

News from Senator

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DOLE: "STOP THE BUDGET SHELL GAME"--
ON SENATE FLOOR, CALLS FOR PRESIDENTIAL LEADERSHIP ON DEFICIT CRISIS

WASHINGTON -- Following is the text of a statement made this morning on the floor of the Senate by Senate Finance Committee Chairman Bob Dole (R.-Kan.).

THE TIME IS FAST APPROACHING WHEN WE WILL HAVE TO DECIDE WHETHER THIS CONGRESS IS A SERIOUS DELIBERATIVE BODY, OR NOT. A LEGISLATURE THAT CANNOT MOBILIZE ITSELF TO DEAL WITH THE MOST SERIOUS DOMESTIC CONCERN FACING THE NATION CANNOT BE TAKEN SERIOUSLY. THAT CONCERN--THE FATE OF THE ECONOMIC RECOVERY AS IT IS LINKED WITH THE HUGE BUDGET DEFICITS PROJECTED FOR THE YEARS AHEAD--OUGHT TO BE AT THE HEART OF OUR LEGISLATIVE AGENDA. INSTEAD IT IS A SORT OF A SIDESHOW, AN ISSUE MEMBERS VISIT FROM TIME TO TIME FOR THE RHETORICAL OPPORTUNITIES IT PROVIDES, BUT WHICH NO ONE IS PREPARED TO FOCUS ON IN A SUBSTANTIVE WAY. INCREASINGLY IT SEEMS WE ARE DRIFTING INTO SORT OF AN AIMLESS STUPOR WHEN IT COMES TO ECONOMIC POLICY. IF THAT CONTINUES WE MAY HAVE A VERY RUDE AWAKENING INDEED.

THE TIME ELEMENT

THE BUDGET DEFICIT PROBLEM HAS NOT ESCAPED THE ATTENTION OF THE NEWS MEDIA. BUT WE HEAR CONFLICTING REPORTS, AND THAT ADDS TO THE CONFUSION. THIS OR THAT ECONOMIC EXPERT IS CITED AS SAYING THAT THE RECOVERY IS ON TRACK, AND THE DEFICIT WILL NOT BE A REAL PROBLEM FOR A COUPLE OF YEARS. OTHERS SAY IT IS A PROBLEM NOW, AND HAS TO BE TACKLED NOW. LAST WEEK FED CHAIRMAN PAUL VOLCKER TESTIFIED THAT THE STRENGTH OF THE ECONOMIC RECOVERY MIGHT POSE A THREAT OF 'CROWDING OUT' OR HIGHER INTEREST RATES SOONER THAN WAS EXPECTED. IN OTHER WORDS, THE DEFICIT MIGHT BE A CURRENT PROBLEM FOR THE RECOVERY AS EARLY AS 1984, RATHER THAN 1985 OR 1986.

IT IS DIFFICULT TO KNOW WHICH SCENARIO WILL IN FACT DEVELOP, BUT IT IS WRONG TO ASSUME THAT OUR POLICY CHOICE OUGHT TO BE GUIDED BY DIFFERING ESTIMATES OF THE DATE AT WHICH THE DEFICIT WILL BECOME A SERIOUS PROBLEM. THERE IS VIRTUALLY NO DISPUTE THAT THE DEFICIT DOES THREATEN RECOVERY, BECAUSE IT WILL EITHER DRIVE INTEREST RATES BACK UP OR LEAD TO RENEWED INFLATION. IF WE AGREE THAT THE PROBLEM IS THAT SERIOUS--AND THAT PRESENT UNCERTAINTY ABOUT HOW CONGRESS AND THE PRESIDENT WILL REACT TO THE PROBLEM ALREADY DRIVES UP RATES--THEN WE MUST ALSO AGREE THAT THE TIME TO ACT IS NOW. NOT 1984, NOT AFTER THE NEXT PRESIDENTIAL ELECTION--BUT NOW. DELAY MEANS NO REAL ACTION UNTIL LATE 1984-- THAT MAY BE TOO LATE.

