

SENATOR ROBERT MORGAN
Remarks to Raleigh and Wake County
Board of Realtors
April 17, 1978

Realtors and the people you serve have a direct stake in the economic health of our nation. Your lives and livelihoods are affected by a myriad of decisions made at every level of government, and by the general level of people's confidence in their own and the country's economic future.

Realtors also play an active role in our free enterprise system. Nothing is more basic to that system than the right to private property. The ownership of property is central to the American dream of a better life for ourselves and our children.

When Dwight D. Eisenhower came home from the war and became President of Columbia University in New York City, he purchased his farm in Gettysburg, Pennsylvania, which became so well known when he went on to become President of the United States.

When he acquired the farm, he was asked by the county clerk who recorded the deed why he wanted land in the Pennsylvania countryside, when he lived in New York City and seldom got away. President Eisenhower replied, "I want once in my life to take a piece of land and return it to God better than I found it."

I think that's an aspiration virtually all Americans share with President Eisenhower. Whether it's a farm or a home, or a retirement retreat, I think all Americans want the sense of roots and responsibility and that goes with the ownership of private property. And the degree to which the average American has been able to fulfill that dream sets us apart as a nation. Our system of free enterprise still offers unique opportunities for self-advancement.

I received a letter a couple weeks ago from a realtor in western

North Carolina. I want to share what he had to say with you. He

wrote:

"I would like to take this opportunity to let you know that people do care about their enjoyment of real property ownership and about America.

There is no better time than during Private Property Week to celebrate our Free Enterprise System. I am very proud to be an American. I don't always like some of the things that happen in my country but I wouldn't trade America for any place else. I wanted you to know it."

Well, I want him and all of you to know, how much I appreciate hearing that kind of personal statement of pride in our country. We cannot allow ourselves to lose sight of our basic national strength in the heat of debate over the various issues and problems confronting us.

But we cannot delude ourselves. The problems are serious, and their solution will require a lot of dedication and an awful lot of

old-fashioned hard work, and discipline.

Chief among our problems are economic ones. George Bernard Shaw -- who helped found the London School of Economics and knew first-hand what he was talking about -- once quipped that you could place all the economists in the world end to end, and they wouldn't reach a conclusion.

Well, I am not an economist, and I believe I have reached a few conclusions.

The first and inescapable conclusion is that the economic indicators are not good. They can't be sugar-coated.

Business leaders say the recovery is lopsided toward consumer spending and will be increasingly difficult to sustain without inflation.

They fear the economy could lurch into another violent round of inflation which will inevitably push us back into recession again. Consumer prices are already rising at double-digit rates.

The value of the dollar has all but sunk from view in international money markets, seriously eroding confidence in the safety of dollar assets, and threatening to trigger a new oil price increase.

The overall international monetary and economic structure is fragile.

Our own trade deficit is enormous, and we have actually lost ground in the battle to reduce our oil imports.

Capital investment -- the very thing we need for stable, long-term, non-inflationary growth is seriously lagging.

But federal spending is growing like nobody's business. The current fiscal year deficit will be \$62 billion, and the President has

proposed a \$60 billion deficit for fiscal 1979.

The second conclusion I have reached is that we will never
again achieve stable and sustainable growth without inflation until
we bring federal spending under control. We are addicted to massive
injections of government spending as a quick-fix to our economic
problems.

Let me just try to put the size of the federal deficit into some
perspective.

If you had started when Christ was born, and had spent 80 thousand dollars every single day since, you still would not have spent 60 billion dollars -- the amount we are going to go in the hole this year and the next.

This year alone, interest on the national debt will be about \$40

billion. That means that out of every tax dollar you have just paid this year, you made an eight percent interest payment.

It ought to be obvious that we cannot continue forever to sustain this kind of deficit spending. No matter how you cut it, we are spending seriously beyond our means.

