NAM

National Association
of Manufacturers

November 4, 1991

The Honorable George Bush
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear Mr. President:

On behalf of the nation's manufacturing community, we want to share some of our thoughts on the weakness of the current economic recovery, as well as to outline several policy recommendations.

A recent survey of NAM's Board of Directors showed about two-thirds of them expecting GNP growth to be only in the two percent range over the next 15 months. That is less than half the normal rate of expansion for a typical postwar recovery, and is thus a matter of serious concern.

As manufacturers, however, we are also extremely troubled by the recent outbreak of tax cut proposals intended to "jump start" the economy. We believe that, in the politically-charged atmosphere that will prevail between now and the November 1992 elections, it is extremely unlikely Congress can fashion a pro-growth tax package having the desired effect. Rather, the legislative process is more likely to yield a tax bill that violates the 1990 budget agreement and further increases the federal deficit, causing a loss of confidence in financial markets, putting upward pressure on long-term interest rates, and weakening the ability of manufacturers to compete in international markets.

In the short run, therefore, NAM believes it is crucially important to follow the path of fiscal restraint by adhering strictly to the terms of last year's bipartisan budget compromise. This, as you yourself recently observed, is the only brake we have on excessive federal spending. To remove it now would send exactly the wrong signal about the direction of future deficits, worsening an already unsatisfactory interest rate structure where long-term rates are more than three hundred basis points higher than short-term rates.

We realize, of course, that fiscal restraint will not help increase the economy's growth rate in the near term. We must necessarily look to monetary policy as the primary source of short-term economic stimulus. NAM will soon be writing to the Federal Open Market Committee urging both a further lowering of short-term interest rates as well as a reduction in bank reserve requirements. This latter measure, though somewhat unusual, will raise bank liquidity and encourage lending.

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Closely related is the stringency of credit conditions. One reason the money supply is not increasing more rapidly is the reluctance of commercial banks to make business loans. We believe the regulatory authorities should adopt a more flexible attitude towards commercial lending by banks, and ask that you continue to communicate the need for such increased flexibility to the Treasury and other involved regulatory agencies.

At the same time, the Administration should actively seek to avoid further burdening the manufacturing sector with increased regulatory costs that aggravate already weak cash flow and liquidity. There is a long list of regulatory mistakes, actual and potential--from Clean Air Act implementation, to increased CAFE standards, to outdated export controls--that will absorb ever-increasing sums of money that companies could otherwise use for investment, production and job creation.

One bright spot in the current economic picture is the momentum of manufactured exports. In addition to your efforts to advance market access through the Uruguay Round negotiations and NAFTA, we strongly urge that the Administration undertake a vigorous national export campaign to encourage and enable manufacturers to take fuller advantage of favorable exchange rates and growing overseas markets. Now is the time for government and industry to forge a new export promotion partnership at least as dynamic as Germany's and Japan's.

For the long term, however, additional pro-growth policy initiatives are essential. While it is unlikely that a comprehensive package can be enacted before 1993, we urge you to begin fashioning a long-term national growth strategy and to bring it to the forefront of the current political debate. In NAM's view, it is critical that such a strategy include components designed to achieve more effective federal spending control, higher capital investment, greater entrepreneurial risk-taking, increased infrastructure investment, and expanded tax incentives for personal long-term savings in lieu of current consumption.

We are eager to work with your Administration in the development of such a pro-growth agenda, and would welcome the opportunity to meet with you and your advisors to develop the elements of such a package.

Respectfully,

Dexter Baker

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Chairman of the Board
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Jerry J. Jasinowski

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