

REMARKS OF SENATOR DOLE
NATIONAL GOVERNORS' ASSOCIATION
SUNDAY, FEBRUARY 24, 1985--3:45 P.M.
YORKTOWN ROOM, HYATT REGENCY ON CAPITOL HILL

THANK YOU FOR INVITING ME TO JOIN YOU THIS AFTERNOON, AND WELCOME TO WASHINGTON. WE HAVE SOME COMMON PROBLEMS TO DEAL WITH AND COMMON EXPERIENCES WE CAN SHARE TO EACH OTHER'S BENEFIT.

YOU ARE HERE TO REMIND US THAT WE ARE A UNION OF 50 SOVEREIGN STATES, NOT JUST A NATION WITH 50 POLITICAL SUBDIVISIONS. TOO OFTEN WE HAVE TAKEN IT FOR GRANTED THAT PUBLIC POLICY--WHETHER IT BE BUDGET, TAX, HEALTH, OR EDUCATION--BEGINS IN WASHINGTON AND TRICKLES DOWN TO OUR STATE CAPITALS, COUNTY SEATS, AND CITY HALLS. BUT THAT JUST ISN'T SO. OVER THE PAST SEVERAL YEARS WE HAVE BEEN LEARNING SOME OF THE LIMITS ON EFFECTIVE FEDERAL POLICYMAKING, AND SOME OF THE VIRTUES OF POLICY INNOVATION AT THE STATE AND LOCAL LEVEL. FROM MANAGING THE ENVIRONMENT TO CONTROLLING STREET CRIME TO REVITALIZING ECONOMICALLY DISTRESSED AREAS, STATES AND LOCALITIES ARE LEADING THE WAY. THAT DOESN'T MEAN OUR FEDERAL RESPONSIBILITIES ARE ANY LESS: IT MEANS WE CAN LEARN FROM EACH OTHER THAT THE PUBLIC POLICY TRAFFIC FLOWS BOTH WAYS.

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FISCAL LEADERSHIP

LET ME FIRST URGE YOU TO DISREGARD THE PREMATURE OBITUARIES FOR OUR DEFICIT REDUCTION EFFORTS THAT HAVE BEEN WRITTEN IN SOME QUARTERS. WE ARE RIGHT ON TRACK AND IF WE FOUNDER, I'LL BE THE FIRST TO LET YOU KNOW. IN ADDITION TO THE COMMITMENTS WE HAVE ALREADY OBTAINED FROM COMMITTEE CHAIRMEN ON SPENDING REDUCTION, THERE ARE ONGOING MEETINGS WITH THE SENATE LEADERSHIP, AND BUDGET COMMITTEE ACTION IS SCHEDULED TO BEGIN NEXT WEEK. THIS IS WELL AHEAD OF THE USUAL BUDGET CYCLE AND OUR JOB IS TO KEEP IT THAT WAY.

THOSE OF US WHO ARE TRYING TO GRAPPLE WITH THE PROBLEM OF RECORD FEDERAL BUDGET DEFICITS ARE VERY MUCH AWARE OF THE EXAMPLE THE STATES HAVE SET IN DEALING WITH SIMILAR PROBLEMS IN THE PAST FEW YEARS. THE STATES HAVE, AS A WHOLE, EMERGED VICTORIOUS FROM THE SEVERE SQUEEZE OF THE RECESSION. WE ALL KNOW THAT THE BENEFITS OF ECONOMIC RECOVERY TO DATE HAVE BEEN UNEVENLY DISTRIBUTED AROUND THE NATION. THAT IS TO BE EXPECTED, BECAUSE THE PROCESS OF DISINFLATION WAS BOUND TO BE MORE PAINFUL FOR SECTORS OF THE ECONOMY THAT HAD EXPANDED

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ON THE ASSUMPTION OF CONTINUING INFLATION: AND SOME STATES RELY MORE THAN OTHERS ON THOSE INFLATION-SENSITIVE SECTORS. BUT BY AND LARGE, THE STATES HAVE WEATHERED THE STORM BY TAILORING THEIR PUBLIC SPENDING TO FIT THE RESOURCES THEY HAVE AVAILABLE.

IT IS HIGH TIME THE FEDERAL GOVERNMENT FOLLOWED THAT EXAMPLE AND DID THE SAME.

