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the way to the conference table. To a great extent, the paramount concern became that of fighting a recession. In some ways, that is understandable. The economic indicators of the past few weeks evidence a deterioration in the economy and unemployment moves upward. But, just as these indicators are real, so is inflation. It has not disappeared, and recent increases in the wholesale price index, as well as recent wage increases, suggest that it is not likely to do so.

So distinguished an economist as John Kenneth Galbraith has warned us against this pitfall. And, as an article in the Monday Wall Street Journal noted:

It's not hard to understand why the summit focus is shifting from inflation to recession. For one thing, the economy has shown signs of weakness in the past month or so, suggesting that recession may rival inflation as an economic problem in 1975. But perhaps more basic is Professor Galbraith's point: Fighting recession is more familiar—and more fun—than fighting inflation.

Certainly, no one should overlook the signs of downturn. That would be to overlook problems of far-reaching dimensions which impact hardest on the less fortunate in our society. But, at the same time, neither should we overlook the ubiquitous inflation monster which stalks each of us in each of our shopping trips and which imposes an additional burden upon those already suffering as a result of the other weaknesses in the economy.

Second, when the five original cosponsors of the summit conference resolution introduced our legislation, we all stated our belief that there would have to be compromise, negotiations and even sacrifice, if we were to come to grips with the economic problems facing our Nation. Again, nothing has changed that belief. But, again a funny thing happened on the way to the summit table. During a whole series of presummit conferences, sector after sector of the American economy indicated not what it was willing to do to pull us out of the current economic morass, but presented shopping list after shopping list to the Government.

It is, of course, true that Christmas is not that far away, but the spirit was not always the right one for the season and there was a great deal more concern over receiving than giving. Thus, if all advice is taken, the Federal Santa will be too busy serving special interests to take care of the overall needs of the American people. Perhaps the attitude of "me first" has been fostered too much in this Nation and perhaps the idea of belt-tightening does not have very much appeal. But, there are few observers who believe we can overcome our current economic difficulties without making some hard decisions relative to priorities, income distribution and allotment of scarce resources, whether the latter be capital or material.

Finally, several recent surveys suggest that the American people are less than impressed with the pre-summits and the upcoming conference. Thus, again a funny thing happened on the way to the conference table. A move to restore the

confidence of the American consumer has apparently gone amiss, and that bodes ill. No effort can be successful without the backing, support and cooperation of the American people. It is certainly true that the Federal Government needs to demonstrate a greater willingness to make and execute the resolute policy needed to come to meet our problems. But, the American people must also demonstrate not only that they will cooperate, but also that they will demand of their elected representatives that there be moves in the right direction.

Time is running out. But, the final second is not yet here, and there is still time for those participating in the conference to put aside narrow self-interest, to seek to address the broad scope of current economic problems and to demonstrate to the American people that all sectors are ready and willing to move forward together.

Without that, we will be left with a collection of information which may be valuable, but we will have lost a more valuable opportunity to define, explain, discuss and negotiate a treaty among the American people—a treaty among Government, business, labor and consumers, containing terms necessary to thwart the frictions which can tear us apart over the food we eat, the clothes we wear, the houses we live in, the heat against the winter cold, and a host of lesser things, and a commitment to abide by those terms.

As a nation which remains the last best hope for a way of life and a system of government, we bear a grave responsibility—and we face a challenge which must be met. Failure to do so may hold consequences far beyond our personal comforts and desires, and far beyond the borders of this Nation.

U.S. FOREIGN POLICY

Mr. MUSKIE. Mr. President, last week, our colleague from Texas (Mr. BENTSEN) addressed a meeting of the Foreign Policy Association of New York. In his remarks, entitled "American Foreign Policy: The Future Price of Neglect," Senator BENTSEN discussed the price this country is paying—and will continue to pay—for neglecting several aspects of our foreign relations. Specifically, he perceptively analyzes how the present administration, despite certain diplomatic achievements of the last 5½ years, has badly neglected our European and Japanese allies, our Latin American and Canadian neighbors, a broad range of international economic issues, and our historical role of moral leadership.

Mr. President, I urge all Senators to read this thoughtful address, and I ask unanimous consent that it be printed in the RECORD.