DANGER SIGNS

MR. PRESIDENT, IF ANYONE DOUBTS THAT WE ARE ALREADY RUNNING INTO PROBLEMS BECAUSE OF THE DEFICIT, JUST LOOK AT THE TRENDS OVER THE PAST THREE MONTHS. AMID THE MANY FAVORABLE--AND WELCOME--REPORTS OF HIGHER INDUSTRIAL PRODUCTION, RISING CONSUMER CONFIDENCE, AND IMPROVEMENTS IN THE EMPLOYMENT PICTURE, SOME DANGER SIGNS ARE CREEPING INTO THE PICTURE. INTEREST RATES ARE THE MOST OBVIOUS EXAMPLE. IN MAY 91-DAY TREASURY BILLS WERE OFFERING A RATE OF 8.04 %. NOW THEY ARE AT 9.36 %. SIX-MONTH BILLS ARE UP ABOUT 1 1/2 POINTS SINCE MAY: SO ARE LONG-TERM TREASURY BILLS, AND, MORE IMPORTANT FOR THE HOMEBUYER, MORTGAGE RATES. THE STOCK MARKET, WHILE CONTINUING TO BE GENERALLY HEALTHY, SHOWS SIGNS OF UNCERTAINTY, STALLING, AND POSSIBLY A SIGNIFICANT CORRECTION IN THE OFFING. BOND PRICES ARE GENERALLY LOWER AS A RESULT OF CONCERNS OF WHAT CONGRESS AND THE FEDERAL RESERVE MAY--OR MAY NOT--DO ABOUT THE ECONOMY. MEANWHILE THE DOLLAR HAS REACHED NEW RECORD HIGHS IN EXCHANGE MARKETS--A SIGN THAT FOREIGN INVESTMENT IS INCREASINGLY ATTRACTED BY OUR HIGH INTEREST.

HIGHER INTEREST RATES SLOW INVESTMENT AND GROWTH. INVESTORS WHO CAN GET A HIGH RETURN ON GOVERNMENT SECURITIES HAVE LITTLE INCENTIVE TO INVEST IN NEW PRODUCTION. AN EXCESSIVELY HIGH DOLLAR EXACERBATES OUR BALANCE-OF-TRADE PROBLEMS, AND LEADS TO INCREASING TENSION OVER THE MAJOR TRADE NEGOTIATIONS THAT ARE GOING ON RIGHT NOW AND GROWING CLAMOR FOR STEPS TO PROTECT OUR DOMESTIC MARKETS--AND THUS A THREAT TO LONG-TERM GROWTH THROUGH EXPANDED TRADE. ALL THIS TRANSLATES INTO FEWER JOBS AND THE

SPECTER OF ECONOMIC STAGNATION--THE BANE OF THE 1970'S THAT WE
PLEGGED TO ERADICATE.

RESPONSE TO DATE

MR. PRESIDENT, OUR RESPONSE TO DATE TO THIS PROBLEM--OR
RATHER TO THIS ARRAY OF PROBLEMS POSED BY THE DEFICIT--NEEDS
TO BE EXAMINED. IT IS NOT A GOOD RECORD, AND IT DEMONSTRATES
WHY WE MUST BREAK OUT OF INERTIA THAT GRIPS US.

WE HAVE ADOPTED A BUDGET. BUT THAT BUDGET WOULD HAVE NO
GREAT IMPACT ON THE DEFICIT EVEN IF FULLY IMPLEMENTED, AND THERE
IS LITTLE PROSPECT THAT IT WILL BE. RECONCILED SPENDING REDUCTIONS
IN THE 1984 BUDGET ARE JUST \$2.8 BILLION IN 1984 AND \$12.3 BILLION
OVER THREE YEARS. THIS, AT A TIME WHEN SPENDING IS RUNNING AT
A RECORD 25 PERCENT OF GNP. RECONCILED REVENUES ARE PROPOSED
AT \$73 BILLION OVER THREE YEARS, BRINGING 88 PERCENT OF THE
RECONCILIATION INSTRUCTION INTO THE JURISDICTION OF THE FINANCE
COMMITTEE. BUT APART FROM RECONCILIATION, THE NET EFFECT OF
THE BUDGET IN FY 1984 IS TO INCREASE NONDEFENSE SPENDING BY
\$1 BILLION. EVEN WORSE, THE SO-CALLED 'RESERVE' FUND AUTHORIZES
SUBSTANTIAL NEW NONDEFENSE SPENDING WHILE PRETENDING IT WILL NOT
AFFECT THE DEFICIT. COUNTING THE RESERVE FUND, SPENDING WOULD
INCREASE BY ABOUT \$10 BILLION IN 1984. ONLY \$4.4 BILLION OF
THE DEFICIT REDUCTION PROPOSED FOR 1986 IS IN NONDEFENSE SPENDING
CUTS--THE REST IS A \$46 BILLION TAX INCREASE AND \$15 LESS IN
DEFENSE.

