

REMARKS OF SENATOR DOLE

NEW YORK ECONOMIC CLUB

APRIL 3, 1984

TONIGHT, I BRING GOOD NEWS FROM WASHINGTON. AFTER MONTHS OF
RHETORIC, CONGRESS IS FINALLY GETTING DOWN TO THE REAL WORK OF
CUTTING BUDGET DEFICITS. THE SENATE IS ABOUT TO TAKE UP
LEGISLATION IMPLEMENTING THE PRESIDENT'S "DOWN-PAYMENT" DEFICIT
REDUCTION PLAN, WHICH WOULD LOWER DEFICITS BY \$150 BILLION OVER
THE NEXT FOUR YEARS.

AFTER ALL OF OUR SPEECHES, WE FINALLY FIND OURSELVES IN A
POSITION TO DO SOMETHING ABOUT DEFICITS WHICH WE ALL AGREE
THREATEN CONTINUED ECONOMIC RECOVERY. BY ENACTING IN AN ELECTION
YEAR THESE SAVINGS, ABOUT HALF OF WHICH RESULT FROM FINANCE
COMMITTEE ACTIONS, CONGRESS AND THE ADMINISTRATION WILL BE

↓ Do you
get good press
Andrew

Don
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COMMITTING ITSELF TO DO WHATEVER IS NECESSARY IN 1985 AND BEYOND
TO END THIS BUDGET CRISIS ONCE AND FOR ALL.

THOSE OF US WHO HAVE BEEN WORKING ON THIS PACKAGE SINCE LAST
FALL ARE GRATIFIED THAT THE PRESIDENT IS ON BOARD AND THAT THE
PROSPECTS FOR A TIMELY, SUCCESSFUL COMPLETION ARE BRIGHT. BUT WE
REALIZE THIS IS ONLY A FIRST STEP, AND THERE IS MUCH MORE WORK TO
BE DONE.

THE STAKES ARE HIGH. THE ECONOMY STANDS AT THE THRESHHOLD OF
STEADY, NONINFLATIONARY GROWTH. IF WE CAN ELIMINATE THIS ONE
REMAINING CLOUD, THE FUTURE WILL LOOK A BIT BRIGHTER.

WHY WORRY ABOUT THE DEFICIT

THOSE OF US WHO ARE CONCERNED ABOUT THE IMPACT OF DEFICITS SOMETIMES ARE CHARACTERIZED AS "NERVOUS NELLIES." AND INDEED, JOHN MAYNARD KEYNES MIGHT WONDER WHAT ALL THE FUSS IS ABOUT. ALL THE ECONOMIC NEWS IS GOOD. REAL GNP IS GROWING RAPIDLY, BUSINESS INVESTMENT IS BEGINNING TO SURGE, UNEMPLOYMENT IS PLUMMETING, AND INFLATION IS SUBDUED. IN SEVERAL RESPECTS WE ARE EXPERIENCING THE STRONGEST RECOVERY SINCE WORLD WAR II. 1984 SEEMS TO HAVE BROUGHT THE BEST OF ALL ECONOMIC WORLDS.

SO WHY HAVE THE FINANCIAL MARKETS BEHAVED SO ERRATICALLY OF LATE? A CYNIC MIGHT SUGGEST THAT ON WALL STREET ALL NEWS IS BAD NEWS. AND IT IS DIFFICULT TO FIGURE OUT A STOCK MARKET THAT A FEW WEEKS AGO SUFFERED A BROAD DECLINE ON A BELIEF THAT THE

ECONOMY WAS OVERHEATING, YET DROPPED FURTHER THE NEXT DAY ON WORRIES THAT THE RECOVERY WAS SLOWING PREMATURELY.

THE ALLEGED IRRATIONALITY OF THE MARKET ASIDE, THERE IS REAL CAUSE FOR CONCERN. INVESTORS AND FINANCIAL PLANNERS MUST BE FORWARD LOOKING, AND THEIR VIEW OF THE ECONOMIC FUTURE HAS BEEN CLOUDED BY BUDGET DEFICITS. A CONFLICT BETWEEN AN ECONOMY NEARING FULL EMPLOYMENT AND ANNUAL DEFICITS OF \$200 BILLION OR MORE CAN BE RESOLVED ONLY BY RISING INTEREST RATES, ACCELERATING INFLATION, OR BOTH.

UNFORTUNATELY, DANGER SIGNALS ALREADY ARE APPEARING, AS INTEREST RATES HAVE BEGUN TO TURN UP AND THERE HAVE BEEN HINTS OF RISING INFLATION.

YET I BELIEVE THAT THE REAL SOURCE OF CONCERN IS NOT SO MUCH THOSE MIND-NUMBING DEFICIT PROJECTIONS THAT ARE REGULARLY CHURNED OUT OF WASHINGTON COMPUTERS, BUT THE FEAR THAT CONGRESS AND THE ADMINISTRATION ARE PARALYZED WHEN IT COMES TO TAKING THE NECESSARY ACTIONS TO GET THE DEFICITS UNDER CONTROL.

THIS IS WHY PASSAGE OF THE DOWN-PAYMENT BUDGET PACKAGE IS CRUCIAL. CERTAINLY, DRAINING \$150 BILLION IN RED INK FROM THE BUDGET IS BENEFICIAL IN ITSELF. BUT IT IS MORE IMPORTANT TO DEMONSTRATE THAT WASHINGTON IS CAPABLE OF DOING MORE THAN JUST OFFERING BUDGET RESOLUTION TARGETS AND MAKING SPEECHES.

THE CONGRESSIONAL BUDGET OFFICE PROJECTS THAT WITHOUT FURTHER ACTION, THE DEFICIT WILL RISE TO \$326 BILLION IN FY 1989. IF

THESE PROJECTIONS ARE REALIZED, THERE IS TRULY CAUSE FOR ALARM. BUT WE STILL HAVE TIME TO PREVENT THE PROJECTIONS FROM BECOMING REALITY. LIKE THE VISIONS THAT DICKENS' GHOST OF CHRISTMAS FUTURE BROUGHT TO EBENEZER SCROOGE, THESE FUTURE DEFICITS ARE NOW JUST MENACING SHADOWS. LIKE SCROOGE, WE HOPE THAT THESE ARE THINGS "THAT MAY BE, NOT MUST BE." HOWEVER, UNLIKE SOME WHO BELIEVE WE CAN SIT ON THE SIDELINES AND ALLOW ECONOMIC GROWTH TO BALANCE THE FEDERAL BUDGET, I BELIEVE THAT CONGRESS AND THE ADMINISTRATION MUST EARN ITS REDEMPTION.

THE DEFICIT-REDUCTION PLAN

THE DOWN-PAYMENT BUDGET WOULD REDUCE DEFICITS BY NEARLY \$150 BILLION OVER THE NEXT THREE FISCAL YEARS, INCLUDING \$48 BILLION

IN NEW REVENUES AND NEARLY \$100 BILLION IN SPENDING RESTRAINT.
ON THE SPENDING SIDE, DEFENSE WOULD BE REDUCED BY \$40 BILLION,
ENTITLEMENTS AND FEDERAL PAY BY \$28 BILLION, AND NONDEFENSE
DISCRETIONARY SPENDING BY \$13 BILLION. IN ADDITION, LOWER
DEFICITS WOULD SAVE THE TREASURY \$18 BILLION OVER THREE YEARS IN
INTEREST COSTS ON THE PUBLIC DEBT.

BUT THE KEY FEATURE OF THIS PLAN IS THAT--UNLIKE BUDGET
RESOLUTIONS OF THE PAST THAT WERE MORE PROMISE THAN PROSPECT--THE
DOWN-PAYMENT BUDGET IS BACKED UP BY ACTUAL LEGISLATION. ALL OF
THE ENTITLEMENT REFORMS, AS WELL AS THE \$48 BILLION REVENUE GAIN,
REPRESENT SPECIFIC MEASURES THAT HAVE BEEN APPROVED IN COMMITTEE.
THIS LEGISLATION HAS BEEN DRAFTED, AND IS READY FOR FLOOR ACTION.
IN ADDITION, WE ARE WORKING ON A PROCEDURE WHICH WILL SET A LIMIT

ON DEFENSE AND NONDEFENSE APPROPRIATIONS, GUARANTEEING THAT THE SAVINGS IN THESE PROGRAMS WILL BE ACHIEVED.

ABOUT HALF OF THE DEFICIT REDUCTION PACKAGE, OR \$72.6 BILLION, RESULTS FROM FINANCE COMMITTEE ACTIONS. LAST MONTH THE COMMITTEE UNANIMOUSLY APPROVED MEASURES WHICH WOULD YIELD \$48 BILLION IN NEW REVENUES AND LOWER SPENDING BY \$24.5 BILLION FROM FISCAL YEAR 1984 THROUGH 1987.

THE FINANCE COMMITTEE REVENUE PACKAGE CONTINUES TO BUILD UPON THE PHILOSOPHY THAT REVENUES SHOULD BE RAISED BY BROADENING THE TAX BASE, RATHER THAN RAISING TAX RATES. THERE ARE NO BROAD TAX INCREASES IN THE BILL. INSTEAD, AS IN THE TAX EQUITY AND FISCAL

RESPONSIBILITY ACT OF 1982, THE COMMITTEE RELIED UPON SPECIFIC REFORM MEASURES THAT WOULD CORRECT TAX ABUSES AND ELIMINATE UNPRODUCTIVE SHELTERS AND OBSOLETE TAX PREFERENCES. IN MY VIEW, IF WE CAN RAISE THE REQUIRED REVENUE BY BROADENING THE TAX BASE AND CLOSING SO-CALLED "LOOPHOLES," ANY ADVERSE EFFECTS ON THE ECONOMY WILL BE MINIMIZED. THE PRESIDENT SHARES THIS PHILOSOPHY, AND HE IS A STRONG SUPPORTER OF OUR EFFORTS.

ON THE SPENDING SIDE, WE HAVE CONTINUED OUR EFFORTS TO CONTAIN THE GROWTH OF THE MEDICARE AND MEDICAID PROGRAMS. THIS BILL WOULD PRODUCE SAVINGS IN THESE HEALTH PROGRAMS, AND IN WELFARE PROGRAMS, OF \$10.8 BILLION THROUGH FISCAL YEAR 1987. EVERYONE TALKS ABOUT ENTITLEMENTS AS IF THEY WERE SACRED COWS. BUT SINCE 1981, THE FINANCE COMMITTEE HAS APPROVED CHANGES IN ITS

ENTITLEMENT PROGRAMS--INCLUDING SOCIAL SECURITY, MEDICARE, AND WELFARE PROGRAMS--THAT WILL HAVE SAVED \$85 BILLION BY FY 1987. THE POPULAR VIEW THAT ENTITLEMENTS HAVEN'T BEEN TOUCHED IS JUST PLAIN WRONG.

