORNIA	California State Chamber of Commerce	Luncheon, 12:30 p.m. Monday, February 24 Hyatt Regency Washington	Dave Kilby 916/444-6670
DELAWARE	New Castle County Chamber of Commerce	Luncheon, 12 Noon Monday, February 24 Dirkson Building	Fred Rohm 302/737-4343
FLORIDA	Florida Chamber of Commerce	Luncheon, 12:30 p.m. Monday, February 24 B-339 Rayburn Building	Frank Ryll 904/222-2831
GEORGIA	Georgia Chamber of Commerce	Luncheon, 12 Noon Monday, February 24	Evelyn Lanier 404/223-2267
ILLINOIS	Illinois State Chamber of Commerce	Individual Briefings	Jim Beaumont 217/522-5512
INDIANA	Indiana State Chamber of Commerce	Luncheon, 12:30 p.m. Monday, February 24 216-Hart Building	John Walls 317/264-3110
KENTUCKY	Kentucky Chamber of Commerce	Luncheon, 12:30 p.m. Monday, February 24 S-151 U.S. Capitol	Ken Oilschlager 502/695-4700
LOUISIANA	Louisiana Association of Business and Industry	Briefings, 2-4 p.m. Monday, February 24 1416 Longworth Building	Dan Juneau 504-928-5388
MARYLAND	Maryland State Chamber of Commerce and Maryland Business for Responsible Government	Luncheon, 12 Noon Monday, February 24 Willard Inter-Continental	Tom Iler 410/547-1295
MICHIGAN	Michigan State Chamber of Commerce	Dinner, 6:30 p.m. Sunday, February 23 Wardman Tower – Sheraton Wahsington	Phil Guyeskey 517/371-2100
MINNESOTA	Minnesota Chamber of Commerce and Industry	Luncheon, 11:30 a.m. Monday, February 24 Loyal Opposition Restaurant	David Olson 612/292-4650
MISSISSIPPI	Mississippi Economic Council	Luncheon, 12:30 p.m. Monday, February 24 S-138 U.S. Capitol Reception, 5:00 p.m. Monday, February 24 Hugh Scott Room, U.S. Capitol	Bob Pittman 601/969-0022

State	Organization	Event	Contact
MISSOURI	Missouri Chamber of Commerce	Individual Briefings Monday, February 24	Neil Coffin 314/634-3511
MONTANA	Montana Chamber of Commerce	Luncheon, 12 Noon Monday, February 24 Senator Conrad Burns Dining Room, U.S. Capitol	Buck Boles 406/442-2405
NEBRASKA	Nebraska Chamber of Commerce and Industry	Luncheon, 12 Noon Monday, February 24 B-340 Rayburn Building	Jack Swartz 402/474-4422
NEW ENGLAND AREA	New England Association of Chamber of Commerce Executives	To Be Announced	Ron Zooleck 617/479-1111
NORTH CAROLINA	Triangle Chambers of Commerce	Dinner, 7:30 p.m. Sunday, February 23 Holiday Inn Crown Plaza Luncheon, 12:15 p.m. Monday, February 24 188 Russell Building	Rebecca McKenzie 919/467-1016
NORTH DAKOTA	Greater North Dakota Association/ State Chamber of Commerce	Luncheon, 12 Noon Monday, February 24 628 Dirksen Building Reception, 5:30 p.m. Monday, February 24 S-207 U.S. Capitol	Dale Anderson 701/237-9461
OHIO	Ohio Chamber of Commerce	Individual Briefings	I. John Reimers 614/228-4201
OKLAHOMA	Oklahoma State Chamber of Commerce and Industry	Luncheon, 11:45 a.m. Monday, February 24 Washington Court Hotel	Dick Rush 405/424-4003
PENNSYLVANIA	Lebanon Valley Chamber of Commerce	Luncheon, 12:15 p.m. Monday, February 24 Quality Hotel Capitol Hill	Steve Vegoe 717/273-3727
TEXAS	Texas Chamber of Commerce	Luncheon, 12 Noon Monday, February 24 Hyatt Regency Washington	Larry Milner/Art Roberts 512/472-1594 800/223-3443
VIRGINIA	Virginia Chamber of Commerce	Luncheon, 12:30 p.m. Monday, February 24 Sheraton Carlton	Win Luther 804/644-1607
WEST VIRGINIA	West Virginia Chamber of Commerce	Individual Briefings	John Hand 304/342-1115

**This list does not reflect information received after February 6, 1992.*

U.S. Chamber of Commerce

Washington, D.C. 20062

February 14, 1992

TO: BOB SIMON, WHITE HOUSE

FR: Richard E. Loomis
U.S. Chamber of Commerce

RE: Speech by President Bush to the U.S. Chamber's National Business Action Rally - February 24, 1992

Bob, it was good to speak with you this morning and review suggestions for the president's speech to the U.S. Chamber's National Business Action Rally.

We anticipate more than two thousand business leaders representing small and large businesses, local and state chambers of commerce, and trade and professional associations will attend the Rally. They will be come from virtually all fifty states.

The program will feature the launching of the 1992 National Business Agenda. A summary copy is enclosed. It is the result of several regional meetings held last Fall with our members. More than 1,500 business people attended. A promotional flyer and regional meeting program is enclosed for your background. Our policy committees and other key constituencies also contributed to development of the Agenda.

