News from Senator

BOB DOLE

(R - Kansas) SH 141 Hart Building, Washington, D.C. 20510

FOR IMMEDIATE RELEASE: CONTACT: SCOTT RICHARDSON
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DOLE: VOLCKER DESERVES APPROVAL; CONGRESS ANOTHER MATTER ALTOGETHER

WASHINGTON -- Senate Finance Committee Chairman Bob Dole (R-Kan.), in voting today to confirm Federal Reserve Board Chairman Paul Volcker for a new term, said on the Senate floor that Volcker "has earned the confidence of the financial community, and deserves our vote of confidence. But whether the Congress deserves such a vote of confidence is another question altogether."

Dole renewed his call for a "budget summit", which would include the President and the House and Senate leadership. Dole called the failure to maintain control over federal spending the major impasse in the battle to sustain the economic recovery, and said that the level of revenue increases in the budget resolution are too high.

The following is the full text of Senator Dole's statement.

THE VOLCKER NOMINATION AND CONGRESS' TASK

As the Senate takes up the nomination of Paul Volcker to continue to serve as Chairman of the Federal Reserve, we ought to consider the relation between the job Mr. Volcker has agreed to take on for another term and the job we in Congress are obligated to fulfill. I intend to vote for the renomination of Chairman Volcker because I believe he has done, on the whole, a good job under very trying circumstances. He has earned the confidence of the financial community, and he deserves our vote of confidence. But whether the Congress deserves such a vote of confidence is another question altogether.

While there is, as always, considerable controversy over the conduct of monetary policy on a day-to-day basis, there is virtually no disagreement with the view that the Fed's conduct of monetary policy under Paul Volcker has made a substantial contribution to beating back inflation to the lowest level in 16 years. Over the 12-month period ending in June, inflation was only 2.6 percent as measured by the consumer price index. That is our best inflation performance since 1967. Our achievement on the inflation front is beyond dispute. The question we are confronted with now is, how long can that achievement be sustained. And that is a question that Chairman Volcker and the Federal Reserve cannot answer alone.

THE FISCAL BATTLE

In the real world monetary policy alone cannot cure inflation and ensure a stable recovery. In theory it could do so, but we are not operating in theory -- we have to cope with the real limitations imposed by politics and by our broad domestic and international responsibilities. What we are seeing now is the real threat that our severe fiscal imbalance will make the price of steering a steady monetary course too high for us to accept. The fear and uncertainty that threaten sustained economic progress is precisely that -- that Congress will neither accept that price, nor rectify the fiscal situation in time, so that something will have to give. And what many in the financial markets fear is that what will give is Fed policy -- either under pressure from Congress, or because the fiscal situation becomes so unsustainable that reinflation cannot be avoided.

We should not have to face this choice, and we should not force Chairman Volcker or the Federal Reserve to make that choice for us, and take the blame for whatever happens. We have given the Fed authority over monetary policy, but we have reserved for Congress, and the President, responsibility over the fiscal situation. This is our job: if we fail there is no one to blame but ourselves. If we want our policies to work in harmony with Fed actions to achieve the long-sought goal of stable and sustained economic growth, it is high time we got a grip on fiscal reality.

SPENDING

There is plenty of blame to go around for our fiscal impasse, but apportioning blame won't give us any answers or solve any problems. Instead we need a realistic

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assessment of what our problems are now, and of what steps we have to take to resolve them. By any standard of reckoning, the primary problem is our failure to maintain control over Federal spending.

We have worked all year to produce a budget that could have a credible impact on reducing the deficit. Nevertheless, it is hard to maintain that the budget we finally did produce could have that effect. As my colleagues know, I opposed the budget resolution because I believed it was not credible: that it assumed unachievable tax increases without having a significant impact on spending. But it is worth reviewing why that budget does not meet our needs.

