REMARKS OF SENATOR DOLE

THE CHRISTIAN LIFE COMMISSION

Tuesday, March 27, 1984--8:00 a.m.--Twin Bridges Marriott

Why worry about the deficit--What does it mean to the average American?

- If nothing is done to reduce deficit spending over the next five years, the total Federal debt will nearly double to over $10,000 for every man, woman and child in America.
- At this level, by 1989 it will take one-half of all Americans' personal income tax payments just to pay the Federal Government's interest bill.
- By 1989 the annual Federal interest cost will amount to $250 billion--about $1,100 for every American.
- That $1,100 per person interest cost is equal to 40% of each person's annual expenditure for food.
- Virtually all economists agree that the sustained enormous deficits that we are facing will be economically harmful.
- Many Americans will find home-buying more difficult with higher deficits. Consider a family purchasing a home at today's current interest rate, averaging about 12-1/2%, with a $55,000 mortgage. If the deficits push interest rates up, total interest costs over the 30 year term will be $15,500 more for each one percentage point increase.
- All Americans will directly feel the results of high deficits if they lose jobs as a result of a business slowdown resulting from a crowding out of private investment, or if they lose jobs to imported products made more competitive because of an abnormally strong dollar or if they end up paying higher prices because inflation is rekindled.

What is the Federal deficit likely to be?

- The estimates of future Federal deficits are quite sensitive to one's economic assumptions. Yet even under the most optimistic of economic assumptions, the deficit will remain at historically high $200 billion levels over the foreseeable future, unless drastic action is taken.
- Assuming an extremely strong recovery (4% real growth of GNP) is sustained over the next few years and all of the Administration's

proposed spending cuts and revenue proposals are enacted, the deficits are still projected to be:

FY 1985	FY 1986	FY 1987	FY 1988
$180 billion	$177 billion	$180 billion	$152 billion

- If economic growth is not so strong (3% real GNP growth) and interest rates are slightly higher (9% T-bill rate), and Administration's spending cuts are not enacted, the projected deficits would be:

FY 1985	FY 1986	FY 1987	FY 1988
$202.6 billion	$236.7 billion	$270 billion	$290.1 billion

- If we have an economic downturn during this period, we may be facing $300 plus billion deficits.

Why should we act this year on the deficit

- If we fail to deal with the deficit now, the problem will become worse. Current projections showing deficits holding in the range of $200 billion probably are optimistic, as they are based upon assumption of steady economic growth through 1989. However, postwar experience suggests that the average recovery lasts only 3 years, making a recession in 1985 or 1986 likely.

- If we postpone action until 1985 and we do suffer another recession, the deficits would then hit the $300-$400 billion range. At that point, it may be difficult to cut the deficit without further weakening the economy. Our choices would become very difficult indeed.

- Of course, failure to reduce the deficit in 1984 makes a recession likely to come sooner, as interest rates are forced up by private credit demands clashing with Treasury borrowing needs.

- By postponing action of the deficit, we increase the risk of recession. The average increase in the unemployment rate during a postwar recession is about three points, or three million jobs. By acting to reduce the deficit, we can significantly lower the risk that three million workers will lose their jobs in 1985 and 1986.

- The rise in interest rates will depress auto sales, housing starts, and capital goods orders. It is widely recognized that sustained economic recovery will be impossible unless these key sectors are healthy.

- Alternatively, the Fed could offset the deficits' impact on interest rates by "monetizing" the debt, leading to a resurgence of inflation in 1985. If we do nothing, we will force the Fed to choose between high interest rates and recession, or inflation.

- Failure to reduce the deficits in 1984 may also depress the stock market. A key factor in determining equity and bond prices is investors' confidence that Congress and the Administration can produce a sound fiscal policy. If we send the signal that the deficit problem is secondary to politics, equity and bond prices may fall.

- The exploding cost of servicing the Federal debt will make controlling spending more difficult each year, unless the deficits are reduced soon. Each year that we add $200 billion in new Federal debt adds about $15 billion to the next year's interest costs.