-- IF YOU WANT TO LEARN WHY THE FEDERAL FISCAL CRISIS MUST BE RESOLVED, JUST LOOK AT WHAT THE STATES HAVE ACHIEVED. YOUR EFFORTS ARE PAYING OFF. ONE INDICATION OF THAT IS THE SURPLUS THAT YOU, COLLECTIVELY, ARE EXPECTED TO GENERATE IN 1985. ANOTHER SIGN IS THE FACT THAT 14 STATES ARE PLANNING TAX CUTS. AND MANY OTHER STATES ARE PLANNING NEW SPENDING INITIATIVES OR EXTRA FUNDING FOR EXISTING PROGRAMS.

THAT IS THE BRIGHT SIDE. BUT IT IS ALSO THE CONNECTING LINK BETWEEN YOUR BUDGET POLICIES AND THE FEDERAL BUDGET PROBLEM, BECAUSE ANY REDUCTION IN THE NATIONAL DEFICIT IS GOING TO REQUIRE THAT WE CUT THE FEDERAL CONTRIBUTION TO

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YOUR STATE SURPLUSES. YOU MIGHT SAY THAT IS YOUR REWARD FOR DOING SUCH A GOOD JOB WITH STATE FINANCES. YOU HAVE SHOWN FISCAL LEADERSHIP; WE CAN AND MUST DO THE SAME.

DEFICIT FINANCE: THE FEDERAL CASE

EVEN THOUGH WE OUGHT TO LEARN FROM YOUR FISCAL LEADERSHIP, WE HAVE TO RECOGNIZE THAT THE FEDERAL CASE IS DIFFERENT. YOUR BUDGET POLICIES ARE IMPORTANT TO YOUR STATES AND YOUR COMMUNITIES AND TO OTHER STATES AND REGIONS OF THE COUNTRY, I MIGHT ADD. AND MOST OF YOU ARE CONSTRAINED BY LAW TO AVOID PILING UP DEBT--A MATTER I'D LIKE TO DISCUSS A BIT LATER. WITH ALL DUE RESPECT, HOWEVER, YOUR INDIVIDUAL FISCAL POLICIES DO NOT HAVE THE KIND OF IMPACT ON THE NATIONAL ECONOMY AND THE WORLD ECONOMY THAT THE POLICIES OF THE U.S. GOVERNMENT HAVE. FOR THAT REASON, OUR RESPECTIVE BUDGET PROBLEMS, WHILE CLOSELY RELATED, ARE ALSO STRIKINGLY DIFFERENT.

THE FEDERAL DEFICIT ISSUE HAS BECOME CRITICAL. IF THERE EVER WAS ANY DOUBT ON THE MATTER, THEY OUGHT TO BE PUT TO

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REST BY THE DEFICIT FORECASTS VIRTUALLY EVERY ECONOMIST, PUBLIC OR PRIVATE, IS MAKING FOR THE REST OF THIS DECADE. THE FIGURES ARE STAGGERING: THE CONGRESSIONAL BUDGET OFFICE ESTIMATES THAT, IF WE DO NOTHING, DEFICITS WILL RISE FROM \$214 BILLION IN 1985 TO NEARLY \$300 BILLION BY 1990. THAT WOULD ADD NEARLY ONE-AND-A-HALF TRILLION DOLLARS TO THE NATIONAL DEBT OVER THE PERIOD. BY 1988 THE ANNUAL COST OF SERVICING OUR DEBT WOULD BE \$200 BILLION: MORE THAN THE ENTIRE FEDERAL BUDGET IN 1970.

THE FIGURES ALONE ARE JUST AN ALARMING INDICATOR OF A VERY COMPLEX PROBLEM. SIMPLY PUT, THE DEFICIT PROBLEM IS BECOMING MORE CRITICAL BECAUSE WE ARE IN AN ADVANCED STAGE OF A VERY ROBUST ECONOMIC RECOVERY. WE OUGHT TO BE RUNNING A SURPLUS, OR AT LEAST COMING CLOSER TO BALANCE BY NOW--AS YOU ARE DOING. IF WE SLIP INTO RECESSION NOW, WITHOUT HAVING RESTRAINED THE DEFICIT, WE RISK DRAGGING MOST OF THE WORLD ECONOMY DOWN WITH US.