I KNOW THAT MANY OF YOU HAVE A KEEN INTEREST IN THE FATE OF THE REPORT OF THE GRACE COMMISSION. I AM PLEASED TO REPORT THAT THE FINANCE COMMITTEE HAS SERIOUSLY CONSIDERED EACH AND EVERY RECOMMENDATION MADE BY THE GRACE COMMISSION FOR PROGRAMS UNDER ITS JURISDICTION. OUR BILL INCLUDES GRACE COMMISSION PROPOSALS WHICH THE CONGRESSIONAL BUDGET OFFICE ESTIMATES WILL SAVE THE FEDERAL GOVERNMENT \$3.1 BILLION OVER THE NEXT 3 YEARS. THESE WOULD: (1) USE TAX REFUNDS TO OFFSET DELINQUENT DEBT OWED TO THE FEDERAL GOVERNMENT; (2) ALLOW INFORMATION FROM TAX RETURNS TO BE

USED TO PREVENT FRAUD AND ABUSE IN FEDERAL WELFARE PROGRAMS; AND
(3) REQUIRE THE FEDERAL GOVERNMENT TO ADOPT MODERN CASH
MANAGEMENT TECHNIQUES.

I SALUTE MR. GRACE AND THOSE WHO SERVED ON HIS COMMISSION.
EVEN IF ONLY THE FINANCE COMMITTEE PROVISIONS ARE ENACTED INTO
LAW, HE WILL HAVE SAVED THE COUNTRY \$3 BILLION OVER THE NEXT
THREE YEARS.

THIS IS NOT JUST A BUDGET RESOLUTION

LET ME AGAIN EMPHASIZE THAT THE REPUBLICAN DOWN-PAYMENT
BUDGET IS BASED LARGELY UPON COMPLETED LEGISLATION. THESE ARE
NOT JUST NUMBERS, BUT REAL DEFICIT-REDUCTION POLICIES. OF

COURSE, THIS IS THE TIME OF YEAR WHEN BUDGET PLANS BLOOM LIKE THE CHERRY BLOSSOMS; AND THEY LAST JUST ABOUT AS LONG.

IT SEEMS THAT EVERYONE IN CONGRESS HAS HIS OR HER OWN BUDGET. THE OBJECT OF THE GAME IS TO COME UP WITH A LARGER DEFICIT REDUCTION TOTAL THAN THE OTHER GUY. THAT'S NOT VERY DIFFICULT TO DO ON PAPER, ESPECIALLY WHEN YOU DON'T HAVE TO WORRY ABOUT BOTHERSOME DETAILS SUCH AS HOW YOUR BUDGET WOULD BE IMPLEMENTED, OR WHETHER THERE ARE ANY VOTES FOR IT.

REMEMBER THIS WHEN YOU HEAR ALL OF THE TALK ABOUT BUDGET "FREEZES" AND "PAY-AS-YOU-GO," AND HEAR CONGRESSMEN QUOTING DRAMATICALLY LOWER DEFICIT NUMBERS. THE PROBLEM IS THAT THERE IS NO REALITY BEHIND MOST OF THOSE NUMBERS.

TAKE THE HOUSE DEMOCRATIC BUDGET PLAN. THEY CLAIM TO SAVE SOME \$182 BILLION FROM DEFICITS OVER 3 YEARS. NOW THIS APPEARS TO BE A MORE SUBSTANTIAL REDUCTION THAN THE SENATE REPUBLICAN PACKAGE. BUT IF YOU TAKE A CLOSER LOOK, YOU WILL SEE THAT THEY ARE CALLING FOR \$56 BILLION MORE IN DEFENSE CUTS THAN THE COMPROMISE AGREED TO BY THE PRESIDENT. FRANKLY, I DOUBT WHETHER THEY HAVE THE VOTES TO PASS SUCH A LARGE DEFENSE CUT EVEN IN THE HOUSE, LET ALONE THE SENATE. LIKE OTHER PLANS THAT CALL FOR FREEZING SOCIAL SECURITY BENEFITS OR REPEALING TAX INDEXING, IT JUST ISN'T GOING TO HAPPEN.

THIS UNREALISTIC DEFENSE NUMBER IS USED TO MASK THE FACT THAT THE HOUSE DEMOCRATS WOULD CUT ONLY \$12 BILLION FROM THE ENTIRE NONDEFENSE BUDGET OVER THE NEXT 3 YEARS. COMPARED WITH THE \$41

BILLION IN NONDEFENSE SAVINGS IN THE REPUBLICAN BUDGET, SUCH A PALTRY EFFORT SEEMS INCONSISTENT WITH THE GREAT HAND-WRINGING OVER THE DEFICIT THAT WE HAVE WITNESSED FROM JIM JONES, JIM WRIGHT, AND TIP O'NEILL. ONCE YOU CLEAR AWAY THE SMOKE, THE HOUSE BUDGET PLAN LOOKS A BIT UNDERNOURISHED.

THE SENATE DEMOCRATIC BUDGET IS EVEN MORE UNREALISTIC. THEY WOULD RAISE TAXES BY \$75 BILLION OVER THE NEXT THREE YEARS, OR \$27 BILLION MORE THAN IN THE REPUBLICAN PLAN. THEY WOULD PICK UP THIS EXTRA REVENUE IN THE WORST POSSIBLE WAY, BY DELAYING TAX INDEXING AND ALLOWING INFLATION TO CONTINUE TO RAISE AMERICANS' TAX BURDEN SILENTLY. NOT ONLY IS SUCH A TAX UNFAIR TO MIDDLE-INCOME WORKING PEOPLE, BUT EVEN THE SPONSORS MUST KNOW IT WILL NEVER BE ENACTED. A SIMILAR INDEXING DELAY WAS DEFEATED BY A 2

TO 1 MARGIN IN THE FINANCE COMMITTEE LAST MONTH. AND THE
PRESIDENT IS PLAYING GOALIE ON THIS ONE--HE HAS PLEDGED TO VETO
ANY TAMPERING WITH TAX INDEXING. IT SEEMS TO ME THAT THE SENATE
DEMOCRATS ARE ABOUT \$27 BILLION SHORT.

WE IN THE SENATE ARE TRYING TO AVOID SUCH BUDGET CHARADES
THIS YEAR BY TAKING A BILL DIRECTLY TO THE FLOOR. THAT BOTHERS
MANY SENATORS, PRIMARILY THOSE WHO WANT TO OFFER THEIR BUDGET
RESOLUTIONS, VOTE ON NUMBERS, AND ISSUE PRESS RELEASES--ALL
WITHOUT GETTING THEIR HANDS DIRTY ON ACTUAL LEGISLATION.

BUDGET RESOLUTIONS ARE GREAT FUN IN AN ELECTION YEAR, BUT THE
PUBLIC HAS GOTTEN WISE. WE CAN'T AFFORD TO WAIT FOR THE BUDGET
PROCESS THIS YEAR. THE LAST TWO YEARS, THE BUDGET RESOLUTION HAS

NOT BEEN IN PLACE UNTIL JUNE. THIS YEAR, DUE TO THE PRESIDENTIAL CAMPAIGN AND PARTY CONVENTIONS, THE LEGISLATIVE SESSION WILL BE ALL BUT FINISHED BY THEN.

THE ECONOMY AT A CROSSROADS

FROM THE START, THIS ADMINISTRATION'S ECONOMIC GOALS HAVE BEEN MORE AMBITIOUS THAN THOSE OF PRIOR ADMINISTRATIONS. WE HAVE TRIED TO AVOID ANOTHER SHORT-LIVED ECONOMIC RECOVERY WHICH, LIKE SO MANY BEFORE, WOULD BURN UP IN ITS OWN INFLATIONARY FIRES. THIS ADMINISTRATION HAS ALWAYS TAKEN THE LONG VIEW. REPUBLICANS WANTED TO RESTORE A PROSPERITY THAT IS SOLID, NOT CYCLICAL.

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IN ORDER TO ACCOMPLISH THIS GOAL, IT WAS FIRST ABSOLUTELY ESSENTIAL THAT INFLATION, RAGING OUT OF CONTROL IN THE LAST DAYS OF THE CARTER-MONDALE ADMINISTRATION, BE BROUGHT DOWN. BRINGING INFLATION DOWN FROM 12 PERCENT AND 13 PERCENT TO UNDER 4 PERCENT IN JUST 3 YEARS, WHILE ENGINEERING A ROBUST RECOVERY, STANDS AS ONE OF THE GREATEST ECONOMIC SUCCESSES IN THE POST-WAR ERA.

THE JOB IS NEARLY COMPLETED. THE ECONOMY IS EXPANDING SMARTLY AND INFLATION IS UNDER CONTROL. IF WE MAKE THE RIGHT CHOICES NOW, WE CAN LOOK FORWARD TO A PERIOD OF PROLONGED ECONOMIC GROWTH WITHOUT INFLATION.

BUT IF WE FAIL TO BEAT THE DEFICITS, WE WILL ONCE AGAIN BE PLUNGED BACK INTO BOOM-AND-BUST, INFLATION-AND-RECESSION CYCLES.

THE HUGE BORROWING NEEDS OF THE TREASURY WILL FORCE THE FEDERAL RESERVE TO CHOOSE BETWEEN INFLATION AND HIGH INTEREST RATES. EITHER WAY, THE CHANCE FOR EXTENDED PROSPERITY WILL BE LOST.

SOME SEE THE DEFICIT AS A PROBLEM, BUT I SEE IT AS A TREMENDOUS OPPORTUNITY. WE CAN WORK TOGETHER AND REMOVE THIS LAST IMPEDIMENT TO A SECURE, PROSPEROUS AMERICA. AND IF WE CAN PULL IT OFF, WE WILL HAVE DONE MORE THAN STRENGTHEN OUR ECONOMY. WE WILL HAVE MADE A MAJOR CONTRIBUTION TO RESTORING FAITH AND TRUST IN OUR POLITICAL INSTITUTIONS.

NEW YORK ECONOMIC CLUB:

POSSIBLE QUESTIONS

BOB BECK

QUESTION:

THE ELECTION YEAR MEANS THAT MANY ISSUES THAT SHOULD BE ADDRESSED WILL BE PUT OFF UNTIL 1985: INCLUDING BROAD-BASED TAX CHANGES AND MAJOR REFORMS OF ENTITLEMENTS.

HOW CONFIDENT CAN WE BE THAT SUCH CONTROVERSIAL BUT URGENT ISSUES WILL BE TAKEN UP EVEN IN 1985? HOW CAN THE BUSINESS COMMUNITY HELP CONGRESS DEAL WITH THESE KINDS OF DIFFICULT QUESTIONS?

ANSWER:

IT IS TRUE THAT THE ONSET OF AN ELECTION YEAR HAS PUT SOME VERY IMPORTANT MATTERS ON THE BACK BURNER. AND THERE IS LITTLE DOUBT THAT WE OUGHT TO BE DOING MORE THIS YEAR ON ENTITLEMENTS, TAXES, AND OTHER MATTERS THAT TIE IN TO THE DEFICIT PROBLEM. BUT THAT DOESN'T MEAN NO PROGRESS HAS BEEN MADE.

THE PROCESS OF PUTTING TOGETHER A DEFICIT-REDUCTION PACKAGE OPENED UP A SERIOUS DISCUSSION OF OPTIONS FOR THE FUTURE. IN THE FINANCE COMMITTEE LAST FALL WE LOOKED AT A BROAD-BASED ENERGY TAX AND BASIC ENTITLEMENT CHANGES SUCH AS REDUCING COST-OF-LIVING ADJUSTMENTS. THERE WAS CONSIDERABLE SUPPORT FOR GETTING INTO THESE AREAS, BUT THEY HAVE BEEN PUT ASIDE FOR THE MOMENT WHILE WE CONCENTRATE ON A 'DOABLE' DEFICIT PLAN FOR 1984.