- The economy is now on a path where more and more of its resources go just to pay off the debt. According to economist Lawrence Summers, "It's a case where the miracle of compounding (interest) works against you."

- In 1976 net interest accounted for just 7% of total outlays But if we do nothing, by 1988 the total Federal debt will be more than half of total GNP, and the net interest cost of servicing this debt will reach 14% of all spending. Each year that we do nothing, the share of Federal spending that we can control gets smaller.

- Recent studies indicate that current and prospective budget deficits may have helped to overvalue the American dollar. If the deficits are not reduced, the problem of overvaluation could become worse, weakening the competitive position of American exports and costing the U.S. jobs in such industries as steel, electronics, and agriculture.

Deficit downpayment in 1984

- The President took the lead to begin a deficit-reduction effort in 1984 by calling for bipartisan negotiations on a package to reduce the deficit by $100 billion over 3 years. Now he has worked with congressional Republicans to outline a $150 billion package including defense savings ($40 billion), nondefense cut

($43 billion), revenue increases ($48 billion), and debt service savings ($18 billion). As the President suggests, we can work with a variety of modest spending reductions, and tax reforms that raise revenue, to enact a significant deficit "downpayment" in 1984.

- Even though election-year politics makes it difficult to launch the kind of major assault on the deficit that we really need, that is no reason to do nothing. Making a noticeable dent in the deficit will make our job easier in the years ahead. Even more importantly, it will demonstrate that we <u>can</u> face up to the deficit problem even in an election year.

- The Finance Committee has agreed on spending and revenue options just within its jurisdiction that achieve about $74 billion of the "downpayment" goal. To do that we are drawing on a number of proposals that have been on the table for some time, including some already in the legislative "pipeline":

  -Items included in the FY 1984 reconciliation bill, S. 2062, which awaits Senate action

  -Treasury-endorsed proposals on tax shelters and other abuses

  -Administration -proposed spending cuts that were not followed through on last year

  -Administrative savings and other proposals made by the Grace Commission

  -Additional proposals considered in the Finance Committee last fall

- <u>Target</u>. With an overall goal of $150 billion in savings, we can achieve $21.4 billion from revenue changes pending in S. 2062, $3.8 billion in spending reduction from Finance Committee programs in S. 2062, $3.1 billion from Grace Commission recommendations, $9.6 billion in debt service savings, and the remainder from additional spending and tax changes aimed at desirable policy reforms.

- <u>Feasibility</u>. The key is to keep following the President's suggestion and concentrate on relatively non-contentious items, avoiding things like the third-year tax cut and indexing, mean-tested entitlements, social security, and the like. Our effort must be bipartisan and balanced to do the job: Democrats and Republicans alike will benefit by cooperating to take swift action on the deficit. Time is of the essence if we are to make a beginning this year.

- Initial Finance Action. On February 23, the Finance Committee began action to reduce the deficit. So far the Committee has agreed to changes in health care programs that save $8.3 billion between now and 1987, over and above the provisions in S. 2062. In addition, the Committee agreed to tax reform and modest revenue raisers that generate $48.1 billion between now and 1987, provided at least that amount of spending reduction can be achieved. The House Ways and Means Committee has also reported a $50 billion tax bill, so we may be on our way.

Recovery--What progress have we made

Strength of recovery

- A strong recovery is on track and appears to be moderating to a pace that can be sustained in the years ahead. As an indication, look at the expansion of real gross national product. It grew by 9.7% in the second quarter of 1983, 7.9% in the third quarter, and an estimated 4.5% in the fourth quarter. By this measure, the recovery is the strongest since 1961.

- Housing starts are running at a rate of about 2.2 million units a year, and jumped 11.2 % in February.

- Industrial output in 1983 rose 6.5%, and factory utilization is up to 80.7%--the highest level in two years, and close to the normal capacity of 82%.

- The Commerce Department's survey of business plans for 1984 show that business plans to increase capital investment by 16%--this is higher than that seen at comparable points in previous postwar recoveries.