BUT THE LACK OF TEETH IN THIS BUDGET IS ONLY ONE SYMPTOM
OF A DISEASE THAT IS SPREADING IN CONGRESS: IT IS CALLED
'BUSINESS AS USUAL'. THE TEMPTATION TO ACCOMMODATE CONSTITUENT
DEMANDS AND SPECIAL INTEREST PRESSURES ONCE AGAIN SEEMS TO BE
OVERWHELMING. THE SPIRIT OF FIRMNESS AND DISCIPLINE TO PROTECT
THE PUBLIC INTEREST--WHICH WERE DEMONSTRATED AT LEAST TO SOME
DEGREE IN BOTH 1981 AND 1982--SEEM TO HAVE VANISHED. INSTEAD
WE HAVE PASSED A SO-CALLED 'JOBS BILL' THAT DIVVIES UP \$4.6
BILLION, LARGELY FOR PORK-ORIENTED PROJECTS THAT WILL HAVE LITTLE
IMPACT ON ALLEVIATING RECESSIONARY UNEMPLOYMENT. WE ALLOWED
IN THE BUDGET FOR ANOTHER \$2.1 BILLION FOR 'PHYSICAL INFRASTRUCTURE'
PROGRAMS, AND \$8 BILLION OVER THREE YEARS FOR A 'PHASE TWO'
JOBS BILL. WE ALL WANT TO CREATE JOBS, BUT JEOPARDIZING RECOVERY
TO GENERATE MAKE- JOBS THAT POLITICIANS CAN TAKE CREDIT FOR

IS BY ANY STANDARD A JOB-DESTROYING POLICY.

AND THERE IS MORE IN THE PIPELINE. WE HEAR THE CLAMOR FOR MORE SUBSIDIES FOR HOMEBUYERS, MORE MONEY FOR REVENUE SHARING, MORE AID TO DISTRESSED INDUSTRIES VIA AN 'INDUSTRIAL POLICY'--A POOR TERM TO DESCRIBE PROPOSALS TO LEGISLATE EVEN MORE IMPEDIMENTS TO ECONOMIC GROWTH IN THE FORM OF GOVERNMENT-DETERMINED ALLOCATION OF RESOURCES. MORE FOR EDUCATION, MORE FOR TRANSIT, MORE AID FOR THE STATES. EVERYONE IS PUSHING, AND CONGRESS SEEMS READY TO YIELD.

LOOK AT AGRICULTURE AS AN EXAMPLE. AS MY COLLEAGUES WELL KNOW, I HAVE ADVOCATED FREEZING TARGET PRICES AS A WAY TO CONTROL PROGRAM COSTS, PARRY CRITICISM OF BASIC AND VITAL FARM PROGRAMS, AND REDUCE THE DEFICIT. BUT MY COLLEAGUES WHO ARE FROM FARM STATES--LIKE MYSELF--APPEAR UNWILLING TO ALLOW EVEN THAT TO BE CONSIDERED. I RESPECT THEIR VIEWS, BUT I MUST SAY THAT THEIR VIEW IS SHORT-SIGHTED, AND PUTS AT RISK PUBLIC SUPPORT FOR AGRICULTURAL SUBSIDIES IN GENERAL. THE PIK PROGRAM AND THE \$21 BILLION PRICE TAG FOR THIS YEAR'S FARM PACKAGE HAVE NOT GONE UNNOTICED IN THE NEWS MEDIA. FARM EXPORTS ARE TOO IMPORTANT TO OUR ECONOMY AS A WHOLE FOR US TO PUT FEDERAL AGRICULTURAL POLICY AT RISK BECAUSE OF INSENSITIVITY TO THE ROLE FARM PROGRAM EXCESSES PLAY IN ADDING TO THE SEVERE DEFICIT PROBLEM.

MR. PRESIDENT, THERE ARE JUST TOO MANY CASES WHERE CONGRESS HAS REFUSED TO CONTROL PROGRAM COSTS OR ACCEPT RESPONSIBILITY WHEN COSTS DEVIATE TO AN ASTRONOMICAL DEGREE FROM OUR ORIGINAL ASSUMPTIONS. MEDICARE IS A CASE IN POINT. WE ARE GOING TO HAVE TO SAVE IT IN THE NEAR FUTURE, JUST AS WE SAVED SOCIAL SECURITY, BECAUSE WE LET ITS COSTS GET OUT OF CONTROL RELATIVE TO OUR ABILITY TO PROVIDE FINANCING. THIS IS NOT A BUDGET MANDATE, IT IS A SIMPLE REALITY FORCED BY SKYROCKETING MEDICAL COSTS AND BASIC FLAWS IN PROGRAM STRUCTURE. IN FY 1975 MEDICARE COST \$18.9 BILLION. IN JUST SEVEN YEARS THAT COST HAS TRIPLED TO \$56 BILLION, AND IT IS PROJECTED TO RISE TO \$81 BILLION, ANOTHER 44 % INCREASE, BY 1986. THE LINK BETWEEN OUR LACK OF CONTROL OVER MEDICARE AND HEALTH CARE COSTS THAT FAR OUTSTRIP THE GENERAL INFLATION RATE NEEDS TO BE EXAMINED, BUT THIS IS JUST ANOTHER INSTANCE OF HOW CONGRESS PUTS SPENDING