I BELIEVE THESE KINDS OF MAJOR ISSUES WILL BE TAKEN UP AGAIN NEXT YEAR, BUT THERE IS NO REASON TO BE COMPLACENT. A LOT OF PEOPLE TAKE IT FOR GRANTED THERE WILL BE A MAJOR ASSAULT ON THE DEFICIT IN 1985, BUT THE POLITICAL CONFLICT OVER TAXES AND SPENDING WILL NOT VANISH ON ELECTION DAY: IT WILL TAKE A CONCERTED EFFORT TO GET THINGS DONE. THE BEST THING THE BUSINESS COMMUNITY CAN DO IS WORK FOR QUICK PASSAGE OF THE PRESIDENT'S \$150 BILLION DOWN PAYMENT PLAN WHICH FOR PRACTICAL PURPOSES IS THE ONLY GAME IN TOWN THIS YEAR--THEN KEEP THE PRESSURE ON FOR FURTHER BUDGET CHANGES NEXT YEAR, BY SPEAKING OUT AND BY MAKING SPECIFIC PROPOSALS THAT COULD GAIN CONSENSUS SUPPORT.

BOB BECK

QUESTION:

THE PRESIDENT HAS AGAIN CALLED FOR A BALANCED BUDGET AMENDMENT TO THE CONSTITUTION, And 32 STATES HAVE PETITIONED CONGRESS FOR SUCH AN AMENDMENT (34 ARE NEEDED TO CALL FOR A CONSTITUTIONAL CONVENTION).

WHAT IS YOUR VIEW OF THE BALANCED BUDGET AMENDMENT? HOW WOULD IT AFFECT THE CONGRESSIONAL BUDGET PROCESS?

ANSWER:

IT IS EASY TO SEE WHY CONSTITUTIONAL RESTRAINTS ON THE FEDERAL BUDGET HAVE BECOME INCREASINGLY POPULAR. FOR TOO LONG WE IN WASHINGTON--AND THERE IS PLENTY OF BLAME TO GO AROUND--SIMPLY HAVE NOT DONE OUR JOB WHERE FISCAL POLICY IS CONCERNED. THE RESULT IS THE STRING OF MAMMOTH DEFICITS WE NOW FACE.

I SUPPORT THE EFFORT TO IMPOSE CONSTITUTIONAL RESTRAINTS ON THE BUDGET BECAUSE IT IS AN APPROPRIATE LONG-TERM APPROACH TO OUR FISCAL PROBLEM. WE ARE REALLY TALKING HERE ABOUT PROCEDURAL REFORMS: THE AMENDMENT PENDING IN THE JUDICIARY COMMITTEE REQUIRES EXCEPTIONAL MAJORITIES TO ADOPT A DEFICIT BUDGET OR

RAISE THE GENERAL LEVEL OF TAXATION, AND THAT ESSENTIALLY IS WHAT THE SENATE APPROVED IN 1982. THE POINT IS TO PUT ROAD BLOCKS IN THE WAY OF PERPETUAL FISCAL CARELESSNESS, NOT TO IMPOSE AN UNREALISTIC REQUIREMENT OF BALANCING THE BUDGET PRECISELY IN EACH YEAR.

THIS APPROACH, AND THE NOTION OF A LINE ITEM VETO, ARE SERIOUS REFORMS AND I SUPPORT THEM. BUT THERE IS STILL NO SUBSTITUTE FOR GETTING DOWN TO THE NITTY-GRITTY OF SPECIFIC PROGRAMS AND TAX PROVISIONS THAT CAN BE ADDRESSED TO BRING DOWN THE DEFICIT. WE NEED MAJOR INSTITUTIONAL CHANGES, BUT AT THE SAME TIME WE NEED TO DO THE BEST WE CAN WITH THE TOOLS AVAILABLE. ONE THING A CONSTITUTIONAL CHANGE WOULD DO IS GIVE GREATER WEIGHT TO BUDGET DECISIONS, AND THAT SHOULD STRENGTHEN ANY BUDGET PROCEDURES CONGRESS MAY CHOOSE TO ADOPT.

QUESTION:

HOW DO YOU FEEL ABOUT THE IRS NEWS RELEASE DISALLOWING
CAFETERIA PLAN TREATMENT FOR CERTAIN EXPENSE REIMBURSEMENT
PLANS?

MR. BARKER

QUESTION:

THE FINANCE COMMITTEE INCLUDED IN ITS DEFICIT REDUCTION PACKAGE THE ADMINISTRATION'S PROPOSAL TO DESIGNATE 75 DISTRESSED AREAS AS "ENTERPRISE ZONES," WHICH WOULD BE ELIGIBLE FOR FEDERAL TAX AND REGULATORY RELIEF.

CAN YOU TELL US WHAT THIS PROPOSAL ENTAILS, WHAT KINDS OF TAX RELIEF IT OFFERS? IS IT LIKELY TO BE ENACTED INTO LAW?

ANSWER:

THE SENATE APPROVED THE ENTERPRISE ZONE LEGISLATION LAST YEAR ON THE WITHHOLDING REPEAL BILL, BUT THE HOUSE CONFEREES WOULD NOT EVEN CONSIDER IT. SINCE THEN THE WAYS AND MEANS COMMITTEE HAS HAD A HEARING, SO THE PROSPECTS FOR ACTION ARE BETTER. BUT SINCE THE SENATE IS ALREADY ON RECORD IN SUPPORT OF ENTERPRISE ZONES, A LOT WILL DEPEND ON THE ATTITUDE OF THE HOUSE CONFEREES.

UNDER OUR BILL UP TO 75 ENTERPRISE ZONES COULD BE DESIGNATED BY THE SECRETARY OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, BEGINNING JANUARY 1, 1985, OVER A PERIOD OF 3 YEARS. AT LEAST ONE-THIRD OF THE DESIGNATED ZONES WOULD BE IN RURAL

AREAS. EACH ENTERPRISE ZONE WOULD BE ELIGIBLE FOR FEDERAL TAX AND REGULATORY RELIEF. THE DURATION OF EACH ZONE WOULD BE 20 YEARS, PLUS A 4-YEAR PHASEOUT PERIOD. AREAS WOULD BE NOMINATED FOR ENTERPRISE ZONE DESIGNATION BY 1 OR MORE LOCAL GOVERNMENTS AND THE STATE IN WHICH THE AREA IS LOCATED. AREAS NOMINATED FOR SUCH A DESIGNATION WOULD HAVE TO MEET CERTAIN CRITERIA OF ECONOMIC DISTRESS, AND DESIGNATIONS WOULD BE MADE THROUGH A COMPETITIVE PROCESS WEIGHING SUGGESTED PLANS FOR DEVELOPING THE AREA THROUGH TAX AND REGULATORY RELIEF, IMPROVED SERVICES, AND INVOLVEMENT OF NEIGHBORHOOD AND COMMUNITY ORGANIZATIONS AND PRIVATE ENTITIES IN DEVELOPMENT EFFORTS.

THE FOLLOWING FEDERAL TAX INCENTIVES WOULD BE AVAILABLE IN ENTERPRISE ZONES: A 3-PERCENT OR 5-PERCENT INVESTMENT TAX CREDIT FOR INVESTMENTS IN PERSONAL PROPERTY IN THE ZONE; A 10-PERCENT CREDIT TO EMPLOYERS FOR INCREASES IN PAYROLL TO QUALIFIED ZONE EMPLOYEES AND A CREDIT FOR HIRING DISADVANTAGED WORKERS FOR ZONE EMPLOYMENT; ELIMINATING CAPITAL GAINS TAX WITH RESPECT TO PROPERTY USED IN A ZONE TRADE OR BUSINESS; ALLOWING FULL COST RECOVERY DEDUCTIONS FOR FACILITIES IN ZONES FINANCED BY INDUSTRIAL DEVELOPMENT BONDS UNDER ACRS, DESPITE THE LIMITATION OF SUCH DEDUCTIONS FOR COMPARABLY FINANCED FACILITIES ELSEWHERE; AND THE CONTINUED AVAILABILITY OF THE SMALL ISSUE EXEMPTION FOR INDUSTRIAL DEVELOPMENT BONDS IN ZONES AFTER DECEMBER 31, 1986, DESPITE ITS TERMINATION ON THAT DATE ELSEWHERE. THESE TAX INCENTIVES WOULD BE EFFECTIVE AS OF JANUARY 1, 1985.

IN ADDITION, ZONES COULD QUALIFY FOR RELIEF FROM FEDERAL REGULATIONS OTHER THAN THOSE RELATED TO HEALTH, SAFETY, CIVIL RIGHTS, AND THE ENVIRONMENT. REGULATORY RELIEF WOULD BE SOUGHT BY APPLICATION TO THE APPROPRIATE FEDERAL AGENCY.

April 3, 1984

CAFETERIA PLANS

Current Law

Section 125 allows employees to select among taxable and nontaxable benefits (including cash) offered under a cafeteria plan. In the absence of section 125, the existence of an option to take a taxable benefit (including cash) would result in taxation to the employees under the doctrine of constructive receipt. The cafeteria plan rules essentially permit each employee to write his or her own benefit program, including the portion of his or her total compensation that will be paid in kind rather than in cash.

Possible Abuses

- o At the end of the year, under some cafeteria plan arrangements, employees submit proof of expenses to their employer and the employer recharacterize a portion of the employee's salary as "reimbursement" for the expenses. As a result, both employer and employee treat the reimbursement as a tax-free payment. (These reimbursement plans are sometimes referred to as zero expense benefit arrangements, ZEBRAS.)

IRS News Release

On February 10, the IRS announced that a number of employers which were allowing employees to pay out-of-pocket expenses with pre-tax dollars through reimbursement plans did not have qualified cafeteria plans under Section 125. Thus, the amount of reimbursement for benefits such as medical care were taxable to the employee. This IRS interpretation applies to 1983 and prior years, as well as prospectively.

Talking Points on News Release

- o The timing of the IRS News Release was unfortunate because employers had already sent employees their W-2 forms. I believe employers and employees should be given fair and adequate notice.
- o In addition, we need to impose some restrictions on the use of cafeteria plans by highly compensated individuals to avoid paying taxes.
- o There are many other problems with cafeteria plans that need to be addressed such as whether employees must elect certain benefits in advance rather than just seeking reimbursement at the end of the year, whether taxable benefits should be offered, valuation questions, the amount of the employer's deduction, more meaningful nondiscrimination provisions, and reporting requirements.

General Talking Points

- o I have long advocated that Congress should review the current statutory benefit tax rules.
- o During June 1983, the Finance Committee held hearings on both statutory and non-statutory benefits.
- o At that time the Treasury Department testified that it needed more Congressional guidance in order to issue meaningful regulations for cafeteria plans.
- o Clearly some employers are using cafeteria plans in order to avoid paying income taxes. However, there are many employers who are using cafeteria plans to reduce the costs of providing many statutory benefits, such as medical benefits.
- o During the recent Finance Committee deficit reduction markup, a proposal was made to limit the abuses under cafeteria plans, but the Committee decided that a specific hearing was needed.
- o Before the IRS news release, no one has advanced a proposal that would impose meaningful limits on the use of cafeteria plans to pay out-of-pocket expenses with pre-tax dollars.
- o We are still gathering information concerning the revenue loss associated with cafeteria plans. Preliminary figures indicate that it may be significant.
- o I am certainly in favor of lowering the cost of health care and other employee benefits. However, I do not believe that this should be done by an unlimited Federal Government subsidy to the employer or employee.