There being no objection, the address was ordered to be printed in the RECORD, as follows:

AMERICAN FOREIGN POLICY: THE FUTURE PRICE OF NEGLECT

It is a privilege to meet with you today to discuss our mutual concern with American foreign policy.

When I accepted your invitation to

speaking—a political eon ago—I chose to title my remarks: "The Future Price of Neglect."

Now we have a new Administration, opening up new possibilities for foreign policy initiatives. And I want to make a few suggestions as to how this Administration's foreign policy agenda might be re-ordered.

The President said this week that he will ask Members of Congress whether we should change the procedures for reviewing the work of the "40 Committee"—an organization so secret that millions of Americans are only now learning of its existence.

We must make some changes. The revelation, well after the fact, of CIA involvement in the domestic affairs of Chile, points up the urgent need for a new way of doing business.

Perhaps it was, as President Ford said, in our national interest to step in and protect opposition news media and opposition political parties from the Allende regime.

But who made that determination? Who is responsible for deciding what is in our national interest? And to whom are they accountable?

Every two years, across the land, we debate the issues confronting our country. Every two years, the people of the United States elect spokesmen who answer to them, to chart our nation's course, to decide what is in our national interest.

The C.I.A., the 40 Committee and other intelligence organizations are instruments for implementing foreign policy . . . not shaping it. They are responsible for carrying out activities and programs in our national interest; but after elected officials—accountable to the people—determine where our interest lies.

The proper arm of Congress must not be kept in the dark about the covert activities of any agency or bureau of this government. It is important that Congress and the President, working together, devise a workable, effective Congressional review process to help insure that those activities are, indeed, in our national interest, that the C.I.A. implements, but does not make our foreign policy.

When President Ford declared inflation our Public Enemy No. 1, he created the initial impression that his Administration will emphasize domestic policy, which most people agree was neglected by the Nixon Administration in its hot pursuit of foreign policy.

It is almost heretical to suggest that the Nixon Administration neglected foreign policy—the one area of performance in which it is generally given high marks.

But that is a judgment I made some months ago, and a judgment I make today.

I do not intend to castigate a President who is no longer in office to defend himself.

I do not want to detract from his real accomplishments abroad, for which we can be truly grateful.

But I do want us to take a realistic view of where we stand in the world arena—and of the price we are paying, and will continue to pay, for neglect in our foreign policy.

And there has been neglect—dating back to the Nixon Administration and beyond.

There has been neglect of our European friends in the Atlantic Alliance.

There has been neglect of our hemispheric neighbors in Latin America and our friend to the north, Canada.

There has been neglect of our relationship with Japan as a friend, ally, and major trading partner.

There has been neglect of the emerging Third World nations—such as Nigeria and Indonesia—that are destined to play a vital role in world politics.

There has been neglect of a whole broad range of economic issues that are having an increasingly serious impact on international peace and stability.

And there has been neglect of our historical role of moral leadership and spokesman

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for humanitarian values in the corners of the world where we have closed our eyes to official oppression.

On the positive side, we have seen the withdrawal of our military presence from Vietnam. We have seen tensions eased with China and the Soviet Union and Eastern Europe. We have seen some impressive personal diplomacy over the past few years, and some heroic peace-keeping efforts in one trouble spot after another.

But we have NOT seen the emergence of a coherent, global foreign policy. Instead we have seen a foreign policy dominated by a triangular relationship with our former adversaries.

An easing of relations with China and Russia is well and good, but the world is a sphere, not a triangle.

A policy based on the concept of three major power bases leaves out too much.

In the process of furthering amicable relationships with China on the one hand and the Soviet Union on the other, we have neglected too many other important facets of our foreign policy—in particular, our traditional allies.

That neglect has been deeply felt.

A measure of the depth of injured pride can be seen in the fact that French President Giscard d'Estaing was quick to observe that President Ford made absolutely no mention of Europe in his address to the joint session of Congress. So President Giscard—and others—have suggested that it is time for Europe to "go it alone."

It is easy to don the armor of isolation as a protection against wounded pride. But isolation is not the answer—for Europe or for us.

It is not only unwise—it is impossible. Our fortunes are so inextricably bound together that we could not sever the bonds if we tried.

