

United States Senate

WASHINGTON, DC 20510

February 6, 1985

TO: Senator Dole

FROM: George Pieler

SUBJECT: American Bankers Association speech

Attached is an updated outline of remarks for your talk to the ABA tomorrow morning. One new item in the outline is a cite to an LA Times poll showing that people favor spending cuts to reduce the deficit by a 5 to 1 margin over tax increases.

The main interest will be on the deficit and the economy, but you could get a few questions on banking issues. Since the ABA represents such a wide array of banking institutions (large and small, local and regional) they have to walk a fine line on supporting particular legislation. They would, however, like to see a bank bill this year-- they expect Cong. St. Germain to move a straight repeal of the non-bank bank loophole (allowing holding companies with a financial services sub that is not strictly a "bank" to get into other commercial activities). Senator Garn is again expected to push for a broader bill that addresses both geographic restrictions on banking and broaden the range of services and activities banks can get into as the next step in deregulation.

Smaller Kansas banks, of course, are concerned about any steps that allow out-of-state institutions and large money-center banks to advance in the State.

You may also get some questions about the farm credit crisis as it affects banks. Attached are John's talking points on the administration plan.

*N.B. - Also attached is a list
of expected Kansas attendees.*

Farm Credit Plan

- o Administration farm credit package revised President Reagan's September debt restructuring initiative to make it more attractive to farm lenders and more useful to farmers who need financing assistance for planting Spring crops.
- o Under original principal write-down proposal, banks were required to write off enough of the loan to make the borrower cash-flow his operation. The bank had to take the entire reduction in principal as an up-front loss.
- o Only \$42 million of the initial appropriated guarantees of \$650 million were subscribed under the principal option.
- o Under the interest write-down option, banks will get the same amount of the principal guaranteed, but will be able to spread their loss over the life of the loan.
- o The Administration left the door open to make additional guarantees available under the program, depending on bank demand.
- o The Treasury Department will coordinate efforts by various bank regulators (FDIC, Comptroller of the Currency, Federal Reserve) to exercise forbearance in applying regulations to bank lending practices.

RUN DATE: DEC-84

STATE - KS

1984 - 1985

ABA REGION 4

CITY OR TOWN	BANK, INDIVIDUAL NAME AND TITLE	SIZE	REAPPT	ELEMENT NAME	STAND
Greenleaf	Citizens National Bank Fadgett, Gary W President	04		82/85 GOVERNMENT RELATIONS COUNCIL 84/85*BNK ORG-CMTY BNKG LDR CNCL-ADV BD	08 08
McPherson	McPherson Bank & Trust Co Steffes, Don C President	06		84/85*BNK ORGNZ-ADV CONF OF STATE ASSOC	08
Fittsburg	City National Bank McNay, John G President	05		84/86 DELEGATES TO BNKG LEADERSHIP CONF	
Satanta	State Bank of Satanta Winter, Russell President and Chief Exec Officer	04		84/85*DELEGATES TO BNKG LEADERSHIP CONF 84/85 MEMBER REL-ABA STATE VICE PRESIDENT	14
Shawnee Mission	MidAmerican Bank & Trust Co Sullivan Jr, John J Chairman of the Board	07		82/85 GOVERNMENT RELATIONS COUNCIL	08
Topeka	Kansas Bankers Association Stones, Harold A Executive Vice President	16		80/85*BNK ORGNZ-ADV CONF OF STATE ASSOC 80/85*BNK ORGNZ - BANKERS ASSOCIATIONS	08 21
Wichita	Fourth National Bank & Tr Co Haines, Jordan L Chairman of the Board	09		84/85*BOARD OF DIRECTORS	08

REMARKS OF SENATOR DOLE

AMERICAN BANKERS ASSOCIATION

Thursday, February 7, 1985-8:15 a.m.

Capitol Hilton, Washington, D.C.

1. The 99th Congress

- o The 99th Congress faces major challenges right away: spending cuts to reduce the deficit, the MX missile, tax reform, Central America. We can meet these challenges by working with President Reagan on the basis of mutual respect.
- o There will be some rough going, but the leadership in the Senate and the House know and respect one another. Congress knows that President Reagan's overwhelming election victory sent a strong message about what the people expect us to do. President Reagan knows that I already am at work on his agenda for Congress. Success will depend a lot on mutual recognition that Pennsylvania Avenue is a two-way street.
- o Our top priority is to cut spending to reduce the budget deficit. That is why Senator Domenici and I introduced S. 1, which commits us to getting the deficit down to \$100 billion or less by 1988. The vital issue of tax reform should proceed on a separate track to allow us to sort out the options and see if we can build a consensus without losing momentum on the urgent problem of the deficit. Other issues that require attention in 1985--a new farm bill, Superfund, national defense, and arms control--will not be neglected.

2. Our Economic Progress

- o Economic recovery remains on track and is moderating to a pace that can be sustained in the years ahead. Real GNP grew 6.1% in 1983, and continued at 6.8% in 1984, peaking at a 10.1% rate in the first quarter last year. That is the highest real growth rate since 1951. This remains one of our strongest recoveries.
- o With national unemployment down to 7.4%, this recovery has created over 6.5 million jobs. More people are working than ever before. Factories are operating at the highest capacity levels in 4 years, close to 82%. Housing starts in 1984 reached 1.74 million, the best since 1979.

-2-

- o The best news about this recovery is that inflation is staying low. Producer prices in 1983 showed the smallest increase since 1964. The CPI rose just 3.8% in 1983 and 4% in 1984. We can sustain strong growth with low inflation.
- o Growth, lower inflation, and major tax relief have translated into real income gains for all Americans. Real personal income has risen by over \$116 billion since the low point of the recession (August 1982). Real after-tax incomes grew 6.8% in 1984--the biggest increase in over a decade.
- o Trends in the economy still look good. The prime rate-- which rose from 6.5% to 21.5% under Carter-Mondale-- stands at 10-1/2%. The misery index, which peaked at 24.5% in March of 1980, is around 11%.