Following the Rally, many of our participants will attend congressional functions sponsored by local and state chambers of commerce. A list of those functions is enclosed. We will add several other states in the next few days, and I will advise you of any changes. During and following these functions members of Congress will be presented with copies of the Agenda.

The Chairman of the U.S. Chamber, C. J. "Pete" Silas, Chairman and Chief Executive Officer, Phillips Petroleum, Bartlesville, Oklahoma, will preside at the Rally. Mr. Silas was among the business executives who accompanied President Bush on his recent trip to Japan.

The incoming Chairman of the Chamber, to take office later in the day on the 24th, is H. William Lurton, Chairman and Chief Executive Officer, Josten's, Inc., Minneapolis, Minnesota.

Richard L. Lesher is president of the U.S. Chamber. He is the chief operating officer of the organization.

We would appreciate recognition of these individuals incorporated in to the President's remarks.

U.S. CHAMBER OF COMMERCE

1992 NATIONAL ACTION RALLY TIMELINE

DAR CONSTITUTION HALL

MONDAY, FEBRUARY 24, 1992

FINAL DRAFT

START	END	ACTION
8:00		Doors to Constitution Hall open.
8:45	9:30	Marine Band plays a musical program for 45 minutes as audience is seated; musical program closes with "American Pageant."
9:30	9:32	Silas comes on stage and calls the Rally to order; introduces Reverend Merrow.
9:32	9:35	Reverend Merrow's invocation. Silas stands off to the side.
9:36	9:42	Following Silas's and Merrow's departure from the stage, the presentation of colors take place, with the Marine Band and Marine Color Guard.
9:42	9:46	Silas comes back on stage and welcomes the audience. Silas thanks the Marine Band and introduces Col. Bourgeois and Master Gunnery Sergeant Ryan. Past Chairmen are introduced as a group and Silas spotlights accredited chambers in attendance.
9:46	10:00	Marine Band musical program, closing with the "Marine Hymn."
10:00	10:02	Silas introduces Denis Mullane and the Connecticut Mutual awards.
10:03	10:15	Silas leaves the stage while Mullane presents the Connecticut Mutual awards.
10:15	10:16	Silas returns to the stage and introduces the Old Guard Army Fife and Drum Corps.

2,500 people

10:16	10:30	Musical program by the Army Fife and Drum Corps. Silas is offstage.
10:30	10:31	Silas returns and thanks the Army Fife and Drum Corps, and introduces its director.
10:32	10:33	Silas introduces the agenda film.
10:33	10:40	Agenda film is shown.
10:41	10:56	Silas's keynote address follows the film.
10:56	11:08	Silas departs the stage to greet President Bush. Marine Band musical program for 12 minutes, concluding with "Stars and Stripes Forever" and flag drop.
11:08	11:10	Introduction of President Bush and Silas as Marine Band plays "Hail to the Chief."
11:10	11:11	Silas introduces Bill Lurton and the President.
11:12		Agenda is presented to President Bush.
11:13	11:33	President Bush's address.
11:33	11:35	Silas thanks the President; both men leave the stage.
11:40		Offstage announcer adjourns the meeting.

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THE WHITE HOUSE

Office of the Press Secretary
(Dallas-Ft. Worth, Texas)

For Immediate Release December 18, 1991

STATEMENT BY THE PRESIDENT

Today I am pleased to sign into law H.R. 2950, the "Intermodal Surface Transportation Efficiency Act of 1991." This law provides a new structure for our Federal surface transportation programs -- highway, highway safety, and transit -- and authorizes funds for those programs for the next 6 years.

H.R. 2950 is landmark legislation. It will carry the Nation into the post-Interstate era and help provide the transportation infrastructure for improved economic productivity and enhanced international competitiveness. In the short term, this bill means jobs for working Americans. It provides more than $11 billion that can be used this fiscal year to build highway projects. During the coming year, those funds will provide jobs for over 600,000 Americans. The law will continue to support jobs in the highway and transit construction industries over the next 6 years.

When we submitted to the Congress our proposal for reauthorization of Federal surface transportation programs earlier this year, all those involved with the Nation's surface transportation system recognized that it was time to redesign these programs. The Interstate System -- the largest public works project in history -- is very near completion, and this law provides the final funds to finish it. The Interstate System has fundamentally changed transportation in America. It has become easier and cheaper to move goods, and virtually all Americans benefit from the speed and efficiency with which they can move from place to place on our interstate highways. But our focus must now shift from major highway construction to better maintenance, management, and use of our existing highway and transit facilities.

A key element of our proposal was the National Highway System. Ours was not a call for a major new construction program, but rather for identification of those key highways throughout the country that are the arteries for interstate and interregional travel or roads that link those routes to major ports, airports, and other critical transportation facilities. It was a call for dedication of sufficient funds to the National Highway System to ensure that projected traffic increases on those highways can be accommodated without deterioration in their physical condition or ability to move traffic. This new law establishes the National Highway System and provides the funds necessary to keep it performing efficiently.

Another major element of our proposal was to provide State and local officials unprecedented flexibility. We proposed to give those officials the discretion to use a major portion of their Federal surface transportation funds on the improvements that would best meet local needs, whether highway projects or public