In spite of occasional geopolitical differences, we cannot ignore the ancient emotional and cultural ties that bind the Atlantic nations together, any more than we can ignore our political and economic ties.

The European Alliance remains the most basic element of our foreign policy—and the basis for our national security. At the same time, the United States remains the guarantor of European security.

It is in our own best interests to support the Atlantic Alliance as an essential force in maintaining a safe international system. We must also recognize that strains on that Alliance pose threats to the stability of the Western Hemisphere. We cannot afford to permit the Alliance to be weakened.

But it has been weakened—by our preoccupation with Russia and China; by disagreement over trade and monetary issues; and by our serious failure to consult adequately with our long-time European allies on a wide range of pressing issues.

So it is not surprising that Europeans have lost faith in the U.S. commitment to Europe's defense, or that some among them even question the continuing viability of the Atlantic relationship.

The Europeans, who are far more dependent on Arab oil than we are, are vitally concerned with the Middle East. But when war erupted there, our Secretary of State flew directly to Moscow without stopping at even one of the capitals of Western Europe.

It is small wonder that our allies suspect us of empty rhetoric when we call for greater coordination in policy formulation—and then bypass them in vital considerations. Their suspicion is reinforced when we give lip service to European integration, and then react in a hostile manner when Europeans try to speak with one voice.

National interest and the determination of where that national interest lies may not carry the United States and Europe in the same direction at all times—as we saw dur-

ing the Middle East crisis. But this is all the more reason to maintain a framework for consultation in order to avoid future problems.

We need to strengthen that framework—and we need to make use of it.

We have too much invested in NATO to permit it to come unraveled. But a series of conditions makes this all too possible:

The fear of nuclear holocaust and Soviet aggression has faded to the extent that conscription has been eliminated in most of Western Europe, as it has in the United States.

The energy crisis has hastened a review of European attitudes toward the Arab world.

Economic instability has resulted in pressures for reduced defense budgets.

Given these conditions, it is clear that the parties to NATO will have to exercise great care and restraint to insure the integrity, cohesion, and effectiveness of the Alliance.

Now, turning to Asia, it is reasonable to ask what we have actually gained from our new relationship with China—which still rests on a rather shaky foundation. The old order is passing in Communist China, and we cannot predict now what direction new leadership will take, or how the "cultural revolution" will affect our policy there.

In pursuing that policy—which the Nixon Administration obviously saw as one of the keys to the Vietnam solution—we again neglected our traditional allies.

Japan—our most important Asian ally and trading partner—was not even forewarned of this shift in policy, which could vitally affect its interests. Nor were any of our other friends who had loyally supported our policy of Communist containment through the Cold War Era.

Among those friends, none has given more loyal support than the Latin countries, who for more than two decades followed our lead in isolating Communist China. In spite of growing misgivings, they consistently cast their bloc of 20 votes to exclude Communist China from the United Nations.

Likewise, and with even greater misgivings, they backed our policy of boycotting Cuba and denying it membership in the OAS.

But our sudden reversal of policy in China—without the courtesy of consultation or advice—left the Latin countries out on a limb, and understandably ambivalent about continuing support of our Cuba policy. Now we are seeing an erosion of our position on Cuba—and our leadership in Latin America—as more and more Latin American countries move toward establishing closer ties with Cuba.

This is just one example of the price we pay for a piecemeal and fragmented approach to foreign policy in a dynamic world situation.

Foreign policy cannot be conducted on a one-to-one basis. Nor can it be conducted as an exercise in crisis-hopping.

I don't want to downplay the importance of our initiative toward China, which I heartily approved at the time and continue to approve. I would welcome similar initiatives to other nations; from whom we have been estranged—but NOT at the expense of our traditional friends and allies; NOT as unilateral actions, bypassing the alliances to which we are committed. If we continue to ignore them, we may lose more than we gain.

If we learned anything from our experience with Communist China, we learned that 20 years of noncommunication and isolation handicapped us as much as it did the Chinese.

We learned that we cannot afford to live in ignorance of any other nation in this shrinking world.