Inflation

- The best news about this recovery is that it is noninflationary. In 1983 the producer price index rose just 0.6%--the lowest increase since 1964. The CPI for 1983 was 3.8%, the lowest since 1972. Continued moderation in producer prices indicates low inflation will continue.

Creating Jobs

- People are going back to work, and the pace of job creation has been unusually high for a postwar recovery. On January 6 the Labor Department announced the civilian unemployment rate dropped from 8.4% last November to 7.8% in February. Overall, this means unemployment has dropped 2.9 percentage points over the past year.

- The continued strength of the recovery shows that recent growth in employment has not just been a statistical fluke, but shows a real turnaround in the labor market. Unemployment fell 230,000 in December, and there have been 4.9 million jobs created in the last year.

- What is more, the growth in jobs is broad-based. While manufacturing industries showed the most dramatic gains, all industries other than government and agriculture showed dramatic drops in unemployment.

PRELIMINARY ESTIMATES OF THE SENATE FINANCE COMMITTEE PACKAGE

SPENDING	1984-87 Total (Savings in $ billions)
Reconciliation (S. 2062)	
Finance Committee provisions	3.8
Additional Spending Reductions	
*Part B Premium	0.4
*Delay in Initial Eligibility for Medicare	0.6
Working Aged	1.1
*Physician Freeze	0.8
Hospital Market Basket	1.1
Lab Fee	0.9
Medicaid Reduction	1.4
Alcohol Rebate	0.9
Revaluation of Assets	0.3
Lesser of costs of charges	0.3
Competitive Bidding/Claims	0.1
Round Part B Payments	0.2
SNF Rates	(0.1)
Grace Commission	3.1
Debt Service	9.6
Total	24.5

	1984-87 Total (in $ billions)
Reconciliation Tax Provisions (S. 2062)	21.4
Additional Revenue Items:	
Tax shelter, accounting abuse, and corporate reform	10.2
Tax Federal Home Loan Mortg. Corp.	0.3
Tax benefit rule	0.8
Alcohol and tobacco collections	0.5
Freeze ACRS expensing, ITC for used prop. and foreign income exclusion	1.9
Postpone finance lease rules	2.7
Extend telephone-excise tax	3.2
Modification of Sec. 1231	0.2
Factoring of trade receivables	1.4
Source of shipping income	0.2
Recharacterization of U.S. income as foreign source income	0.3
Trust distributions	0.7
Income averaging modification	1.6
Delay in ESOP	0.4
Corporate preference exclusion increase	0.5
Increase distilled spirits tax	1.0
Deferred rent on real and taxable property	1.7
Repeal dividend reinvestment	0.4
Installment sale recapture rule	0.2
20-year life for structures	4.2
Other miscellaneous revenue increase proposals	2.6
Major Revenue Loss Provisions:	
Spousal IRAs	-.9
Enterprise zones	-1.3
R&D credit extension and expansion	-2.0
R&D foreign source allocation	-0.2
Targeted jobs tax credit	-1.6
Life insurance tax change	-1.3
Earned income tax credit	-0.4
Mortgage revenue bond extension-IDB package	-0.6
Grand Total	$48.1

<u>TALKING POINTS ON HUNGER</u>

<u>CHRISTIAN LIFE COMMISSION</u>

<u>MARIOTT TWIN BRIDGES</u>

<u>MARCH 27, 1984</u>

- AS EVERYONE IS AWARE, IT IS VERY DIFFICULT TO DOCUMENT "HUNGER" ON A NATIONWIDE BASIS. HOWEVER, POLICYMAKERS IN CONGRESS ARE CERTAINLY AWARE OF THE KIND OF SERIOUS PROBLEMS THAT EXIST IN LOCAL COMMUNITIES HARD-HIT BY INCREASED UNEMPLOYMENT. ALTHOUGH OUR ECONOMY IS MANIFESTING SOME PROMISING SIGNS OF A CONTINUING RECOVERY, IT WILL TAKE A WHILE BEFORE THE EFFECTS OF THIS ECONOMIC REVIVAL REACH MANY OF THOSE WHO HAVE SUFFERED MOST.