SENATE FINANCE COMMITTEE TAX EXEMPT FINANCING PROPOSALS

I. SINGLE FAMILY HOUSING BONDS

1. Extension of Mortgage Subsidy Bond Program

The mortgage subsidy bond program would be extended for 4 years until December 31, 1987. No new Federal eligibility requirements for home buyers would be imposed. Issuers would be required to file information reports on bond issues and programs, and State Governors and local officials would be required to make annual policy statements, after reasonable public notice and hearing, of the policies to be pursued by the issuer in distributing bond loans.

2. Mortgage Credit Certificates

Mortgage Credit Certificates (MCCs) would be authorized for issuers exchanging mortgage bond authority, as provided in S. 1598, except that the amount of credits available would be increased from 14.35 percent to 20 percent. Tax credits would not be refundable. MCCs would not be subject to targeted area rules and requirements and would be subject to the mortgage bond purchase price rules applicable before TEFRA. In addition, tax credits would be phased out under a formula as the homebuyer's income increased.

The formula would generally restrict credits to families with incomes below 100 percent of local area median income. The formula would provide that the taxpayer's adjusted gross income, plus four times the allowable credit, could not exceed 100 percent of the greater of \$20,000 or the local median income for a family of four determined by the Secretary of Housing and Urban Development for the year the MCC is issued. Adjustments for family size and for adjustable rate mortgages would be provided.

Credits could not be linked to any particular lender. Eligibility requirements would be enforced through lender and borrower certification requirements, with penalties for negligent certification (\$1,000) and fraudulent certification (\$10,000), in addition to existing criminal and civil tax fraud penalties.

MCCs could be used for interest on blanket mortgages on cooperatives for interest deemed paid by an otherwise qualified tenant-shareholder. MCCs could be used for manufactured housing to the extent provided in Treasury regulations.

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3. Statement of Congressional Intent and Review of Programs

A Statement of Congressional intent would provide that bond issuers are expected to use mortgage bond authority to the greatest extent feasible to make loans available to lower income families who can use the loans to afford homeownership before higher income families, taking into account prevailing conditions in the housing and interest rate markets. The Secretary of Treasury, in consultation with the Secretary of Housing and Urban Development would be required to report annually to the Congress on the performance of mortgage bond issuers relative to this statement of program goals.

4. Repeal of 1980 Transition Rules

Mortgage bond transition rules under the 1980 Mortgage Subsidy Bond Tax Act would be repealed for bonds issued after the date of Committee action.

II. INDUSTRIAL DEVELOPMENT BONDS AND OTHER TAX-EXEMPT BONDS

1. Restrictions on Cost Recovery of IDB-Financed Property

Limitations on ACRS cost recovery deductions would be adopted that are more restrictive than current law, but less restrictive than the provisions reported by the Senate Finance Committee in 1982. IDB financed property subject to current law ACRS restrictions would be restricted to straight-line recovery over longer lives, as indicated below. Property for which full ACRS is currently permitted would be unaffected.

<u>Current Law</u>	<u>1982 SFC Provision</u>	<u>Proposal</u>
3 year property	5 years	4 years
5 year property	8 years	7 years
10 year property	15 years	13 years
15 year public utility property	22 years	20 years
15 year residential real property	15 years	15 years
15 year non-residential real property	25 years	22 years

2. Restrictions on Federal Guarantees of State and Local Obligations

Tax-exempt bonds could not be guaranteed by FDIC or FSLIC insurance. Small Business Administration loan guarantee programs for pollution control or certified development loans could be used with tax-exempt bonds as long as the Small Business Administration charged a fair market value loan guarantee fee not less than one percent of the bond amount.

3. Restrictions on Use of Small Issue IDBs Where Beneficiary Has Significant IDB Use

Tax-exempt small issue IDBs could not be issued if the total amount of all IDBs that would be outstanding after the issue for the beneficiary who would be the beneficiary of the small issue IDBs exceeds \$40 million. In determining whether the \$40 million limit has been reached, all types of IDBs would be counted. However, bonds which are to be redeemed with the proceeds of the small issue IDBs would not be counted.

4. Denial of Tax-Exempt IDB Financing for Certain Facilities

Interest on IDBs would not be exempt from Federal income tax if any portion of the proceeds of the IDB are to be used to provide any airplane, skybox, or other private luxury box, any facility primarily used for gambling, or any store for the principal business of which is the sale of alcoholic beverages for consumption off premises. This prohibition would apply to exempt function IDBs and to small issue IDBs.

5. Application of Small Issue IDBs to Entire Project

The proposal would prevent avoidance of the limitations on small issue IDBs through division of the ownership of a project. Under the rule, where two or more issues of IDBs are used to finance a single building, an enclosed shopping mall, or a strip of offices, stores, warehouses or residential property which use substantial common facilities, the two or more issues would be treated as a single issue for purposes of determining qualification under the small issue exception and all principal users of any of the facilities financed with the issues are treated as principal users of a single facility. Thus, under the rule, where ownership of a project is divided into several different unrelated users, qualification under the small issue exception would be determined by measuring the capital expenditures and outstanding obligations of all the principal users of that project.

6. Extension of Substantial User to All Partners

An amendment would be made to the rules of present law under which interest on IDBs is not exempt from Federal income tax to the extent that the bonds are owned by a substantial user of the facilities financed with the IDB or the holder is a related person to that substantial user. Under the amendment, all partners of a partnership (including both general and limited partners) would be treated as related persons to the partnership. Thus, interest on IDBs held by any partner of a partnership that is a substantial user of the facilities financed with the IDB would not be exempt from Federal income tax.

7. Extension of Internal Revenue Code Rules to Certain Obligations

The Internal Revenue Code rules relating to tax-exempt obligations would be extended to bonds which are described in provisions of Federal law outside of the Internal Revenue Code. No existing provisions of Federal law outside of the Internal Revenue Code would affect the taxability of interest on obligations of the Virgin Islands or American Samoa.

8. Definition of Standard Metropolitan Statistical Area

The definition of standard metropolitan statistical area would be modified to require that Kansas City, Missouri, and Kansas City, Kansas, be treated as one metropolitan statistical area.

9. Student Loan Bond Provisions

a. Issuers of student loan bonds would be required to devote all profits attributable to bond proceeds (including amounts earned on reserves, temporary period investments and special allowance payments from the Department of Education) to the acquisition of student loan notes under the Guaranteed Student Loan program. Issuers could not acquire GSL loans at more than a

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1 percent premium above par. Arbitrage profits could not be used for general governmental purposes other than acquiring or making GSL loans. Profits not devoted to GSL loan note acquisition within a reasonable time would be required to be rebated to the Federal government.

b. Entities authorized to issue tax-exempt student loan bonds would be permitted to elect to treat any bond issue as a taxable issue, without prejudice to the tax-exempt status of other outstanding issues, or future issues as to which no election is made.

c. Tax-exempt bonds could not be issued to acquire notes or other obligations of individuals other than student loans under the Guaranteed Student Loan program (except as otherwise explicitly provided in the Internal Revenue Code). This provision would include liberal transition rules for existing non-GSL student loan programs, and would expire on October 1, 1986.

d. The General Accounting Office and Congressional Budget Office would be required to report by March 1, 1985, to the Congress regarding the appropriate role to be served by tax-exempt financing in the Guaranteed Student Loan program and the appropriate arbitrage rules that should be applied to obligations issued to acquire Guaranteed Student Loans. When the guaranteed student loan program expires or is reauthorized (no later than October 1, 1986) current statutory and regulatory provisions regarding arbitrage would be superseded by Treasury regulations specifying appropriate arbitrage rules, unless Congress adopts new statutory arbitrage provisions.

New Treasury arbitrage regulations would not apply until 6 months after publication, would not apply to certain qualified refunding obligations (generally, bonds issued exclusively to refund obligations issued before the effective date) and would not apply to certain bonds needed to satisfy binding written commitments to acquire loans originated before the effective date, where the commitment was consistent with the issuer's current practices in establishing a secondary market.

The Committee report would state the Committee's intent regarding baseline assumptions in the event legislation is considered to provide arbitrage rules. The Committee's intent would be to treat current law as of the date of Committee action as the baseline for purposes of evaluating the revenue effect of proposed arbitrage legislation.

e. The statute would state that the determination of whether interest on an obligation is tax-exempt is solely within the jurisdiction of the Department of Treasury.

f. Student loan bond provisions would generally be effective upon enactment. Restrictions on use of arbitrage profits for purposes other than acquisition of Guaranteed Student Loan notes would be effective after the date of Committee action.

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Restrictions on tax-exempt bonds to acquire non-GSL student loans would apply to bonds issued after the date of enactment.

GENERAL EFFECTIVE DATES FOR TAX-EXEMPT FINANCING PROPOSALS

1. Mortgage Subsidy Bond and Mortgage Credit Certificate provisions would be effective upon enactment.
2. Tax-exempt bond provisions that are substantially identical to provisions reported in H.R. 4170, (i.e., items II-3, II-4, II-5, II-6, II-7) would be effective for bonds issued after December 31, 1983, except for facilities (1) financed with an obligation where the original use of the facility commences with the taxpayer, and where its construction began before October 19, 1983, or (2) with respect to which a binding contract to incur significant expenditures was entered into before October 19, 1983.
3. Federal guarantee provisions (II-2) would generally be effective upon enactment. Provisions regarding FDIC/FSLIC insurance would be effective for obligations issued after April 15, 1983, except for obligations issued pursuant to written commitment binding on March 4, 1983, and at all times thereafter.
4. Restrictions on ACRS for IDB financed property would be effective for property placed in service after July 1, 1984, to the extent that such property is financed by the proceeds of IDBs (including a refunding obligation) issued after the date of Committee action. An exception would be provided for facilities (1) where the original use commences with the taxpayer and construction of the facility comenced before the date of Committee action or (2) with respect to which a binding contract existed on the date of such action committing the purchaser to incur significant expenditures for construction or acquisition of the facilities.

TRANSITIONAL RULES FOR IDB PROPOSALS

Bonds issued in connection with following projects would be exempted from the proposed IDB restrictions where qualifying action was taken by the prescribed date.