ON AUTOMATIC PILOT--A DISSERVICE BOTH TO BENEFICIARIES WHO LEARN TO RELY ON PROGRAMS AND TO THE AVERAGE TAXPAYER WHO FOOTS THE BILL, EITHER THROUGH TAXES, INFLATION, OR HIGHER INTEREST COSTS.

BASE TO BUILD ON

THESE 'HORROR STORIES' VIVIDLY DEMONSTRATE WHAT IS WRONG. BUT LEST WE CONCLUDE THAT THERE IS NOTHING TO BE DONE, WE OUGHT TO CONSIDER THE FIRM FOUNDATION THAT HAS BEEN ESTABLISHED IN THE ECONOMY, AND WHICH WE CAN AND MUST BUILD ON. INFLATION IS WAY DOWN--RUNNING AT ABOUT 2 1/2 PERCENT IN THE 12 MONTHS ENDING IN JUNE, THE LOWEST IN 15 YEARS. EVEN WITH THE UPWARD BLIPS, INTEREST RATES ARE FAR BELOW THE RECORD HIGHS OF THE CARTER YEARS. EMPLOYMENT IS RISING, THE AUTO INDUSTRY IS RECOVERING, HOUSING STARTS ARE UP, AND THE FASTER GROWTH PACE WILL HELP OFFSET SOME OF THE DEFICIT. WE HAVE A STRONG RECOVERY UNDERWAY. THE GOAL IS TO SUSTAIN IT--BY NOT ALLOWING INACTION ON THE DEFICIT TO IMPEDE FURTHER PROGRESS, OR EVEN WIPE OUT THE PROGRESS WE HAVE MADE.

STABLE GROWTH WITHOUT INFLATION IS THE PATH WE HAVE BEEN SEEKING TO RETURN TO FOR NEARLY THE PAST TWO DECADES. WE HAVE A CHANCE NOW, AND THE VOTERS WILL NOT FORGIVE US-- ANY OF US--IF WE THROW THAT CHANCE AWAY.

WHAT IS TO BE DONE

MR. PRESIDENT, THE QUESTION IS NOT WHEN TO ACT. THE TIME IS NOW. ANYONE WHO BELIEVES THE ECONOMY IS GOING TO KEEP MARCHING AHEAD WITH THESE HUGE DEFICITS IN TOW IS LIVING IN A DREAM WORLD. OUR JOB IS NOT TO ORDER THE RECOVERY, BUT TO STAND OUT OF THE WAY AND LET IT PROCEED. IT WILL NOT UNLESS WE ACT.

AND LET ME SAY THAT, WHILE I APPRECIATE THE CONCERN SHOWN BY OUR GOVERNORS LAST WEEKEND OVER THE DEFICIT PROBLEM, IN MANY WAYS THEIR DELIBERATIONS ARE A PERFECT ILLUSTRATION OF THE PROBLEM WE FACE. THE DEFICIT IS A PROBLEM, THEY SAID-- THE STATES NEED MORE MONEY. YOU, THE FEDERAL GOVERNMENT, OUGHT TO RAISE TAXES -- WE NEED THE MONEY.

WE WILL HAVE TO RAISE TAXES TO BRING THE DEFICIT TO ACCEPTABLE LEVELS. BUT WE WILL HAVE TO CUT SPENDING FIRST,

PERHAPS INCLUDING SPENDING THAT AFFECTS OUR FRIENDS, THE GOVERNORS OF THE 50 STATES. EVERYONE IS WILLING FOR THE OTHER GUY TO SACRIFICE. WE NEED TO PINCH OURSELVES A LITTLE TOO, IF WE HAVE ANY HOPE OF GETTING THE JOB DONE. I HOPE THE GOVERNORS WILL JOIN US IN THE EFFORT TO PUT TOGETHER A SPENDING AND REVENUE PACKAGE THAT CAN RECEIVE IMMEDIATE ACTION BY THE CONGRESS.