Last year, I called on the Nixon Administration to normalize relations with Cuba. It now appears that the Ford Administra-

tion is moving in that direction. The signals are encouraging, and we can hope for an end to a period of isolation that is inconsistent with our policy toward other Communist regimes and detrimental to our relations with Latin America.

Ironically, our closest neighbors have been the most neglected. In our concentration on Big Power diplomacy, we have overlooked their growing importance in international trade and hemispheric stability. Our own national security is deeply involved with the development of Latin America.

I feel an instinctive reluctance to use the term "national security" because it was so blatantly misused and abused by an Administration that was distinguished by its corruption of the language. But that is past—and it is time to revive the term in its proper meaning and to examine the concept in a broader context.

National security implies not only military strength and an adequate defense budget. It includes the goodwill and trust of our global neighbors. It includes the careful cultivating of attitudes that make military solutions unattractive. It includes economic well-being—for no nation is more insecure than one that is haunted by economic instability.

President Ford is correct in placing inflation at the top of the national agenda and he should place it at the top of his foreign policy agenda as well. No reasonable person can question that inflation is a major threat to any nation's security, including our own.

But in declaring war on inflation, we have to be careful to avoid two great mistakes.

One is the mistake of turning inward—of treating inflation as only a local phenomenon when it is also a global problem, shared by industrialized and emerging nations alike. Indeed, our own rate of inflation is considerably behind that of Japan, Britain, France and Italy. In Italy and Great Britain, national bankruptcy is a real possibility.

The other mistake is to concentrate on inflation to the neglect of a whole range of increasingly complex economic issues that have been neglected too long. These issues, too, are global in scope, and deserve a higher priority on our foreign policy agenda. World-wide food shortages and scarcities of raw materials; the growing threat of trade wars; limitations on access to supplies and access to markets; the stockpiling of petrodollar reserves that jeopardizes the international monetary system—all these are world-wide economic problems that have an impact on our national welfare and must be given consideration in our total national policy.

We must also be aware that inflation and economic instability pose a serious threat to our national defense posture.

Arms control is an important element in maintaining the balance of peace—and I support continued efforts to reduce strategic armaments. But an equally important element is the control of economic problems, at home and abroad.

Right now, cutbacks in NATO commitments appear inevitable, as Europe struggles with unbalanced budgets. The Dutch and the British are considering troop reductions, and Western Europe is naturally apprehensive about troop reductions the United States might make in view of our own economic problems.

Chancellor Helmut Schmidt gave voice to this apprehension when he asked President Ford to advise him of any policy changes that could affect Germany and urged that no remedial measures be taken without consideration of the impact on the European economy.

This is a real and valid concern. The precarious balance of the world economy could easily be upset by unilateral action in any quarter. If we doubt that for a moment, we

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have only to recall the shattering effects of the Arab oil embargo and its contribution to double-digit inflation in a growing number of nations.

Governments that fail to cope with problems of runaway inflation and massive unemployment lose popular support, and people may turn to leaders who offer simplistic solutions to complex, interlocking problems. We must not forget the economic unrest and loss of faith in democratic institutions that were the prelude to the rise of Hitler and Mussolini.

So as we hold our summit meetings on the economy, we should be aware that they are not truly a domestic summit, but another aspect of foreign policy—and possibly the most neglected aspect. So neglected, in fact, that the Administration has left the top economic job at the State Department vacant since March.

The Nixon-Kissinger approach never gave sufficient weight to the economic issues that are at the forefront of international politics. That is a dangerously misguided approach to foreign policy.

The tapes of the former President betray his attitude toward the economic problems of our allies. "I don't give a—expletive deleted—about the lira," Mr. Nixon said. But, it's time somebody started giving an "expletive deleted" because, in a real sense, when the lira has problems, the dollar suffers too.

We have a tendency to try to divide that which is indivisible: politics from economics, domestic policy from foreign policy. Unfortunately, it is not that simple.

I am concerned that inflation and fear of inflation at home may prompt a dangerous drift into isolationism. There is a widespread feeling that we should concentrate on our own problems for a change and let the rest of the world look out for itself.

It will take strong leadership to counteract that impulse and to convince the people that isolation is impossible.

We live in one world. And whether we like it or not, we cannot withdraw from our relationships with other countries in that world.