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PROJECT	LOCATION	QUALIFYING ACTION	DATE OF ACTION
Paramount Theater	Portland, Oregon	Appropriation of funds	January 14, 1981
Philadelphia Convention Center	Philadelphia, Pennsylvania	Feasibility funding approved	June 10, 1982
Ordway Music Theatre	St. Paul, Minnesota	Resolution authorizing sale-leaseback	January 12, 1983
West-side Convention Center	New York, New York	Legislation authorizing construction	April 3, 1979
Sabine Laboratory	Denver, Colorado	Purchased building	July, 1982
Share-HMO	Minneapolis-St. Paul, Minnesota	Bonds issued	September 17, 1982
Klien-hans Music Hall and Shea's Buffalo Theater	Buffalo, New York	Federal legislation enacted	March 24, 1983
Presbyterian Hospital, Harrison-Walnu Neighborhood project	Oklahoma City, Oklahoma	Inducement resolution adopted UDAC application	April 25, 1983 April 28, 1983

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St. Paul Civic Center	St. Paul, Minnesota	Inducement resolution adopted	April 21, 1983
Saratoga Spring's Convention Center	Saratoga Springs, New York	State law creating authority	July 27, 1983
Atlantic City Convention Hall	Atlantic City, New Jersey	Bond resolution adopted	December 8, 1982
Old Main Building	Fayetteville, Arkansas	Authorized by State law	October 31, 1983
Snug Harbor Children's Museum	New York, New York	Construction begun	Before May 23, 1983
Roger L. Stevens Center	Winston-Salem, North Carolina	Congressional approval of enabling legislation	Before May 23, 1983
44 Beaver Street	New York, New York	\$3,700,000 budgeted for 1983	1983
San Antonio Convention Center	San Antonio, Texas	Approved feasibility study and design	Before May 23, 1983
Penn Station	Newark, New Jersey	Purchase negotiations begun	Before October 31, 1983

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Los Angeles Public Library	Los Angeles, California	\$700,000 spent on design	Before May 23, 1983
Atchison Northwest Pipe and Casing Company Project	Atchison, Kansas	Resolution adopted	July 5, 1983
Downtown Redevelopment Project	Manhattan, Kansas	Preliminary UDAG approval	Nov. 3, 1983
Charleston Convention Center	Charleston, South Carolina	Preliminary UDAG approval	May 1, 1983
Kalispell Center	Kalispell, Montana	Mayoral approval	August 30, 1983

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ADDITIONAL PROVISIONS

1. Miscellaneous provisions.--Limited authority would be granted for advance refunding of certain outstanding veterans mortgage bonds in an amount not to exceed \$300 million. Authority would be granted for financing of certain energy facilities, including the provisions of S. 1791.
2. Increase in capital expenditure limit for certain projects.--The capital expenditure limit in the case of a project with a UDAG grant would be increased from \$10 million to \$15 million for obligations issued on December 11, 1981, substantially all of the proceeds of which are used to providing facilities with respect to which a UDAG grant was preliminary approved on January 10, 1980.
3. Exception for certain sports facilities.--The restrictions on gambling facilities would not apply to any facility which is used primarily for horse racing if an inducement resolution or other comparable preliminary approval was adopted by an issuing authority on November 15, 1983.
4. Arbitrage rules for bonds other than housing and student loan bonds.--Modified arbitrage rules, similar to existing rules for mortgage subsidy bonds would be made applicable to tax-exempt bonds (other than student loan bonds and housing bonds) issued after December 31, 1984. The rules would require arbitrage profits on investments unrelated to an exempt purpose (acquired nonpurpose obligations) to be paid to the United States. In addition, the amount of bond proceeds that could be invested at a yield above the bond yield in acquired nonpurpose obligations in any bond year would be limited to 150 percent of the debt service on the issue for the bond year (except for permissible temporary period investments). Nonpurpose investments must be reduced as the principal of acquired purpose obligations is repaid.

TALKING POINTS

The DISC Substitute Legislation, The Foreign Sales Corporation Act

- The Finance Committee has included the Foreign Sales Corporation Act (FSC), contained in S. 1804, in its budget deficit reduction package.
- The FSC provision reflects the Administration's proposal to replace the Domestic International Sales Corporation (DISC) with a GATT-compatible method for treating export earnings.
- The FSC provision involves a partial exemption for certain foreign source income (instead of the DISC tax deferral system), and a requirement that certain significant sales functions will be performed outside the United States (DISC's are domestic entities within the United States).
- DISC-deferred income is forgiven in the FSC provision (There is no revenue lost because the DISC deferral was intended to be indefinite; Senator Metzenbaum and others may fight this forgiveness when the bill reaches the Senate floor).
- The FSC provision involves approximately the same loss of revenue as did DISC (approximately \$1.1 billion/year), and is expected to stimulate U.S. exports (Treasury estimated that in 1981, DISC stimulated about \$7-11 billion in additional U.S. exports).
- Although the European Community has raised questions about the GATT compatibility of the FSC proposal, the Administration and the Committee are satisfied that FSC conforms with the GATT, and expect that enactment of the FSC provision will end the GATT dispute over DISC.

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United States Senate

COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

ROBERT E. LIGHTHIZER, CHIEF COUNSEL
MICHAEL STERN, MINORITY STAFF DIRECTOR

March 27, 1984

M E M O R A N D U M

TO: SENATOR DOLE
FROM: ROD DeARMENT
SUBJECT: REAL ESTATE COMPROMISE

The Finance Committee's decision to increase the ACRS recovery period for real estate from 15 to 20 years is supported by the National Realty Committee, by most major developers, and privately by a broad spectrum of the real estate industry.

Some other groups, such as the National Association of Realtors, had earlier staked out a political position in opposition to a 20 year recovery period and thus oppose the Finance Committee action. The Realtors proposed instead that the Committee increase the recovery period to 18 years, and also reduce the maximum accelerated recovery rate from the 175 percent to the 150 percent declining balance method. The Realtors approach would raise a substantial amount of revenue (about \$3.5 billion over the period 1984-1987) but it would have been worse than 20 years for the major retailers, who tend to use the accelerated recovery method.

The large retailers, who generally keep their stores for a long period of time, proposed changes in the recapture of previously claimed real estate depreciation at the time a building is sold. This would prevent "churning" of building to maximize the tax benefits. All real estate groups other than the retailers strenuously opposed changes in recapture and opposed Senator Moynihan's minimum tax proposal (which was dropped as part of the compromise).

The Realtor's claim that "housing and real estate alone" are asked to bear 25 percent of the burden of the tax bill is both inaccurate and misleading. First, we believe that figures cited by the Realtors are inflated and fail to take into account all the benefits for real estate in the bill. The Joint Committee on Taxation's preliminary estimate is that all the provisions cited by the Realtors are only about 15 percent of the bill.

Second, and more importantly, the Realtors wrongly assume that all of the cited provisions affect only "housing and real estate alone". Actually only a small part of the burden of the provisions cited by the Realtors is placed on housing. The rest of the burden falls across industry lines on retailers, manufacturers, the oil industry, chemical industry, etc. For example, the Realtors include in their total Industrial Development Bond restrictions which will affect all industrial users of IDBs, not just housing. The provision to enforce the capital gains tax on foreigners that buy and sell U.S. real property is a compliance measure that merely will more effectively collect an existing tax on foreigners.

We expect the Joint Committee to develop an item by item breakdown of the provisions in the Senate Finance Committee bill that affect housing and the provision that affect other industries.

RD:ms

Question from Mr. Beck:

Both Republicans and the Democrats have proposed plans for reducing the federal budget deficit by more than \$100 billion over the next three years.

What are the chances that Congress will pass such legislations this year? What form will the final bill take?

Possible Response:

I believe the chances for passing a deficit-reduction bill this year are excellent. There is strong, bipartisan agreement that we must take some action this year to reduce deficits. In the Finance Committee, the vote on our package was unanimous.

And while there are differences between the House and Senate budget plans, I don't see them as irreconcilable. Both the House and Senate would raise about \$50 billion in revenues without imposing any broad-based tax. The basic difference is that the House wants bigger defense cuts and very little taken from domestic programs, compared with the Senate. But I believe these differences can be ironed out without too much difficulty.

The more difficult problem now seems to be procedure. Senate Republicans have been trying to go proceed directly with a deficit-reduction package, without the delay of waiting until a budget resolution is in place. We think it would be unwise to wait for the budget process to unfold, particularly in this election-shortened legislative year. The House and Senate Democrats would prefer to debate a budget resolution first. But again, these are matters that can and will be worked out.

Question from Mr. Beck:

The President's Private Sector Survey on Cost Control, otherwise known as the Grace Commission, made more than 2,000 suggestions for eliminating waste and making our government more efficient.

Do you think Congress will take the necessary steps to implement these savings? What can the business community do to help keep these recommendations on the Congressional agenda?

Possible Response:

I am happy to be able to report that the Finance Committee has included several Grace Commission recommendations in its deficit-reduction package. If these provisions become law-- and I am confident they will--the savings to the taxpayer will be over \$3 billion.

So the Grace Commission is already having a real impact, at least with members of the Finance Committee. But we committed ourselves early on to give Mr. Grace's proposals serious attention. We held a well-attended hearing on the Grace Report shortly after its issuance. The members of the Committee were very impressed with Mr. Grace and the work that the Commission had done. But you have to take the next step of turning the recommendations into legislation and real savings.

I believe that if other Committees would carefully study the Report, they will find real opportunities for savings. Unfortunately, the press has focused on a few of the more controversial items and many have dismissed the entire Report on that basis. But that is no excuse for not considering the hundreds of well-thought-out, noncontroversial, nonpolitical ways to save money that the Report contains.

The business community could help the Grace Report by lobbying as strongly for the good ideas that would save the Federal government money as it does on tax policy issues that affect it directly. The problem is that there often is no constituency for spending reduction. You could help provide that constituency.

Question from Mr. Barker:

The last three years, President Reagan's budget has been dead-on-arrival at Capitol Hill. Why can't the President and Congressional Republicans agree on a budget early, thereby savings months of negotiations, and avoiding the appearance of fiscal dissaray?

Possible Response:

The simple answer is that we have tried to come together on a budget as soon a possible. As early as last summer, I began calling for a budget summit between President Reagan, Tip O'Neill, and the Senate leadership. I felt then, and still do, that no deficit reduction package could be passed without the support of these men.

Not having much success with that effort, we began in the Finance Committee to mark-up our own \$150 billion, bipartisan deficit-reduction package last November. One reason for this effort was to spur an agreement with the White House. We voted to continue our efforts when we reconvened this February, and I was gratified to hear the President essentially endorse our approach by calling for a down-payment deficit reduction in the State of the Union message.

So we have been working hard since last fall to achieve agreement with the White House. While I wish it would have happened earlier, I am pleased that we now are all pulling together. It is important to avoid delay, and that is why the Senate Republican leadership is trying to bypass the budget resolution process and get directly to implementing the deficit-reduction package.

Question from Mr. Barker:

Would you handicap this year's Presidential election,
and also the contest for Senate Majority Leader next year?

FORMER PRESIDENT RICHARD NIXON'S ADDRESS TO THE
NEW YORK ECONOMIC CLUB ON MARCH 13, 1984

When I addressed this distinguished organization 32 years ago, Harry Truman was President and we were at war in Korea. Tonight Ronald Reagan is President and we are at peace.

My subject is 1984. This gives me great leeway in determining what issues I might discuss. I could discuss the political prospects in this election year as I did 32 years ago and will be glad to answer questions on that subject in the question period.

I have chosen, however, to discuss a subject more important than politics - the prospects for peace in 1984 and in the years ahead.

While we are at peace, we live in a world of wars. Since World War II ten million people have been killed in one hundred and twenty wars. Today in Lebanon, Afghanistan, El Salvador, and Iran-Iraq, thousands of soldiers and civilians are being killed in large and small wars.

While the Soviet Union is not responsible for all of the conflicts in the world, it profits from most of them.

One stark fact dominates the international scene. Without a new relationship between the United States and the Soviet Union, there is no

chance that peace will survive in the world.

What are the chances for such a relationship? Some critics contend that relations between the United States and the Soviet Union are worse than at any time since the end of World War II. Others profess to see glimpses of possible flexibility in statements made by the new leaders in the Kremlin.

I suggest that we forget the atmospherics and examine the hard facts which might motivate both nations to seek a new relationship.

The United States wants a relaxation of tensions. The Soviet Union needs one.

Put yourself in the position of the new leader in the Kremlin. On the one hand he has reason to be optimistic about the prospects of the Soviet Union in foreign policy. In the past ten years, the Soviet Union has moved from a position of parity with the United States in nuclear weapons to one of unquestioned superiority in land-based missiles, which are the most powerful and accurate nuclear weapons. And in that ten-year period over one hundred million people have come under communist domination or have been lost to the West.