THE WORLD IS RELYING ON OUR ECONOMIC LEADERSHIP--RELYING ON THE DOLLAR AS A PRINCIPLE RESERVE CURRENCY, RELYING ON

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OUR RECOVERY TO LEAD THE WAY TO SUSTAINED ECONOMIC GROWTH,
AND RELYING ON OUR DETERMINATION TO EXORCISE THE INFLATION-
STAGNATION CURSE OF THE 1970'S. OUR BUDGET DEFICITS PUT OUR
LEADERSHIP IN EACH OF THOSE AREAS AT RISK. THEY DRIVE UP
INTEREST RATES, IMPEDE OUR EXPORTS BY KEEPING THE DOLLAR
HIGH, AND IMPEDE GROWTH ABROAD BY DRAWING AWAY CAPITAL
INVESTMENT. THAT MEANS THE CURRENT ECONOMIC SITUATION IS
UNSTABLE AND UNSUSTAINABLE. WITH THESE DEFICITS WE FACE
EITHER RENEWED INFLATION OR RISING UNEMPLOYMENT--A POOR
LEGACY FOR OUR SONS AND DAUGHTERS TO INHERIT AS THEY SEEK TO
ENTER THE WORKFORCE AND MAKE THEIR OWN WAY IN LIFE.

WITH EVERYTHING WE HAVE ACHIEVED FOR OUR ECONOMY AT
RISK, WHY CAN'T THE PUBLIC GET EXCITED ABOUT THE DEFICIT
DILEMMA? SOMETIMES IT SEEMS WE NEED TO HAVE A CRISIS ON OUR
HANDS FOR PEOPLE TO DEMAND ACTION. BUT WE ARE EXPECTED TO
LEAD, NOT JUST FOLLOW OPINION--AND WE ARE DETERMINED TO DO
THE JOB WE WERE ELECTED TO DO.

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WE NEED YOUR HELP

I REALIZE THAT WE MAY HAVE SOME DIFFERENCES ON HOW TO REDUCE THE FEDERAL DEFICIT. BUT I TRUST THAT YOU IN THE STATEHOUSES AND WE ON CAPITOL HILL SHARE A COMMON GOAL: TO REDUCE THE BURGEONING FEDERAL DEFICIT NOW.

WE SHARE THIS GOAL BECAUSE, AS YOU WELL KNOW, WE WILL ALL SHARE THE BURDEN IF WE FAIL. THE CONVERSE, OF COURSE, IS THAT A CONTINUING HEALTHY ECONOMY AUGURS WELL FOR BOTH OF US. AN EXPANDING ECONOMY CREATES MORE GOODS AND SERVICES, PRODUCTS TO EXPORT, MORE JOBS, MORE REVENUE AND LESS DEPENDENCE ON FEDERAL AND STATE SAFETY NET PROGRAMS.

THERE ARE THOSE WHO CONTINUE TO ARGUE THAT ECONOMIC GROWTH WILL TAKE CARE OF THE DEFICIT PROBLEM. I AGREE THAT IT IS AN IMPORTANT PART OF THE SOLUTION--BUT NOT THE PANACEA THAT SOME WOULD HAVE IT.

JUST THIS WEEK RUDOLPH PENNER, THE DIRECTOR OF THE CONGRESSIONAL BUDGET OFFICE, TOLD THE HOUSE BUDGET COMMITTEE

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THAT IT WOULD "TAKE A RECORD-BREAKING PERFORMANCE TO GET A BALANCED BUDGET." EVEN "IF WE HAVE ABSOLUTE HISTORICAL PERFORMANCE," PENNER SAID, "WE'VE GOT A GROWING FEDERAL DEFICIT."

IT IS OUR RESPONSIBILITY TO CONVINCING THE PUBLIC THAT IF EVERYONE--ACROSS-THE-BOARD--TAKES THEIR MEDICINE TODAY, WE CAN PREVENT A SERIOUS ILLNESS IN THE NEAR FUTURE.

THE REAGAN ADMINISTRATION HAS PRESCRIBED A DEFICIT-CUTTING PLAN THAT GIVES US A GOOD FOUNDATION TO BUILD ON.

LIKE THE ADMINISTRATION, MY REPUBLICAN COLLEAGUES IN THE SENATE AGREE THAT THE FIRST ORDER OF BUSINESS IS TO CUT SPENDING. THERE IS NO QUESTION THAT WAS THE MANDATE OF THE 1984 ELECTION. AND I, FOR ONE, INTEND TO SEE THAT WE DO OUR UTMOST TO CARRY OUT THE MANDATE.

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THE APPROACH WE ARE PLANNING TO TAKE--WHETHER IT IS CALLED A FREEZE OR A FREEZE-PLUS, OR WHATEVER--WILL BE TO SPREAD THE PAIN EVENLY, IN A BALANCED WAY, AMONG ALL THOSE WHO BENEFIT FROM FEDERAL AID.