- IN THE MEANTIME, ALL THREE LEVELS OF GOVERNMENT, ALONG WITH LOCAL CHARITABLE ORGANIZATIONS, MUST CONTINUE THEIR EFFORTS TO PROVIDE FOOD ASSISTANCE. THE FEDERAL GOVERNMENT CANNOT, AND SHOULD NOT, ASSUME TOTAL RESPONSIBILITY; ALL OF THESE ENTITIES WORKING TOGETHER COMPRISE A COMPREHENSIVE FOOD ASSISTANCE NETWORK TO PROVIDE ASSISTANCE SOMEWHERE ALONG THE LINE. CHURCHES, SOUP KITCHENS, AND FOOD BANKS ARE TO BE COMMENDED FOR THE TREMENDOUS SERVICES THEY HAVE PROVIDED TO THOSE WHO, FOR SOME REASON, ARE NOT BEING REACHED OR SATISFIED BY THE BENEFITS OF GOVERNMENT NUTRITION PROGRAMS.

- ATTEMPTS TO ADDRESS THE FOOD ASSISTANCE PROBLEMS THAT HAVE BEEN BROUGHT TO OUR ATTENTION IN THE CONGRESS HAVE BEEN SOMEWHAT HINDERED BY POLITICIZATION OF THE HUNGER ISSUE. POLITICAL AND ADVOCACY REPORTS, THAT DISTORT THE REALITY OF THE SITUATION, AS WELL AS EXAGGERATED MEDIA PRESENTATIONS, ARE NOT HELPFUL, BUT

ONLY SERVE TO GENERATE A LOT OF COUNTERPRODUCTIVE RHETORIC.

-- FOR EXAMPLE, SENATOR KENNEDY'S REPORT DID LITTLE MORE THAN COMPILE ADVOCACY REPORTS THAT HAD BEEN IN EXISTENCE MONTHS EARLIER. HIS SO-CALLED "HUNGER" TOUR CONSISTED MOSTLY OF HOLDING PRESS CONFERENCES IN VARIOUS CITIES AROUND THE COUNTRY. HIS RECOMMENDATIONS TOTAL 2.5 BILLION DOLLARS. A 10% INCREASE IN SPENDING FOR THE FOOD STAMP PROGRAM, WHICH IS THE PRIMARY PROPOSAL, WOULD COST TAXPAYERS ABOUT $1.7 BILLION -- AND IT IS SO ARBITRARILY CONSTRUCTED THAT IT WOULD DO LITTLE MORE THAN THROW MONEY AT THE PROBLEM.

- THIS PAST JANUARY, THE PRESIDENT'S TASK FORCE ON FOOD ASSISTANCE PRESENTED ITS REPORT AND MADE ITS RECOMMENDATIONS TO ADDRESS HUNGER PROBLEMS AROUND THE COUNTRY. ALTHOUGH THEY DISCOVERED THAT "HUNGER" WAS DIFFICULT TO QUANTIFY AND DOCUMENT, THEY DID RECOGNIZE THAT IT DOES EXIST IN THIS COUNTRY, AND MADE SOME SUBSTANTIVE RECOMMENDATIONS TO ADDRESS THE PROBLEMS THEY FOUND. AMONG THEIR RECOMMENDATIONS WERE RESTORING ONE PERCENT TO THE 99% THRIFTY FOOD PLAN, RAISING THE OUTMODED ASSETS LIMITS, AND MAKING THE PROGRAM MORE ACCESSIBLE TO POTENTIALLY NEEDY RECIPIENTS.

-- HOWEVER, THE PROPOSAL FOR AN OPTIONAL STATE AUTONOMOUS FOOD ASSISTANCE PROGRAM (STATE BLOCK GRANT) IS SOMETHING I CANNOT SUPPORT, BECAUSE I BELIEVE THAT THE FEDERAL GOVERNMENT SHOULD MAINTAIN ITS LEADERSHIP ROLE IN THE NUTRITION PROGRAM AREA.