3. The Budget And The Deficit

Nature Of The Deficit Problem

- o After several years of budget deficits that approached the \$200 billion mark, some people seem to be getting complacent about the problem. Since the economy has continued to do well, with low inflation and strong growth, why worry about the deficit?
- o The answer is that everything we have achieved for the economy in the last several years is put at risk unless we deal with the deficit. And part of the problem is that the public can't get very excited about the deficit dilemma. It seems we need to have a crisis on our hands, or some kind of visible faltering in the economy, to convince people of the urgency of reducing the budget deficit.

-3-

The Real Point

- o Sustained deficits in the \$200 billion range are a real threat to continued recovery. They will mean either higher inflation or slow growth and rising unemployment. Without assurance that inflation will remain under control and credit available at acceptable rates of interest, business will not expand through new investment, and jobs will not be available for our sons and daughters when they are ready to enter the workforce.

What Needs To Be Done

- o We have to agree at the outset that the sacred cow is a thing of the past: everything in the budget has to be on the table, and everything has to be scrutinized for possible cost-savings. It is not acceptable to say that we have done all we can to reduce Federal spending when the budget represents nearly 25% of the gross national product.

Spending "Freeze Plus"

- o The President's FY 1986 budget proposes to freeze total spending plus reform some programs and terminate others that have outlived their usefulness. That would cut \$50 billion from the deficit next year: the minimum we need to sustain a healthy recovery, according to Paul Volcker and other experts.
- o Congress will change some of the President's budget priorities, for example, by cutting a bit more from defense. And Senate Republicans want to go a little further in the outyears to get the deficit down to 2% of gross national product by 1988.
- o In the Senate, we are moving toward a major spending cut package. The Budget Committee has begun work on the President's plan, and our committee chairmen have already pledged about 60% of the needed domestic cuts--contingent on getting a balanced package that includes defense. We are working on an expedited scheduling and hope to have a budget approved by March.

Popular Support

- o The people want spending cut. The Los Angeles Times poll shows that by a 5 to 1 margin, Americans prefer cutting government spending over tax increases to deal with the deficit.

-4-

- o The Gallup poll shows that 54% of Americans believe the deficit is a very serious problem although the public has varying views on which spending should be cut.
- o Experts also agree that spending reduction is the way to go. In January, distinguished experts such as Alan Greenspan, Charles Schultze, and Martin Feldstein told the Finance Committee that cutting spending by \$50 billion or more in 1986 will reduce interest rates, keep inflation down, and ensure continued recovery.

Risks Ahead

- o Time is of the essence, because we are at the point where economic expansion will either continue, competing against heavy Treasury borrowing, or the recovery will slow and possibly slip into recession. That is why Senate Republicans have set the goal of working out a budget plan by February 1. The risk is that the deficit problem will compound itself: each year that we add \$200 billion in new Federal debt adds about \$15 billion to the next year's interest costs. The exploding cost of servicing the Federal debt will make controlling spending that much more difficult each year.

All Aboard

- o Everyone must share in the effort to close the deficit gap. People will accept a limited, short-term sacrifice for fiscal restraint if they understand that it is the best investment they can possibly make for their own, and their families', economic future.

4. Major Tax Reform

- o The Treasury Department proposed an innovative, constructive new plan for reforming our tax system. Some of the proposal will be highly controversial, and the President no doubt will modify some things--but clearly he is committed to tax simplification. The Treasury initiative provides an excellent starting point for the 1985 tax reform debate.
- o Under the Treasury plan, there would be just three tax rates: 15, 25 and 35 percent. The personal exemption would double, to \$2,000. Rate brackets, the zero bracket, and the personal exemption would continue to be indexed. For corporations, there would be a single rate of 33 percent.

-5-

- o Major tax breaks that would be dropped include the deduction for State and local taxes, the marriage penalty offset, the investment tax credit, the capital gains exclusion, the tax exemption for private purpose bonds, and the exemptions for employer-provided fringe benefits.
- o Tax provisions that would be modified include mortgage interest deductions for second homes (disallowed); the charitable deduction (limited to amounts in excess of 2 percent of adjusted gross income); business expense deductions (limited); and taxation of dividends (a partial dividends-paid deduction).
- o Indexing would be extended to capital gains; interest income and expense; depreciation deductions; and the earned income tax credit.
- o It is important to build a consensus for any far-reaching changes, drawing on the Treasury plan, Bradley-Gephardt, Kemp-Kasten, and other plans. It may be necessary to move gradually, and reform will not be possible without strong Presidential leadership. And the people will have to let us know if they think the kinds of trade-offs being proposed are worthwhile.

5. International Trade

- o Another major challenge is to keep international markets as free and open as possible in an era of record U.S. trade deficits. Reducing the budget deficit will be a tremendous help, because it will help moderate interest rates and the value of the dollar.
- o So far we have done well in keeping avenues of trade open. It is especially significant that last year's trade bill extended for 8 1/2 years, the Generalized System of Preferences, which provides duty-free treatment for certain imports from the underdeveloped world.
- o In a similar trade liberalizing vein, the bill authorizes the negotiation of free-trade zones, specifically with Israel, and the reciprocal reduction of tariffs on semiconductors.
- o It is hoped that the authority to negotiate bilateral free trade arrangements may induce other countries to join in trade liberalization.

-6-

- o The trade bill recognized, for the first time, the importance of trade in services (including banking); The President is directed to negotiate reduction in barriers to trade in services (a sector in which the U.S. has the competitive advantage and which represents a major portion of our GNP.)