The third conclusion I have come to is that binding legislation is now necessary. I think its time Congress be forced to raise taxes to cover every expenditure, except in time of war or severe national emergency.

A recent survey I conducted among 20,000 North Carolinians asked whether they would support a balanced budget. The overwhelming response was "yes". The survey went on to ask whether the individual would support the balanced budget if it meant spending costs which

would affect his or her county, city or special interest area.

Again, the response was a resounding "yes" and this gives me great

confidence that the people are behind efforts to balance our federal

budget. I was proud also to be able to tell my colleagues in

Washington, as I did this past December, that the people of North

Carolina have seen fit to take the initiative and enact into our State

Constitution an amendment to require that the budget of the State

be kept in balance and that expenditures do not exceed receipts.

What North Carolina has written into its Constitution is a practice long forgotten in Washington.

I believe it is time we jogged the national memory. Taxes must be adequate to cover expenditures. It is as simple as that.

We got into trouble with Social Security because the Congress

increased the benefits for it several times without also raising the taxes to pay for it. Now, we are going to have to bear the brunt of the largest peace-time tax increase in history because we have to make up for past expenditures not supported by adequate revenues.

Someone once said, if Patrick Henry thought taxation without representation was bad, he should see how bad it is with representation.

That brings me to the fourth and final conclusion I would like to share with you this afternoon.

And that is that politicians will never make the difficult decisions that are necessary for long-term economic health until the American people demand it.

Asking people to face unpleasant facts and realize that we are

going to have to tighten our belts isn't easy. Politicians like to keep people happy and spending money we don't have has been a way to do just that.

But it is probably no coincidence that politicians and public figures are held in such low-esteem. They have attempted to be all things to all people, and in the process have lost their credibility. As someone has said, it is difficult to look up to someone who always has his ear to the ground.

Clearly, the Congress is uniquely vulnerable to pressures and influences of special interests, indeed, any group that can organize and mount a lobbying effort. Inevitably, those groups want things that cost money. A balanced budget has no real organized constituency, and until it does, I doubt that we will see a balanced budget. Everybody

wants to cut spending, but always in someone else's area.

To his credit, I believe President Carter has tried hard to cut spending. I believe he remains deeply committed to his campaign promise of a balanced budget. He is a hard-working and dedicated man.

But I would be less than candid if I said I thought the President has been very effective. He has failed to set priorities and enforce them consistently even within the ranks of his own Administration. He has failed to chart a consistent course and stick to it. While trying to do so much, he has really achieved very little. Consequently, the confidence in his leadership both at home and abroad has seriously eroded.

Business Week magazine of April 10 summed it up. "The Carter Administration," it said, "seems to act on the assumption that

rhetoric is enough and that there is no need to follow up with effective action." Energy is the most telling example.

A full year after the President launched his energy proposals before a joint session of Congress, no energy policy has been enacted. Let's hope that the same will not be true for the President's recently announced anti-inflation program. The President must understand that combatting inflation will require his sustained personal involvement in the fight. He must start providing the kind of firm, decisive and courageous leadership the country needs.

Our nations problems are too intense to breakdown in bickering and second-guessing about the problems and mistakes that have beset the Administration during its first year. We must press on with the task at hand. As President Kennedy said, "Our task is not to fix the blame for the past, but to fix the course for the future."

Let me touch briefly on some ^{of} the very complex tax provisions

which may come up in the Senate this session.

One measure which I will strongly support is Senator Harry Byrd of Virginia's bill to delay implementation of the carryover basis tax provision. The 1976 Tax Reform Act created a requirement that a person pay capital gains tax on the sale of inherited property. The gain would be from the time the property was purchased by the deceased person rather than from the time it was inherited.

While I am not firmly against the idea of taxing the gain on property held until death, the carryover basis provision has been creating enormous problems of accounting and bookkeeping, and I am afraid it would also lead to more expensive probate counsel. More

importantly, it poses a threat to small family-owned businesses and farms. I don't think we ought to destroy our small businesses simply because of excessive federal paperwork.

