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United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

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TO: Senator Dole

FROM: George Pieler

SUBJECT: February 18 meeting with AFL-CIO Executive Council

Attached are some talking points you may find useful
for your talk with Lane Kirkland et al. The subjects
addressed are:

- Unemployment and jobs
- Deficit
- Spending Cuts
- Social Security COLA
- Trade
- Taxes

Dave Cordova is doing one on foreign policy.

Attachments

Unemployment and Jobs

- At 7.4% unemployment remains too high. But the way to bring it down further is to make sure that economic recovery continues at a steady pace. That means bringing interest rates and the high dollar down by reducing the budget deficit, and keeping inflation low.

- While recent upward blips in the unemployment rate are disappointing, it is not too surprising to see that happen this late into a recovery. A healthy economy encourages more people to look for work, while at the same time the slower pace of recovery doesn't always create jobs fast enough to match the increase in the workforce. So long as growth continues in the 3%-4% range, unemployment should continue to trend downward.

- Even with unemployment at a kind of plateau, more Americans are working than ever before. Since August 1982 our economy has created over 7.2 million jobs.

- President Reagan continues to push for a number of initiatives designed to create jobs in areas of special need where recovery is lagging (all of which the AFL-CIO opposes). These include enterprise zones, the youth employment opportunity wage (sub-minimum for hiring low-income youth), and the targeted jobs tax credit (which the administration has supported in the past, and which is scheduled to expire next year).

- Not only have we been creating jobs while maintaining low inflation, we have helped workers increase their real earning power again. In 1984 real after-tax incomes grew 6.8%--the fastest growth in a decade.

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.

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.
- 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.

Spending cuts

- The President's budget proposes freezing Federal spending plus reforms and terminations of major programs to get the deficit under control. Senate Republicans have been working along similar lines, but are looking for some more savings in the defense area and savings in social security.

- Programs that would be eliminated include the Jobs Corps, revenue sharing, UDAG, and direct loans for the Ex-Im Bank. Freezes or major reductions would affect items like Medicare, student loans, housing subsidies, and support for urban mass transit.

- Obviously many of these changes are highly controversial. But a large proportion of them will have to be done if we are to meet the goal of reducing the deficit to \$100 billion or less by 1988 (2% of GNP). And if we don't do that we are in real trouble: the economy, even at current growth rates, can't expand fast enough to keep up with the built-in momentum for Federal spending. We come close to the point where compounding interest costs will outpace any increase in revenues from sustained growth.

- Congress will do its best to choose program reforms that make sense: where State and local governments can do the job more effectively (mass transit, housing): where the program seems to outlive its usefulness (Job Corps, which costs taxpayers \$15,200 per job, and where 65% of those who leave do not complete a course of study): and where targeting can better serve those who are most in need (student loan reform).

- Those who want an enlightened Federal approach to social problems have to realize that a strong economy is the surest guarantee that the Federal government will have the resources to help where help is really needed. For now some hard cuts will have to be made, and much greater efficiency achieved. For the future we have to rethink the Federal role in many areas and coordinate better with States and localities. If we want a thriving economy and a stronger defense these choices have to be made.

- Defense will have to share in the burden of deficit reduction, even though we will maintain our commitment to increased defense spending--but at a more reasonable and sustainable pace. Every part of the government has its waste and its inefficiency, and we will never cut that waste unless we impose some spending constraints on all areas of the budget.