Reconciled spending reductions in the 1984 budget are just $2.8 billion in FY 1984 and $12.3 billion over three years. Taking into account revenue reconciliation, 86 percent of the reconciled deficit reduction is the responsibility of the Finance Committee. But apart from reconciliation, the net effect of the budget in FY 84 is to increase spending by $1 billion. But what is worse is the so-called 'reserve' or 'contingency' fund. That fund authorizes substantial new spending while pretending not to count it in the budget or the budget deficit. When we take into account the reserve fund, spending would increase by about $10 billion in FY 84.

So far as establishing a trendline toward a lower deficit, it is true that the budget resolution calls for a 1986 deficit about $65 billion lower than would otherwise be the case. But only $4.4 billion of that decrease is due to nondefense spending reductions: the rest is a $46 billion tax increase and a $15 billion cut in defense spending.

This is not an acceptable performance on the part of Congress when the deficit problem is so acute, and when spending is so clearly the main difficulty. Spending is running at 25 percent of GNP, and while that is partly due to the recessionary decline in GNP, it is also due to our continued failure to control burgeoning program costs and appropriations levels. So spending must be our first line of attack if we are serious about deficit reduction.

TAXES

Members are also aware that I opposed the level of revenue increases in the budget resolution. That is partly because I believe we just do not have the votes to enact a $73 billion tax increase. But it is also because we have no right to ask the taxpayers to kick in a higher share of their resources without a more comprehensive, credible deficit reduction plan that makes real progress in controlling spending. In addition, I share the view of many of my colleagues that, as we see recovery taking shape, we ought to be wary of short-term tax increases that might impede progress.

We can increase revenues, and we will need to do so if we are to have any kind of broad-based attack on the deficit. But we should do it in the right way and at the right time. We should not raise tax rates, or renege on our promise to index the tax code, or slap on new miscellaneous taxes that affect working Americans. There are two basic conditions a revenue-raising agreement should meet. The first is that new revenues be firmly and decisively linked to specific steps to reduce spending -- ideally we should want to see a dollar of spending reduction for every dollar of new revenue planned. Secondly, we should generate new revenue by improving the existing tax laws. That means the type of approach we took in 1982 -- narrowing the compliance gap, collecting more in taxes already due, and shutting down unjustified tax breaks and preferential treatment that has little or no economic justification. The Finance Committee has already had hearings on the more than $295 billion in tax preferences that exist, and on possible new compliance measures. We are ready to proceed if we can get the kind of agreement I have outlined: or we can wait, in uncertainty and at risk to the recovery, for another year or more.

SUMMIT

Everyone knows what we should do. But clearly the inertia of the political season is already upon us, and it is having an effect on the work of the Senate. Presidential politics already intrudes into our schedule and hampers the disposition of important matters before us. That is why, several weeks ago, I proposed a budget summit to break the impasse. There is no reason why the President, together with the leadership of the House and the Senate, cannot work out together an agreement that will cut the deficit in the way I have suggested and safeguard the recovery. But so far this proposal has had a less than enthusiastic response.

It is easy to understand why no one wants to take the first step, why no one wants to take the political heat for bringing about an agreement that cuts popular program or limits popular tax breaks. But if everyone would take just a little bit of the heat -- share and share alike -- we would all be better off. That is why I continue to believe the summit concept makes sense. If we delay too long, there is no question that 1984 politics will take precedence over sustaining the 1983 recovery.

And it is the scope and staying power of recovery that we are talking about. The reason there is so strong a consensus on the need to reduce the deficit -- both in the academic community, on Wall Street, and on Main Street -- is the fear that the size of the deficits, as recovery proceeds, will either force Fed monetization and renewed inflation or will cut off private investment. The risk is a return to stagflation, after we have worked so hard to escape that trap. At the same time the high value of the dollar inhibits progress in improving our trade position.

These fears are real, and they are helping keep interest rates up and making the

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job of Chairman Volcker nearly impossible. Let us applaud Paul Volcker for the job he has done, and confirm him for a new term so that he can finish the task. But at the same time let us take on our share of the burden, and make Chairman Volcker's role a more realistic one. Important as it is, the central bank alone cannot govern the economy. It must react to what we do, or what we fail to do.

Let us urge our leadership, at both ends of Pennsylvania Avenue, to tackle the budget problem now. Our opportunity is already slipping away.

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