Let me give you an example of how this carryover basis provision would work. Let's say your father bought a farm in 1945 for \$10,000. If he died in 1977, the property might be worth \$40,000. When you inherit the property, you pay an estate tax on the value of the farm at the time of death, that is, \$40,000. If you hold on ^{to} the property for a few more years, it's value might go up _^ to \$50,000. If you sell it at that price you would expect to pay a capital gains tax on the \$10,000 accrued value. But under the 1976 Tax Reform Act, the price your father paid would be the basis for computing the capital gains tax. Instead of paying a tax on the

gains since you held the property, you'd have to pay it on the \$40,000 in increased value since your father purchased it. Faced with this overwhelming tax burden in the future, many people would sell out at the time the business or farm was passed on.

Senator Byrd's bill delaying implementation for two years would give us the time to come up with a more equitable and acceptable proposal.

I'd like to comment briefly on a few other tax provisions of specific interest to realtors. It is a bit premature to take a final position on any one of them since the House Ways and Means Committee has yet to report out its budget.

The first proposal would treat limited partnerships of fifteen or more as corporations. Often these partnerships are formed on a

short term basis to finance small shopping centers and the like.

They are usually formed by local businessmen. Seldom, according to Treasury Department testimony, are these groupings a source of tax losses to be used to offset nonpartnership income. They aren't run as a tax dodge in other words. I'll have to review the final proposal carefully but I'd hate to see small, local efforts hurt by tax changes.

A second proposal is one to disallow component depreciation.

At present, a taxpayer may allocate his property depreciation between the building as a whole and the plumbing and various fixtures, some of which deteriorate more quickly. The President wants the Treasury to set a stipulated lifetime for real property, without any breakdown of component parts. One reason I'm concerned about

this provision is that at present we rely on the taxpayer to exercise some good faith in estimating the value of his or her property. This move seems to indicate some lack of trust for the taxpayer and some reduction in our belief in voluntary compliance with the law. I'd hate to see a precedent set. I'll review the House report on the final proposal carefully.

Finally, there is a proposal to disallow accelerated appreciation in favor of straight line depreciation. The Treasury argues that physical lifetime should be the measure of depreciation while the industry argues that economic lifetime is a better guide to valuation and thus the need for accelerated valuation. It's a tough policy determination and there is merit to the view of both sides.

I'd welcome your comments on these proposals and any others in the tax field which you feel would be of value to me in passing judgment on them.

Finally, I want to comment briefly on an action I recently took with regard to the Office of Interstate Land Sales Registration within the Department of Housing and Urban Development. I have joined with Senator Nelson, who chairs the Small Business Committee, in introducing legislation which will reduce the paperwork burden imposed by HUD on small land developers.

The original intent of the Interstate Land Sales Full Disclosure Act of 1968 was to eliminate fraudulent practices in the "interstate" sale of land. But the Office of Interstate Land Sales Regulation -- "OILSR" -- as it is called -- has interpreted this "interstate"

this "interstate" law as granting it the authority to regulate "intra-state" land sales operations as well. I agree with Senator Nelson that it is as if OILSR was granted a fishing license to go after a rare species -- the interstate fraudulent land developer. But in the arrogant ways common to so many bureaucrats, they seem determined to net all the fish in the lake to make certain that the rare species does not escape.

This stretching of OILSR's interstate jurisdiction to include intrastate land developers simply subjects a lot of honest business-people to unnecessary cost and aggravation. Moreover, it takes taxpayers' money to support the bureaucracy needed to handle the government's part of the paperwork and of course, ultimately, increases the cost of land to the consumer. In the meantime, it

does absolutely nothing to solve the real problem of controlling
fraudulent interstate land sales.

Our bill would restrict that assumed jurisdiction, and help
to make life a little easier for businesspeople.