But as he revels in his strength, he has to be deeply concerned about his weaknesses.

The cost of Soviet conquest is enormous. Cuba, for example, cost the Soviet Union \$15

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million every day. In gobbling up nations around the world, the Soviet Union has developed an acute case of international indigestion.

The Soviet economy is dead in the water, plagued by shortages, corruption, and inefficiency. The message is clear for all to see - Soviet socialism just doesn't work.

The Soviets have lost the ideological battle in the world. Not only in Poland but all over Eastern Europe and in countries that have more recently come under Soviet domination in Africa and Latin America, explosive anti-Soviet forces of resistance are on the rise. Never has an imperialist government been more successful in extending its domination over nations and less successful in winning approval of the people of those nations. In no nation in the world today have the communists come to power by winning a majority of votes in a free election. And there is no nation in the world where they dare have such an election.

Taking the long view, which is a characteristic of Russians as well as communists, they have to be concerned about China. China today is weak economically and militarily and no threat to the Soviet Union. But China has one billion potentially

able people and enormous natural resources. It is certain to become a major superpower in the twenty-first century and consequently a potentially deadly threat to the Soviet Union. This coupled with the fact that every advanced nation in Europe and Asia is a potential enemy if war comes must give the leaders in the Kremlin pause.

There is another factor which must concern them. President Eisenhower used to say that no one hates war more than one who has seen a lot of it. It could also be said that no one fears nuclear weapons more than those who possess them and know their deadly destructive capability. Despite their superiority in some areas of nuclear weaponry, the Soviet leadership has to be concerned that if war comes there will be no winners, only losers.

If the men in the Kremlin think pragmatically rather than just ideologically, as I believe is the case today, they can only reach one conclusion: they need to reduce tensions and develop a less dangerous relationship with the United States.

What should our policy be in view of their troubles? On one extreme the superhawks say don't bail them out. They point out that they lie, cheat, and are out to do us in. This is true.

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But they go on to say that we therefore have only one option: regain military superiority, squeeze them economically, and isolate them diplomatically. If we follow this hard-line policy they believe the whole rotten Soviet system will eventually collapse. I wish that were the case. But this is not going to happen. While the Soviets have failed economically and ideologically, there is one thing they are good at - getting and keeping power.

At another extreme we have the superdoves. They contend that the Soviets arm only because we do. If only we could demonstrate to them that we are for peace by reducing our defense programs, they will be reassured and follow our example. President Carter, with the best of intentions, tried this before Afghanistan. As we cut back on our defense programs, they increased theirs and gained the superiority in land-based nuclear weapons they now enjoy.

I know the Russians. We don't have to convince them that we are for peace. They know that. We must convince them that they can not win a war and that the rewards of peace are far more than anything they could hope to gain in war. In other words, our goal should be - take the profit

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out of war and put more profit into peace.

In developing a policy which will preserve peace and avoid defeat without war, we must recognize the profound difference between the Russian people and the Soviet government.

In five trips to the Soviet Union over the past twenty-five years, I have visited Moscow, Leningrad, Sverdlovsk, Samarkand, Alma-Ata, Minsk, the Ukraine, and the Crimea. On several occasions, particularly in the visits I made when I was out of office, I was able to break through the iron curtain of protocol enough to have some contact with ordinary people. These are my conclusions. The Russian people are a great people. They are strong, courageous, competitive, and hospitable. They may not like their government but they love their country.

Russians and Americans can be friends. However, because our goals are diametrically opposed, the governments of the United States and the Soviet Union can never be friends. But we can not afford to be enemies. The most we can hope to do is to develop a continuing process for resolving our differences where possible and for living with them rather than dying over them where that is not possible.

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Call it detente, call it peaceful competition, call it an era of negotiation. It is preferable to the alternative of continued confrontation and possible nuclear annihilation.

The first requisite for such a policy is for the United States to restore the military balance of power. I know there are some who say that enough is enough and superiority is irrelevant. What we must recognize, however, is that the United States is a defensive power. The Soviet Union is an offensive power. Superiority for a defensive power deters aggression and preserves peace. Superiority for an offensive power increases the risk of war or what is even more likely, nuclear blackmail, which could lead to defeat without war. We no longer have or seek nuclear superiority. But to reduce the danger of war and of nuclear blackmail, we must at the very least insist that the Soviet Union not have superiority.

Our defense program to restore the balance of power must be linked with initiatives for arms control. I have no illusions about what arms control can achieve and I am concerned about reports that the Soviet Union may be cheating on the arms control agreements we already have. But without arms control initiatives, there is no way to assure continued public support for the military spending necessary to restore the balance of power

in the United States and in Europe. We saw this in the MX debate when a congressional approval of the MX program was conditioned on the Administration's commitment to seek arms control.

In Europe, the problem is even more acute. Your next speaker, President Mitterrand, put it succinctly when he said, "The problem is that the East is producing missiles and the West is producing pacifists."

In 1958, Prime Minister Macmillan told me, "Alliances are held together by fear, not love." He was right. But today fear alone is not enough to keep the alliance together, particularly when the fear of installing our own weapons is greater than the fear of the Soviets. Fear must be combined with hope if the alliance is to hold together and maintain adequate deterrent strength.

A caveat, however, is an order. The belief that arms control by itself can assure peace is a fatal delusion. It is not the existence of arms but the failure to resolve political differences that lead to their use that brings war. We could cut our nuclear arsenals in half and still have a catastrophic war if political differences led to armed conflict. That is why arms control must be linked to political conduct. To purists who dislike linkage and believe that arms control

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should be sought as an end in itself, I remind them that linkage is a fact of international life. It was the Soviet invasion of Afghanistan, not the alleged defects of the treaty, which destroyed any chance of the Senate to approve SALT II. Today, the Senate will never approve a new arms control agreement if the Soviets are engaged in aggressive activities which threaten our interests in crucial areas like the Mideast and Central America.

Economic power has a critical role to play in any successful strategy for peace. This is the area of our greatest advantage. The West out-produces the Soviet bloc by a margin of almost three and one-half to one. That advantage is being frittered away and is virtually useless as a foreign policy tool.

I don't suggest that trade brings peace. Nations that traded with each other fought each other in WWI and WWII. And we must avoid trade that would directly increase Soviet military capability. But trade in non-strategic goods should be used as an incentive for good behavior on the part of the Soviets and a disincentive for bad.

To be effective as an instrument of policy, trade must be substantial. This means that we must develop a concerted program with our allies in Europe and with Japan to act together when it is in

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the interest of peace to do so. U.S. trade with the Soviet Union last year was only \$2.5 billion. Europe's trade was \$40 billion. The pipeline fiasco demonstrated the impotence of trade as a foreign policy tool if the U.S. acts alone.

Trade policy should not be viewed as a substitute for military policy but as a complement to it. The purpose of our military policy is to remove any incentive for making war. The purpose of our trade policy is to provide incentives for keeping the peace. Our goal should be to give the Soviet leaders an economic stake in peace.

To achieve our goal of building a structure of peace, we must have skillful diplomacy, always having in mind these guidelines:

Keep the public rhetoric cool.

Conduct private negotiations with hard-headed, unsentimental precision.

Until agreements are ready to announce, conduct negotiations in secrecy.

I used to believe in Woodrow Wilson's principle: Open covenants openly agreed to. In dealing with the Soviets I found that while covenants should not be secret, none will be consummated unless they are agreed to secretly. Without secrecy there would have been no opening to China in 1972. There would have been no ABM limitation treaty with the Soviets in 1972. There

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would have been no Vietnam peace agreement in 1973.

Each President should consider appointing a top-level negotiator to conduct negotiations on all issues - arms control, trade, political issues - and to report directly to the President outside the usual diplomatic channels. Progress will not be made through the traditional bureaucratic channels.

The practice we established in 1972 and 1973 of having regular meetings at the summit between the two heads of state should be reinstated, but always with the understanding that summits, to be successful, must be well prepared in advance. Such meetings serve a purpose apart from any substance that might be agreed to. When two leaders meet it doesn't mean that they will learn to like each other. In fact they may like each other less. But face-to-face meetings will tend to reduce the possibility that either will underestimate or miscalculate the other. War in the nuclear age is most likely to come from miscalculation rather than from one side or the other deliberately launching it.

In 1974, I had my third and last meeting with President Brezhnev. We had a long one-on-one discussion on arms control in a cabana looking out over the Black Sea. It was obvious after two hours of tough negotiating that we could not agree on a

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new arms control pact. All that we could agree to was to meet again in six months with the hope that in the meantime our negotiators could make a breakthrough.

Incidentally, do you want to know what really happens at such meetings between the President of the United States and the President of the Soviet Union? You spend half of your time listening to the translators. Brezhnev used to doodle while his statements were being translated into English. Toward the end of our meeting I noticed that he drew a heart with an arrow through it. I did not know what message he was trying to get across, if any, by doing this. I was confident that it wasn't Cupid who shot the arrow. When my comments were being translated into Russian, I wrote these words on the pad in front of me: "Peace is like a delicate plant. It must be tended and nurtured every day if it is to survive. If we neglect it, it will wither and die."

As far as summitry is concerned, we must recognize that there will never be one climactic meeting in which everything is settled, and which ends with handshakes, bear hugs, and champagne toasts with everyone living happily ever after. This seldom happens with friends. It never happens with potential enemies. Our differences with the

Soviet Union are profound. Some of them will never be settled. The most we can hope to do is to agree on rules of engagement for continued competition which will prevent those differences from exploding into war.

If we are to succeed in building a new strategy for peace we must above all have a strong, free, productive economy. Without a strong economy we cannot support our military budgets. Without a strong economy we cannot fund the necessary aid and trade programs which are essential foreign policy tools. Without a strong American economy, the world economy will become weak and vulnerable nations abroad will become targets for discontent and revolution.

As we look at the American economy today, the signs are overwhelmingly positive. Inflation is down. Unemployment is coming down. Profits, real income, growth, and consumer confidence are up. But the good news is drowned out by a babble of voices about the deficit. It would be presumptuous of me before this economically sophisticated audience to state my views about the theoretical affect of deficits. But if I may venture a political opinion, the debate as to whether and how much deficits matter is about as sterile as those medieval arguments about how many angels could

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stand on the head of a pin.

If those who make financial decisions in the business community and the Federal Reserve think deficits matter, they do.

The paradox is what to do about them. Some say raise taxes. Others say cut nondefense spending. Other say cut defense spending. And some say do all three. I would prefer that we not raise taxes. I would prefer that the defense budget should not be cut. I believe the major culprit is nondefense spending - particularly, as the Peterson Committee has pointed out, the entitlement programs with their cost of living and indexing provisions which I regret to say I helped put into law in 1972.

But there is no way that Congress will tackle the politically sensitive nondefense programs unless there is some cut in defense expenditures. That is why President Reagan deserves support in his efforts to tackle the problem on all three fronts. If defense is to be cut, it is far better for him to say where and how because if it is left to Congress, I fear that they would cut the wrong things.

How can anyone who favors a strong foreign policy as he does and I do possibly agree to any cuts in the defense budget? The only purpose of

defense is to support a strong foreign policy. A weak economy leads to a weak foreign policy, to isolationism, protectionism at home, and economic dislocation abroad. High deficits will inevitably lead to a weak economy. Therefore, it can be said that defense cuts which reduce those deficits actually contribute to a strong foreign policy.