It is reasonable and constructive to hold a summit to deal with our economy—so long as we don't narrow the scope of the problem to one of purely national interest.

For, to be realistic about it, there is no longer a distinction to be made between national interest and global problems.

The problems of war and peace, of political oppression and exploitation, of population growth and food supply, of energy and industrial development, of international trade and access to raw materials, of transportation and pollution—all these are global problems—as is the problem of economic stability which preoccupies us now.

And so I call on our policy-makers to take a global view of the economy—a global view and a long-range view, mindful of our obligations to our allies and to the developing nations of the world.

And again I urge a global approach to foreign policy. Big Power politics is an increasingly obsolete concept.

Naturally, we should seek to improve relations with both Russia and China, rejecting the temptation to take sides in any conflict between them, or to play off one side against the other.

But we cannot expect to build a structure of world peace on a special relationship with either China or Russia while neglecting our traditional allies and our potential allies.

There are many new actors on the world scene today whose roles are becoming major. We neglect them at our own risk.

In the past, while small countries could involve great powers in war, they could not affect the welfare and economic well-being of the great powers.

Now they can.

Through their policies on population control, industrial development and trade expansion, through their control of vital raw materials, they have the power to disrupt our economy and retard our economic growth.

The notion of a Third World which is poor and unimportant no longer makes sense. In Asia, in Africa, and in Latin America, there are many poor countries—but they are not unimportant.

They are critical to our own welfare—because of their resources; because of their population pressures; because of their increased demand for food and fertilizer; because of their needs for development; and—in some instances—because of their strategic locations.

We cannot afford to neglect them.

A foreign policy based on the outmoded concept of Big Powerism neglects too much.

True detente must address itself to all sources of conflict in a complex and interdependent world. It must not be compartmentalized or limited to certain countries, or to specific ideological disagreements.

Our national security is at stake. And our national security depends on far more than a lessening of tension with the U.S.S.R. and China, as important as that might be.

It also depends on the strength of the NATO alliance; on our relationships with Japan, with Canada, with our neighbors in Latin America and with other developing countries.

Our national security also depends on our response to the potentially dangerous pressures of world-wide inflation; food, energy and raw material shortages; the population explosion and havoc in the international monetary system.

Finally, we need to reassert our moral leadership and humanitarian concerns in our dealings abroad.

I agree with Secretary Kissinger that we cannot interfere with the internal policies of other nations whenever they diverge from ours. We must be sufficiently mature politically to maintain open lines of communications with countries whose policies and systems of government differ from our own. We should refrain from forcing our values on others.

But we should not be apologetic about those values. And we should not hold them in silence.

When we neglect our traditional ideals in the name of "realism," we pay the price in cynicism and loss of self-respect.

This is a price we need not pay. Realism and idealism can co-exist; both are essential to a global foreign policy.

We need to forge a foreign policy that is consistent with our domestic policy—and to make both consistent with our national character at its best.

HEALTH PROFESSIONS EDUCATIONAL ASSISTANCE ACT OF 1974

Mr. DOMENICI, *Mr. President*, I would like to take this opportunity to express my reasons for supporting the substitute health manpower measure cosponsored by Senators BEALL, DOMINICK, and TAFT to S. 3585, the Health Professions Educational Assistance Act of 1974.

While the sponsors of S. 3585 and the Labor and Public Welfare Committee are to be commended for their thorough documentation of the problems of doctor shortages, the shortage of primary care physicians, and our overreliance on foreign medical graduates, I believe they recommended solutions which are not in the best interests of the Nation.

I agree with the premise that ways have to be found to get doctors and oth-

er health personnel to underserved areas. There is probably not a single State that does not have medically underserved areas in them, and few, if any, can point to any improvement in the last decade. In New Mexico, we have the problem also, and the shortage has gotten worse.

All of us are aware of the scarcity of primary care doctors. The geographical and specialty distribution problems are related, because specialists have to practice in population centers in order to earn a living. Family practitioners on the other hand, can earn a good living serving far fewer people because they handle 80 to 90 percent of all the families' problems. The family or general practitioner is trained to handle most of the family problems, referring the most difficult cases to the specialist.