TALKING POINTS ON SOCIAL SECURITY COLA

- Freezing the social security COLA for one year is just one option for reducing the deficit. It would only be done if spending is cut or frozen across-the-board in all areas including defense and agriculture.
- We are facing a fiscal crisis. As one way of dealing with mounting deficits, President Reagan and congressional leaders are proposing a budget freeze that includes suspending (for one year) cost-of-living adjustments in most benefit programs--while exempting programs that help the poor and needy.
- If necessary, to be consistent with the rest of the freeze plans we can explore ways of protecting those social security beneficiaries who are most in need.
- It will be difficult to get a handle on the deficit if we exempt large spending programs like social security from a spending freeze. We are planning a freeze or cuts in all areas, including Medicare, small business, agriculture, and defense. There has to be a compelling reason for exempting any program.
- The main argument we hear for exempting social security is that it is a trust fund separately financed by the payroll tax, and does not contribute to the deficit problem. But savings from social security do reduce the budget deficit, because we have a unified budget that counts all Federal spending and taxes, including social security.
- Any savings in social security will benefit the social security trust funds by boosting the level of reserves and better protecting benefits from an economic downturn that would reduce income to the trust funds. Social security savings could not be used to finance other government spending.
- While the social security trust fund is separately funded, it also gets funds from the rest of the government: in the past it has borrowed from the medicare trust fund, and under the 1983 Act, gets substantial funds in the form of credits for military wages paid.

Trade

- The Reagan administration has consistently taken the position that trade must be free and fair. That means that while our goal is to keep international markets as open as possible, where our trading partners impose obstacles to American entry we will respond appropriately.

- Examples of this approach are the negotiations to set levels for steel imports into the U.S.--ongoing discussions with Japan on telecommunications and other advanced technologies--and the new authority granted the President in last year's trade bill to negotiate bilateral free trade agreements, in hopes of inducing more countries to liberalize their trade policies. Overall, we have to remember that trade liberalization, if achieved on a reciprocal basis, creates more jobs in America--it does not export jobs.

- The U.S. does not accept the notion that we should keep our markets open even in cases where other nations blatantly subsidize their exports or impose artificial barriers to American companies that have a good product or service to offer in their markets. We have demonstrated that in many cases, including textiles (vis-a-vis Asia) and agricultural products (vis-a-vis the European community).

- At the same time the U.S. has to weigh carefully any decision to interfere with free markets, and evaluate the real cost in terms of jobs and prices to consumers. The ITC has just reported their finding that auto import limitations with regard to Japan saved 44,000 U.S. jobs, but at a cost to consumers of \$15.7 billion. That is over \$350,000 per job, and even if those figures may be exaggerated, they give you something to think seriously about.

- The same concern arises with the idea of local content requirements in autos or other manufactured goods. It is all well and good to support American producers and manufacturers, but we have to be smart about how we do it. If requiring domestic content in goods imported into the U.S. brings retaliation against American producers, we will lose jobs, not save them.

- The key is to fight firmly but fairly to keep all markets open to American goods and services and open up those markets that have been unfairly shut off. In his State of the Union address President Reagan called for a new round of trade negotiations to expand trade and strengthen the world economy. After all, more jobs and greater prosperity--in the Third World, for example--creates new markets for American producers.

Taxes

- The President and the American people have sworn off tax increases as a deficit solution, and no one in Congress seems to want to suggest otherwise. So now the focus will be on tax reform and ways to improve the distribution of the tax burden.

- There have been a lot of reports and analyses of inequities in the tax code, including one by Joe Pechman on who pays taxes, and one by Ralph Nader's Public Citizen group on corporate loopholes. Despite all the headlines, the bottom line conclusion is one we have known for a long time--payroll taxes and bracket creep raised the tax burden on working people, while the proliferation of tax loopholes cut taxes for the upper incomes and corporations. There, in nutshell, is the source of most of the momentum for tax reform.

- Labor has legitimate concerns in the tax debate: protection of the tax free status of fringe benefits that workers have bargained for, including health insurance--greater equity for the average taxpayer. Businesses and workers who don't benefit from rich fringe benefits have legitimate concerns, too, which is why we expect a long and lively debate.

- Clearly tax reform is important, because we have to have a tax system that our people believe in and will support without coercion. But unless we deal with the deficit, initiatives such as tax reform will fall by the wayside--because our fiscal crisis will demand all our energy if it gets worse.

- Republicans led the effort to reduce and index tax rates, close corporate loopholes, shut off some upper-income benefits, and improve tax compliance over the past four years. Taken together these changes are the best improvements in tax policy for working people in many years. And without them, scheduled increases in the payroll tax would be pinching workers much more severely than they are. And President Reagan's Treasury Department wants to go further--their reform plan would reduce individual rates and increase business taxes by 37%.