As we discuss the need for military and economic power, let us never forget that our greatest advantage is the power of our ideas. The Soviet Union has lost the ideological battle in the world. This does not mean that the West has won it. Two billion people living in poor countries in Africa, Asia, and Latin America have an average per capita income of less than \$500.

The people in these countries have enormous problems. The communists at least talk about the problems. We too often just talk about the communists.

This is not worthy of America. America is a great country. We did not become great by simply being against what was wrong. We became great by being for what was right.

America and the West must make clear what our true aspirations are for people living in this part of the world. We are not for the status quo where millions are mired down in poverty, misery, and injustice. We are not just against the communist

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way which would make things worse.

We are for a better way in which all people can hope to share in the progress we are making toward a better life for our own people. Their lot is not our fault. It is our responsibility. This is the supreme challenge which confronts America and other advanced nations for the balance of this century.

Sir Robert Thompson, the great British strategist, once wrote that national strength equals manpower plus applied resources times will.

We have the manpower. We have the resources. We are on the right side.

The question is: do we have the will? The pages of history are littered with the ruins of superior civilizations of the past which despite their wealth and military strength lost the will to defend what they had and were destroyed by barbarians.

Americans don't like to play a role on the world's stage. Vietnam, Iran, and Lebanon have taken a toll on our will to play a role. The London Economist observed last week that the United States had suffered a bloody nose in Lebanon. True. But the fact that you suffer a bloody nose does not mean that you throw in the towel. A great nation must be mature enough to accept the fact

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that we do not win all the time. Sometimes we will suffer defeats. But defeat is not fatal unless you give up and America must never give up.

America must not turn away from its responsibility in the world. If not us, who? There is no one else to take our place. If we cease to play a role, the rest of the world will be at the mercy of totalitarian aggressors.

We must continue to play a role not just for others but for ourselves.

America cannot be at peace in a world at war.

When freedom is lost anywhere, it is threatened in America.

We cannot have a healthy American economy in a sick world economy.

There is another reason which cannot be measured in material terms. Charles de Gaulle once said, "France was never her true self unless she was engaged in a great enterprise." This is true of nations. It is true of individuals. It is true of every man and woman in this room.

To preserve peace and to defend and extend freedom is a great enterprise. I am confident that America will meet the challenge that history has thrust upon us.

It is not our choice.

It is our destiny.

REMARKS OF SENATOR DOLE

NEW YORK ECONOMIC CLUB

APRIL 3, 1984

TONIGHT, I BRING GOOD NEWS FROM WASHINGTON. AFTER MONTHS OF RHETORIC, CONGRESS IS FINALLY GETTING DOWN TO THE REAL WORK OF CUTTING BUDGET DEFICITS. THE SENATE IS ABOUT TO TAKE UP LEGISLATION IMPLEMENTING THE PRESIDENT'S "DOWN-PAYMENT" DEFICIT REDUCTION PLAN, WHICH WOULD LOWER DEFICITS BY \$150 BILLION OVER THE NEXT FOUR YEARS.

AFTER ALL OF OUR SPEECHES, WE FINALLY FIND OURSELVES IN A POSITION TO DO SOMETHING ABOUT DEFICITS WHICH WE ALL AGREE THREATEN CONTINUED ECONOMIC RECOVERY. BY ENACTING IN AN ELECTION YEAR THESE SAVINGS, ABOUT HALF OF WHICH RESULT FROM FINANCE COMMITTEE ACTIONS, CONGRESS AND THE ADMINISTRATION WILL BE COMMITTING ITSELF TO DO WHATEVER IS NECESSARY IN 1985 AND BEYOND TO END THIS BUDGET CRISIS, ^{hopefully} ONCE AND FOR ALL.

THOSE OF US WHO HAVE BEEN WORKING ON THIS PACKAGE SINCE LAST FALL ARE GRATIFIED THAT THE PRESIDENT IS ON BOARD AND THAT THE PROSPECTS FOR A TIMELY, SUCCESSFUL COMPLETION ARE BRIGHT. BUT WE REALIZE THIS IS ONLY A FIRST STEP, AND THERE IS MUCH MORE WORK TO BE DONE.

THE STAKES ARE HIGH. THE ECONOMY STANDS AT THE THRESHHOLD OF STEADY, NONINFLATIONARY GROWTH. IF WE CAN ELIMINATE THIS ONE REMAINING CLOUD, THE FUTURE WILL LOOK A BIT BRIGHTER.

WHY WORRY ABOUT THE DEFICIT

THOSE OF US WHO ARE CONCERNED ABOUT THE IMPACT OF DEFICITS SOMETIMES ARE CHARACTERIZED AS "NERVOUS NELLIES." AND INDEED, JOHN MAYNARD KEYNES MIGHT WONDER WHAT ALL THE FUSS IS ABOUT. ALL THE ECONOMIC NEWS IS GOOD. REAL GNP IS GROWING RAPIDLY, BUSINESS INVESTMENT IS BEGINNING TO SURGE, UNEMPLOYMENT IS PLUMMETING, AND INFLATION IS SUBDUED. IN SEVERAL RESPECTS WE ARE EXPERIENCING THE STRONGEST RECOVERY SINCE WORLD WAR II. 1984 SEEMS TO HAVE BROUGHT THE BEST OF ALL ECONOMIC WORLDS.

SO WHY HAVE THE FINANCIAL MARKETS BEHAVED SO ERRATICALLY OF LATE? A CYNIC MIGHT SUGGEST THAT ON WALL STREET ALL NEWS IS BAD NEWS. AND IT IS DIFFICULT TO FIGURE OUT A STOCK MARKET THAT A FEW WEEKS AGO SUFFERED A BROAD DECLINE ON A BELIEF THAT THE ECONOMY WAS OVERHEATING, YET DROPPED FURTHER THE NEXT DAY ON WORRIES THAT THE RECOVERY WAS SLOWING PREMATURELY.

THE ALLEGED IRRATIONALITY OF THE MARKET ASIDE, THERE IS REAL CAUSE FOR CONCERN. INVESTORS AND FINANCIAL PLANNERS MUST BE FORWARD LOOKING, AND THEIR VIEW OF THE ECONOMIC FUTURE HAS BEEN CLOUDED BY BUDGET DEFICITS. A CONFLICT BETWEEN AN ECONOMY NEARING FULL EMPLOYMENT AND ANNUAL DEFICITS OF \$200 BILLION OR MORE CAN BE RESOLVED ONLY BY RISING INTEREST RATES, ACCELERATING INFLATION, OR BOTH.

UNFORTUNATELY, DANGER SIGNALS ALREADY ARE APPEARING, AS INTEREST RATES HAVE BEGUN TO TURN UP AND THERE HAVE BEEN HINTS OF RISING INFLATION.

YET I BELIEVE THAT THE REAL SOURCE OF CONCERN IS NOT SO MUCH THOSE MIND-NUMBING DEFICIT PROJECTIONS THAT ARE REGULARLY CHURNED OUT OF WASHINGTON COMPUTERS, BUT THE FEAR THAT CONGRESS AND THE ADMINISTRATION ARE PARALYZED WHEN IT COMES TO TAKING THE NECESSARY ACTIONS TO GET THE DEFICITS UNDER CONTROL.

THIS IS WHY PASSAGE OF THE DOWN-PAYMENT BUDGET PACKAGE IS CRUCIAL. CERTAINLY, DRAINING \$150 BILLION IN RED INK FROM THE BUDGET IS BENEFICIAL IN ITSELF. BUT IT IS MORE IMPORTANT TO DEMONSTRATE THAT WASHINGTON IS CAPABLE OF DOING MORE THAN JUST OFFERING BUDGET RESOLUTION TARGETS AND MAKING SPEECHES.

THE CONGRESSIONAL BUDGET OFFICE PROJECTS THAT WITHOUT FURTHER ACTION, THE DEFICIT WILL RISE TO \$326 BILLION IN FY 1989. IF THESE PROJECTIONS ARE REALIZED, THERE IS TRULY CAUSE FOR ALARM. BUT WE STILL HAVE TIME TO PREVENT THE PROJECTIONS FROM BECOMING REALITY. LIKE THE VISIONS THAT DICKENS' GHOST OF CHRISTMAS FUTURE BROUGHT TO EBENEZER SCROOGE, THESE FUTURE DEFICITS ARE NOW JUST MENACING SHADOWS. LIKE SCROOGE, WE HOPE THAT THESE ARE THINGS "THAT MAY BE, NOT MUST BE." HOWEVER, UNLIKE SOME WHO BELIEVE WE CAN SIT ON THE SIDELINES AND ALLOW ECONOMIC GROWTH TO

BALANCE THE FEDERAL BUDGET, I BELIEVE THAT CONGRESS AND THE ADMINISTRATION MUST EARN ITS REDEMPTION.

THE DEFICIT-REDUCTION PLAN

THE DOWN-PAYMENT BUDGET WOULD REDUCE DEFICITS BY NEARLY \$150 BILLION OVER THE NEXT THREE FISCAL YEARS, INCLUDING \$48 BILLION IN NEW REVENUES AND NEARLY \$100 BILLION IN SPENDING RESTRAINT. ON THE SPENDING SIDE, DEFENSE WOULD BE REDUCED BY \$40 BILLION, ENTITLEMENTS AND FEDERAL PAY BY \$28 BILLION, AND NONDEFENSE DISCRETIONARY SPENDING BY \$13 BILLION. IN ADDITION, LOWER DEFICITS WOULD SAVE THE TREASURY \$18 BILLION OVER THREE YEARS IN INTEREST COSTS ON THE PUBLIC DEBT.

BUT THE KEY FEATURE OF THIS PLAN IS THAT--UNLIKE BUDGET RESOLUTIONS OF THE PAST THAT WERE MORE PROMISE THAN PROSPECT--THE DOWN-PAYMENT BUDGET IS BACKED UP BY ACTUAL LEGISLATION. ALL OF THE ENTITLEMENT REFORMS, AS WELL AS THE \$48 BILLION REVENUE GAIN, REPRESENT SPECIFIC MEASURES THAT HAVE BEEN APPROVED IN COMMITTEE. THIS LEGISLATION HAS BEEN DRAFTED, AND IS READY FOR FLOOR ACTION. IN ADDITION, WE ARE WORKING ON A PROCEDURE WHICH WILL SET A LIMIT ON DEFENSE AND NONDEFENSE APPROPRIATIONS, GUARANTEEING THAT THE SAVINGS IN THESE PROGRAMS WILL BE ACHIEVED.

ABOUT HALF OF THE DEFICIT REDUCTION PACKAGE, OR \$72.6 BILLION, RESULTS FROM FINANCE COMMITTEE ACTIONS. LAST MONTH THE

COMMITTEE UNANIMOUSLY APPROVED MEASURES WHICH WOULD YIELD \$48 BILLION IN NEW REVENUES AND LOWER SPENDING BY \$24.5 BILLION FROM FISCAL YEAR 1984 THROUGH 1987.