All of us are aware, too, of the staggering increase in the number of foreign medical graduates coming into this country to practice in recent years. When one-half of the newly licensed physicians in this country are foreign medical graduates, as was the case in 1972, and when serious questions are raised about the quality of these physicians, it is time to do something about the problem.

It is obvious that we need to do something about the entire matter now. While action is required, we must be sensitive to the rights of the physicians, and other health professionals, who we are expecting to serve in underserved areas. A doctor draft is not the answer. Based on the available evidence of student receptivity to scholarship programs, and other incentives for medical schools proposed in the substitute bill, we should be able to correct the problems of geographical maldistribution and specialty maldistribution. As Senator BEALL has pointed out, medical students have applied for scholarships in return for service in medically underserved areas in surprisingly large numbers. This fact is particularly encouraging in view of the very short time these programs have been in effect and the modest amounts of publicity that apparently have been given to these programs.

The substitute proposed by Senators BEALL, DOMINICK, and TAFT also deals forthrightly and effectively with the foreign medical graduate problem by exercising quality controls through amendments in the Immigration and Nationality Act. In addition, this approach allows the Federal Government to act in an area where it clearly has jurisdiction. Foreign medical graduates have served to disguise some of the weaknesses in our health system by providing care in our emergency rooms, our mental institutions, and our inner-city hospitals. It is time we dealt with these problems by training U.S. citizens to assume these responsibilities.

In addition, the substitute bill will leave the licensure of physicians and dentists where it belongs—with the States. Above the legal questions raised concerning Federal involvement in licensure, the evidence doesn't support the action proposed by S. 3585 as reported by the committee. States have made impressive strides in developing uniform standards for licensure for all States,

with all but two States adopting the so-called Federal licensing examination-FLEX.

Regarding relicensure or recertification, I think the fact that the issue has been raised by task forces, commissions, and others over the last 50 years reflects a legitimate concern that physicians and other health professionals continue to provide high quality care for as long as they practice. But again the reported bill is an overreaction to the problem. States and specialty boards already are actively working in this area. Two States have enacted laws on relicensure and 22 out of the 23 specialty boards are considering recertification.

Finally, I am particularly gratified with the unanimous support of my colleagues for a proposal I suggested be added to the substitute measure. This amendment to the legislation would provide incentives for experienced doctors and other health personnel to relocate in rural and underserved areas. Through the implementation of this provision, I envision a retired doctor living in a crowded area of the country choosing to live his latter years serving a more remote area. Such a doctor may choose such an area in New Mexico for his own health even working only part-time. My amendment will permit States to develop ways and means to better encourage doctors to do this. Through the enactment of this provision that possibility may become a reality.

In summary, S. 3585 as reported by the Labor and Public Welfare Committee deals with the right problems, but tends to exaggerate them. It proposed solutions which are not in the best interests of this Nation. The substitute proposed by Senators BEALL, DOMINICK, and TARR has put the problems of health manpower in proper perspective and proposes solutions which fit the problems.

TAX REFORM

Mr. MOSS. Mr. President, tomorrow the economic summit conference begins its search for answers to our economic crisis. I hope that a clear-cut anti-inflation counterrecession program will emerge. Time for economic summits is running out.

We are in the midst of our sixth post-war recession and many economists are predicting that it will be our longest and most severe. The stock market has dropped to a 12-year low, interest rates are the highest in our history, the building industry is on the edge of collapse, productivity increases are nonexistent, and inflation threatens to push the Western world into depression. There are rising doubts about the ability of the economy to guarantee the achievement of economic prosperity. As the average worker sees his real income decline, he becomes more aware of the growing gap between the rich and the rest of the population. He knows that many individuals and corporations escape the payment of taxes through tax preferences and loopholes. If the current economic trends continue the awareness of this inequality will increase as will the realization that economic expectations can

best be achieved only if income and wealth are more fairly distributed.

A more equitable distribution of income can be accomplished in several ways; by Government programs and subsidies that go to the less affluent but are paid for by the more affluent, such as welfare benefits; by tax-funded Government programs such as national health insurance, which would replace expensive commercial health insurance plans; through educational programs that enable people to obtain better jobs; or through tax reform.