-- FURTHER, THEIR PROPOSAL TO MODIFY THE EXISTING ERROR RATE SANCTION SYSTEM SEEMS UNNECESSARY IN LIGHT OF THE FACT THAT THE CURRENT SYSTEM (A DOLE PROPOSAL, I MIGHT ADD) APPEARS TO BE WORKING.

- CONTRARY TO WHAT ADVOCACY GROUPS WOULD TRY TO CLAIM, THERE IS LITTLE DIRECT EVIDENCE THAT BUDGET CUTS IN FEDERAL FOOD PROGRAMS DURING 1981 AND 1982 HAVE CONTRIBUTED SIGNIFICANTLY TO THE HUNGER PROBLEMS THAT EXIST. IN TESTIMONY AT A JOINT SENATE-HOUSE NUTRITION SUBCOMMITTEE HEARING ON JANUARY 20, BOB GREENSTEIN, DIRECTOR OF THE CENTER ON BUDGET AND POLICY PRIORITIES, STATED:

> "I THINK THE CURRENT HUNGER PROBLEM IS A COMBINATION OF... FACTORS, NO ONE OF WHICH BY ITSELF WOULD HAVE CAUSED IT TO [BECOME] AS SEVERE...AS IT IS. ONE IS THE INCREASED UNEMPLOYMENT. ONE IS BUDGET REDUCTIONS AND CONDITIONS IN...PROGRAMS OTHER THAN FOOD PROGRAMS. . . IN FOOD STAMPS, I DON'T THINK THERE IS ANY ONE PARTICULAR CHANGE THAT HAD A DEVASTATING EFFECT . . . I HAVE NEVER SAID OR INTENDED TO SAY THAT THE WHOLE SITUATION WAS CREATED BY CUTS JUST IN FOOD STAMPS OR CHILD NUTRITION. IT WAS NOT."

- DURING THE BUDGET PROCESSES OF 1981 AND 1982, CONGRESS, IN A BIPARTISAN COOPERATIVE EFFORT, ENACTED SAVINGS OF ABOUT $7 BILLION IN THE FOOD STAMP PROGRAM OVER THE THREE-YEAR PERIOD FY 1982-1985.

  -- THIS WAS ACCOMPLISHED BY IMPROVED TARGETING OF BENEFITS TO THE MOST NEEDY, REFORM MEASURES TO CURTAIL FRAUD AND ABUSE, AND A STRENGTHENING OF STATE ADMINISTRATION OF THE PROGRAM.

  -- WITH REPUBLICANS AND DEMOCRATS WORKING TOGETHER, THE CONGRESS REDESIGNED A MAJORITY OF THE PRESIDENT'S ORIGINAL BUDGET PROPOSALS FOR THE FOOD PROGRAM AREA IN ORDER TO UTILIZE SAVINGS OPTIONS THAT WOULD MINIMIZE THE IMPACT ON LOW-INCOME AMERICANS.

-- FURTHER, THE CHANGES MADE HELPED TO ENHANCE THE PROGRAM'S IMAGE WITH THE AMERICAN PUBLIC.

- DESPITE BUDGET CUTS, 23.4 MILLION PEOPLE ARE NOW PARTICIPATING IN THE FOOD STAMP PROGRAM, IN CONTRAST TO 21 MILLION BACK IN 1980,-WHICH DEMONSTRATES THAT THE CHANGES MADE IN THE PROGRAM DID ACTUALLY IMPROVE TARGETING OF BENEFITS TO THE MOST NEEDY PARTICIPANTS. IN ADDITION TO MORE PEOPLE RECEIVING BENEFITS FROM THE PROGRAM, THE FEDERAL GOVERNMENT IS SPENDING MORE FUNDS ON NUTRITION PROGRAMS THAN EVER BEFORE -- A TOTAL OF ABOUT $18 BILLION FOR FY '83 ON ABOUT 10 SEPARATE PROGRAMS, INCLUDING FOOD STAMP PROGRAM EXPENDITURES OF ABOUT $12.8 BILLION FOR FY 1983, AND A PROJECTED $12.3 BILLION FOR FY 1984.