THE FINANCE COMMITTEE REVENUE PACKAGE CONTINUES TO BUILD UPON THE PHILOSOPHY THAT REVENUES SHOULD BE RAISED BY BROADENING THE TAX BASE, RATHER THAN RAISING TAX RATES. THERE ARE NO BROAD TAX INCREASES IN THE BILL. INSTEAD, AS IN THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982, THE COMMITTEE RELIED UPON SPECIFIC REFORM MEASURES THAT WOULD CORRECT TAX ABUSES AND ELIMINATE UNPRODUCTIVE SHELTERS AND OBSOLETE TAX PREFERENCES. IN MY VIEW, IF WE CAN RAISE THE REQUIRED REVENUE BY BROADENING THE TAX BASE AND CLOSING SO-CALLED "LOOPHOLES," ANY ADVERSE EFFECTS ON THE ECONOMY WILL BE MINIMIZED. THE PRESIDENT SHARES THIS PHILOSOPHY, AND HE IS A STRONG SUPPORTER OF OUR EFFORTS.

ON THE SPENDING SIDE, WE HAVE CONTINUED OUR EFFORTS TO CONTAIN THE GROWTH OF THE MEDICARE AND MEDICAID PROGRAMS. THIS BILL WOULD PRODUCE SAVINGS IN THESE HEALTH PROGRAMS, AND IN WELFARE PROGRAMS, OF \$10.8 BILLION THROUGH FISCAL YEAR 1987. EVERYONE TALKS ABOUT ENTITLEMENTS AS IF THEY WERE SACRED COWS. BUT SINCE 1981, THE FINANCE COMMITTEE HAS APPROVED CHANGES IN ITS ENTITLEMENT PROGRAMS--INCLUDING SOCIAL SECURITY, MEDICARE, AND WELFARE PROGRAMS--THAT WILL HAVE SAVED \$85 BILLION BY FY 1987.

THE POPULAR VIEW THAT ENTITLEMENTS HAVEN'T BEEN TOUCHED IS JUST PLAIN WRONG.

I KNOW THAT MANY OF YOU HAVE A KEEN INTEREST IN THE FATE OF THE REPORT OF THE GRACE COMMISSION. I AM PLEASED TO REPORT THAT THE FINANCE COMMITTEE HAS SERIOUSLY CONSIDERED EACH AND EVERY RECOMMENDATION MADE BY THE GRACE COMMISSION FOR PROGRAMS UNDER ITS JURISDICTION. OUR BILL INCLUDES GRACE COMMISSION PROPOSALS WHICH THE CONGRESSIONAL BUDGET OFFICE ESTIMATES WILL SAVE THE FEDERAL GOVERNMENT \$3.1 BILLION OVER THE NEXT 3 YEARS. THESE WOULD: (1) USE TAX REFUNDS TO OFFSET DELINQUENT DEBT OWED TO THE FEDERAL GOVERNMENT; (2) ALLOW INFORMATION FROM TAX RETURNS TO BE USED TO PREVENT FRAUD AND ABUSE IN FEDERAL WELFARE PROGRAMS; AND (3) REQUIRE THE FEDERAL GOVERNMENT TO ADOPT MODERN CASH MANAGEMENT TECHNIQUES.

I SALUTE MR. GRACE AND THOSE WHO SERVED ON HIS COMMISSION. EVEN IF ONLY THE FINANCE COMMITTEE PROVISIONS ARE ENACTED INTO LAW, HE WILL HAVE SAVED THE COUNTRY \$3 BILLION OVER THE NEXT THREE YEARS.

THIS IS NOT JUST A BUDGET RESOLUTION

LET ME AGAIN EMPHASIZE THAT THE REPUBLICAN DOWN-PAYMENT BUDGET IS BASED LARGELY UPON COMPLETED LEGISLATION. THESE ARE NOT JUST NUMBERS, BUT REAL DEFICIT-REDUCTION POLICIES. OF

COURSE, THIS IS THE TIME OF YEAR WHEN BUDGET PLANS BLOOM LIKE THE CHERRY BLOSSOMS; AND THEY LAST JUST ABOUT AS LONG.

IT SEEMS THAT EVERYONE IN CONGRESS HAS HIS OR HER OWN BUDGET. THE OBJECT OF THE GAME IS TO COME UP WITH A LARGER DEFICIT REDUCTION TOTAL THAN THE OTHER GUY. THAT'S NOT VERY DIFFICULT TO DO ON PAPER, ESPECIALLY WHEN YOU DON'T HAVE TO WORRY ABOUT BOTHERSOME DETAILS SUCH AS HOW YOUR BUDGET WOULD BE IMPLEMENTED, OR WHETHER THERE ARE ANY VOTES FOR IT.

REMEMBER THIS WHEN YOU HEAR ALL OF THE TALK ABOUT BUDGET "FREEZES" AND "PAY-AS-YOU-GO," AND HEAR CONGRESSMEN QUOTING DRAMATICALLY LOWER DEFICIT NUMBERS. THE PROBLEM IS THAT THERE IS NO REALITY BEHIND MOST OF THOSE NUMBERS.

TAKE THE HOUSE DEMOCRATIC BUDGET PLAN. THEY CLAIM TO SAVE SOME \$182 BILLION FROM DEFICITS OVER 3 YEARS. NOW THIS APPEARS TO BE A MORE SUBSTANTIAL REDUCTION THAN THE SENATE REPUBLICAN PACKAGE. BUT IF YOU TAKE A CLOSER LOOK, YOU WILL SEE THAT THEY ARE CALLING FOR \$56 BILLION MORE IN DEFENSE CUTS THAN THE COMPROMISE AGREED TO BY THE PRESIDENT. FRANKLY, I DOUBT WHETHER THEY HAVE THE VOTES TO PASS SUCH A LARGE DEFENSE CUT EVEN IN THE HOUSE, LET ALONE THE SENATE. LIKE OTHER PLANS THAT CALL FOR FREEZING SOCIAL SECURITY BENEFITS OR REPEALING TAX INDEXING, IT JUST ISN'T GOING TO HAPPEN.

THIS UNREALISTIC DEFENSE NUMBER IS USED TO MASK THE FACT THAT THE HOUSE DEMOCRATS WOULD CUT ONLY \$12 BILLION FROM THE ENTIRE NONDEFENSE BUDGET OVER THE NEXT 3 YEARS. COMPARED WITH THE \$41 BILLION IN NONDEFENSE SAVINGS IN THE REPUBLICAN BUDGET, SUCH A PALTRY EFFORT SEEMS INCONSISTENT WITH THE GREAT HAND-WRINGING OVER THE DEFICIT THAT WE HAVE WITNESSED FROM JIM JONES, JIM WRIGHT, AND TIP O'NEILL. ONCE YOU CLEAR AWAY THE SMOKE, THE HOUSE BUDGET PLAN LOOKS A BIT UNDERNOURISHED.

THE SENATE DEMOCRATIC BUDGET IS EVEN MORE UNREALISTIC. THEY WOULD RAISE TAXES BY \$75 BILLION OVER THE NEXT THREE YEARS, OR \$27 BILLION MORE THAN IN THE REPUBLICAN PLAN. THEY WOULD PICK UP THIS EXTRA REVENUE IN THE WORST POSSIBLE WAY, BY DELAYING TAX INDEXING AND ALLOWING INFLATION TO CONTINUE TO RAISE AMERICANS' TAX BURDEN SILENTLY. NOT ONLY IS SUCH A TAX UNFAIR TO MIDDLE-INCOME WORKING PEOPLE, BUT EVEN THE SPONSORS MUST KNOW IT WILL NEVER BE ENACTED. A SIMILAR INDEXING DELAY WAS DEFEATED BY A 2 TO 1 MARGIN IN THE FINANCE COMMITTEE LAST MONTH. AND THE PRESIDENT IS PLAYING GOALIE ON THIS ONE--HE HAS PLEDGED TO VETO ANY TAMPERING WITH TAX INDEXING. IT SEEMS TO ME THAT THE SENATE DEMOCRATS ARE ABOUT \$27 BILLION SHORT.

WE IN THE SENATE ARE TRYING TO AVOID SUCH BUDGET CHARADES THIS YEAR BY TAKING A BILL DIRECTLY TO THE FLOOR. THAT BOTHERS MANY SENATORS, PRIMARILY THOSE WHO WANT TO OFFER THEIR BUDGET

RESOLUTIONS, VOTE ON NUMBERS, AND ISSUE PRESS RELEASES--ALL WITHOUT GETTING THEIR HANDS DIRTY ON ACTUAL LEGISLATION.

BUDGET RESOLUTIONS ARE GREAT FUN IN AN ELECTION YEAR, BUT THE PUBLIC HAS GOTTEN WISE. WE CAN'T AFFORD TO WAIT FOR THE BUDGET PROCESS THIS YEAR. THE LAST TWO YEARS, THE BUDGET RESOLUTION HAS NOT BEEN IN PLACE UNTIL JUNE. THIS YEAR, DUE TO THE PRESIDENTIAL CAMPAIGN AND PARTY CONVENTIONS, THE LEGISLATIVE SESSION WILL BE ALL BUT FINISHED BY THEN.

THE ECONOMY AT A CROSSROADS

FROM THE START, THIS ADMINISTRATION'S ECONOMIC GOALS HAVE BEEN MORE AMBITIOUS THAN THOSE OF PRIOR ADMINISTRATIONS. WE HAVE TRIED TO AVOID ANOTHER SHORT-LIVED ECONOMIC RECOVERY WHICH, LIKE SO MANY BEFORE, WOULD BURN UP IN ITS OWN INFLATIONARY FIRES. THIS ADMINISTRATION HAS ALWAYS TAKEN THE LONG VIEW. REPUBLICIANS WANTED TO RESTORE A PROSPERITY THAT IS SOLID, NOT CYCLICAL.

IN ORDER TO ACCOMPLISH THIS GOAL, IT WAS FIRST ABSOLUTELY ESSENTIAL THAT INFLATION, RAGING OUT OF CONTROL IN THE LAST DAYS OF THE CARTER-MONDALE ADMINISTRATION, BE BROUGHT DOWN. BRINGING INFLATION DOWN FROM 12 PERCENT AND 13 PERCENT TO UNDER 4 PERCENT IN JUST 3 YEARS, WHILE ENGINEERING A ROBUST RECOVERY, STANDS AS ONE OF THE GREATEST ECONOMIC SUCCESSES IN THE POST-WAR ERA.

THE JOB IS NEARLY COMPLETED. THE ECONOMY IS EXPANDING SMARTLY AND INFLATION IS UNDER CONTROL. IF WE MAKE THE RIGHT CHOICES NOW, WE CAN LOOK FORWARD TO A PERIOD OF PROLONGED ECONOMIC GROWTH WITHOUT INFLATION.

BUT IF WE FAIL TO BEAT THE DEFICITS, WE WILL ONCE AGAIN BE PLUNGED BACK INTO BOOM-AND-BUST, INFLATION-AND-RECESSION CYCLES. THE HUGE BORROWING NEEDS OF THE TREASURY WILL FORCE THE FEDERAL RESERVE TO CHOOSE BETWEEN INFLATION AND HIGH INTEREST RATES. EITHER WAY, THE CHANCE FOR EXTENDED PROSPERITY WILL BE LOST.

SOME SEE THE DEFICIT AS A PROBLEM, BUT I SEE IT AS A TREMENDOUS OPPORTUNITY. WE CAN WORK TOGETHER AND REMOVE THIS LAST IMPEDIMENT TO A SECURE, PROSPEROUS AMERICA. AND IF WE CAN PULL IT OFF, WE WILL HAVE DONE MORE THAN STRENGTHEN OUR ECONOMY. WE WILL HAVE MADE A MAJOR CONTRIBUTION TO RESTORING FAITH AND TRUST IN OUR POLITICAL INSTITUTIONS.