The Federal income tax has long been considered the logical device to guarantee a fair or equitable income distribution, but it has not functioned this way because it is riddled with loopholes and preferences for the rich and powerful. Mr. President, the Federal income tax system has the potential of being one of the most effective weapons in dealing with the inequities of our economy. However, without tax reform there is little hope that these inequities can be eliminated.

The administration is wanting of tax relief for the lower income workers to help them cope with inflation. This represents a significant change in direction and one that must not go unnoticed by this Congress. We must capitalize on this change in direction now and enact legislation that will give meaningful relief for those hit hardest by inflation.

On September 12, 1974, the Senate Democratic Conference adopted an agenda for an anti-inflation counter recession program. Part 4 of this agenda reads as follows:

A tax policy which assures that no segment of the economy will enrich itself by capturing excessive profits during the present period of economic hardship and recognizes that special relief must be accorded to those hit hardest by inflation—those in low and moderate income categories and those on modest fixed incomes.

Only tax reform can achieve this. The Congress has made it clear to the President that they stand ready to reconvene in November to act on major legislation to meet our economic crisis. Tax reform should be high on this list of major legislation.

Tax reform came unexpectedly to the foreground as a political issue during the 1972 Presidential campaign. However, it was soon elbowed aside by the prospect of peace in Vietnam and charges of political corruption. The need for tax reform has not diminished. In fact the recent inflation has increased the urgency for meaningful reform. Tax reform provides an opportunity for the Congress to not only minimize the effects of inflation, but an opportunity to fight inflation.

Many experts believe that inflation is a natural result of large budget deficits and that if inflation is to be halted a balanced budget is required. I agree that we must move toward a balanced budget. Certainly an elimination of wasteful Government spending is a necessary first step. But we should move with care. To recommend a cut in spending is easy. To evaluate the results of such a cut is difficult. Nevertheless, cutting expenditures to achieve a balanced budget has

received "great press." I urge that equal attention be given to the possibility of reducing our deficits by increasing our revenues through tax reform. In my view, the budget picture in the years ahead will not only continue to be a tight one but expenditures will outstrip built-in revenue growth. Legislation for additional tax revenue will most likely be needed. Tax reform should be a key part of any such legislation. There are specific reforms for both corporation and individual income tax systems that will not only improve the "fairness" of the tax system but will also raise revenues to offset any budget deficits.

One of the largest tax loopholes is the tax treatment of capital gains. Any capital gain on the sale of an asset at a profit above its original cost is more lightly taxed than ordinary income, and there is no capital gains tax at all if the asset is held until death and then transferred to the heirs. The great bulk of all capital gains benefit goes to the wealthy few. In 1972, taxpayers with incomes of \$100,000 or more saved an average of \$39,000 each in capital gains tax breaks. Those in the \$20,000 and under group—90 percent of all taxpayers—saved an average of \$14 each. In light of these facts, it seems incredible that the House is discussing proposals that will reduce even further the tax rate on capital gains.

The essence of the proposal is to reduce the proportion of capital gain included in taxable income from its present level of 50 percent. After the first 5 years capital gains tax will be reduced 1 percent a year for each year the asset is held, not to exceed 20 percent. This means that a taxpayer holding an asset for 25 years or longer will be able to exclude 70 percent of the capital gain from his taxable income. Those favoring this legislation argue that current inflation justifies a reappraisal of capital gains taxation. They contend that much of any capital gain is simply due to inflation. For example, an individual who owns an asset that doubles in value at the same time the consumer price index doubles in value is really no better off in terms of purchasing power. In the name of tax equity, so the argument goes, adjustment of this inflation should be by the tax system. This argument sounds good, but I fail to see how reducing capital gain by 1 percent a year for each year an asset is held in an equitable solution. This will result in lavish benefits to the wealthy and in most cases more than compensate them for the effect of inflation on their assets.

The easiest and most efficient way to eliminate the effect of inflation in the measurement of long-term capital gains is to express both the original cost of the asset and the sale price of the asset in comparable terms and thereby determine the real gain. Once this real gain is determined, then ordinary income tax rates should be applied to compute the tax liability. Equity requires that we make some adjustments for inflation in taxing capital gains. I share the view that the inflation component of capital gains should not be taxed with the tax applying only to real gains;