BECAUSE THAT IS JUST THE KIND OF LEADERSHIP WE NEED. OUR LEADERS, FROM THE PRESIDENT AND THE CONGRESS TO OUR STATE AND LOCAL OFFICIALS AND BUSINESS AND CIVIC LEADERS, NEED TO PULL TOGETHER IN ORDER TO SAFEGUARD THE DOMESTIC ECONOMY. THERE IS NO POINT IN ASSIGNING BLAME, BECAUSE NO ONE IS FREE OF IT. JUST AS CONGRESS MUST PUT SPENDING IN ORDER, THE PRESIDENT MUST MAKE CLEAR HIS PRIORITIES ON THE BUDGET, AND TELL US WHAT HE EXPECTS US TO DO ABOUT THE DEFICIT. WE NEED HIS LEADERSHIP AND HIS APPROVAL, BECAUSE WE KNOW HE CAN GET THE JOB DONE. HE HAS DONE IT BEFORE: ALL HE NEEDS IS A CLEAR SENSE OF PURPOSE. WE MUST BE WILLING TO HELP HIM CLEAR THE AIR, IF THERE IS ANY DOUBT ABOUT THE CHALLENGE WE FACE.

I HAVE SAID SEVERAL TIMES THAT WE NEED AN EXERCISE IN DOMESTIC SUMMETRY TO ELIMINATE THE REAL RISK TO LONG-TERM RECOVERY. UNLESS EVERYONE COMES TOGETHER AND IS WILLING TO LEAD THE PUBLIC, WE WILL BE REDUCED TO FOLLOWING THE TREND, BE IT GOOD OR BAD. WE CANNOT ALLOW PROGRESS TOWARD RECOVERY TO LULL US INTO ACQUIESCENCE IN WHATEVER HAPPENS.

THE SUMMIT CONCEPT WILL HAVE TO BEGIN WITH THE PRESIDENT AND WITH THE CONGRESS, BUT IT SHOULD NOT STOP THERE. ALL DECISION-MAKERS IN OUR ECONOMY, INCLUDING BUSINESS AND LABOR, HAVE A VITAL STAKE IN WHAT HAPPENS. WE CANNOT PLEASE EVERYBODY, BUT ONLY IF WE AGREE ON THE ABSOLUTE PRIORITY OF CUTTING THE DEFICIT IN A WAY THAT ADVANCES OUR SHARED ECONOMIC GOALS WILL WE HAVE A FIGHTING CHANCE TO SUCCEED. WE CANNOT TAX OUR WAY OUT OF RECESSION, AND WE CANNOT DEVASTATE THE SOCIAL AND BENEFIT PROGRAMS THAT SO MANY AMERICANS DEPEND ON. BUT WE CAN MAKE ADJUSTMENTS ON BOTH SIDES OF THE LEDGER THAT BOOST THE ODDS IN OUR FAVOR.

THE AUGUST RECESS IS THE PERFECT TIME TO TACKLE THE RISK OF RENEWED RECESSION. WE NEED TO SIT DOWN AND BEGINNING WORKING OUT, AT LEAST AT THE STAFF LEVEL, THE OUTLINES OF THE KIND OF DEFICIT REDUCTION PACKAGE THAT CAN HAVE A REAL IMPACT. WE NEED TO START THE EFFORT TO EXPLAIN TO THE PUBLIC WHAT THE STAKES ARE, AND TO BUILD A CONSENSUS ON THE KINDS OF TOUGH ACTION THAT ARE NEEDED TO PROTECT THE RECOVERY. IF WE DO NOT, THE PUBLIC WILL REMEMBER OUR FAILURE, AND NO ONE WILL ESCAPE BLAME. WE HAVE BUILT PUBLIC SUPPORT FOR CONTROVERSIAL ACTIONS ON A NUMBER OF OCCASIONS IN RECENT YEARS, EVEN WITH AN ELECTION IMPENDING. THE LEADERSHIP OF PRESIDENT REAGAN HAS OFTEN BEEN THE KEY. WE NEED HIM TO SET THE COURSE NOW, BECAUSE THE JOB IS DO-ABLE AND IT HAS TO BE DONE. WITH A NATIONAL ACCORD ON DEFICIT REDUCTION, WE CAN TAKE THE PARTISAN EDGE OFF THE ECONOMIC ISSUE AND MAKE REAL PROGRESS FOR ALL AMERICANS. THIS IS ONE SUMMIT THAT MUST BE REACHED.

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