HOLDING DEFENSE SPENDING TO A REALISTIC LEVEL MUST BE PART OF THE PACKAGE. IF FARMERS, VETERANS, AND COLLEGE STUDENTS ARE GOING TO MAKE SACRIFICES, THE PENTAGON CAN FIND WAYS TO TRIM ITS COSTS WITHOUT INJURY TO THE ESSENTIAL MILITARY BUILDUP INITIATED BY PRESIDENT REAGAN IN 1981: THE BUILDUP WHICH IS ONE OF THE KEYS TO OUR ARMS-CONTROL EFFORTS, AND WHICH PROBABLY BROUGHT THE RUSSIANS BACK TO THE NEGOTIATING TABLE.

I KNOW OF YOUR CONCERNS ABOUT AID TO STATE AND LOCAL GOVERNMENTS. AS I TOLD THE NATIONAL COUNCIL OF STATE LEGISLATORS EARLIER THIS WEEK, I BELIEVE THAT SOME OF THE ADMINISTRATION'S PROPOSED CUTS WILL BE REVAMPED AS THEY WORK THEIR WAY THROUGH THE LEGISLATIVE PROCESS.

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BUT THE TRUTH IS THAT EVEN IF THE ADMINISTRATION'S BUDGET WERE IMPLEMENTED EXACTLY AS PROPOSED, STATE AND LOCAL GOVERNMENTS WOULD STILL BE RECEIVING 11 CENTS OUT OF EVERY FEDERAL BUDGET DOLLAR. FEDERAL GRANT-IN-AID OUTLAYS, WOULD DROP IN FISCAL 1986 TO \$100.7 BILLION, DOWN FROM \$107 BILLION, BUT WHILE THEY WOULD CONTINUE TO DECLINE IN FISCAL 1987, IN FISCAL 1988 THEY WOULD BEGIN RISING AGAIN.

THE SACRIFICES THE FEDERAL GOVERNMENT WILL BE ASKING YOU TO MAKE ARE, IN THE SCHEME OF THINGS, A SMALL PRICE TO PAY FOR THE BENEFIT TO BE GAINED FROM SUSTAINING THE BEST ECONOMIC GROWTH RECORD SINCE 1951.

THE LONGER RUN

I HAVE TRIED TO OUTLINE WHAT WE NEED TO DO RIGHT NOW TO GET OUR ECONOMY ON A SOUND FOOTING. I HAVE ALSO, I HOPE, GIVEN DUE CREDIT TO THE STATES FOR SHOWING US WHAT NEEDS TO BE DONE AND HOW TO DO IT. YOU HAVE ALSO DEMONSTRATED, OVER THE YEARS, HOW INSTITUTIONAL RESTRAINTS ON FISCAL

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DECISIONMAKING CAN IMPROVE THE OPERATION OF YOUR
GOVERNMENTS.

MOST OF YOU HAVE THE POWER TO VETO LINE-ITEMS IN YOUR
BUDGETS, AND MOST OF YOUR STATES MANDATE BALANCED BUDGETS.
STATUTORY AND CONSTITUTIONAL MANDATES SUCH AS THESE HAVE, I
BELIEVE, HELPED YOU ACHIEVE YOUR FISCAL SUCCESSES. WE NEED
THE SAME KIND OF DISCIPLINE AT THE FEDERAL LEVEL, AS
PRESIDENT REAGAN HAS REQUESTED TIME AND TIME AGAIN. I HOPE
YOU WILL URGE MY COLLEAGUES IN CONGRESS TO SUPPORT
CONSTITUTIONAL LIMITATIONS ON OUR ABILITY TO RUN DEFICITS
AND PROPOSALS TO GIVE THE PRESIDENT A LINE-ITEM VETO. EACH
OF THESE MEASURES IS CONTROVERSIAL, BUT THE SUCCESS YOU HAVE
HAD WITH THEM IS THE STRONGEST POSSIBLE ARGUMENT FOR GIVING
THEM A TRY.

CONTINUE YOUR SUPPORT

FOR THE PAST SEVERAL YEARS, THE NATIONAL GOVERNORS'
ASSOCIATION HAS BACKED CONGRESS' EFFORTS TO COME TO GRIPS

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WITH THE DEFICIT. NOW THAT I AM MAJORITY LEADER, I ASK FOR YOUR CONTINUED SUPPORT. I KNOW OF NOTHING MORE IMPORTANT-- NOTHING MORE ESSENTIAL TO THE WELL-BEING OF THIS COUNTRY THAN FOR CONGRESS TO APPROVE A MEANINGFUL SPENDING REDUCTION PLAN THIS YEAR.

I DON'T DISCOUNT THE DIFFICULTY OF ACHIEVING THAT GOAL, BUT IN THE SENATE WE REPUBLICANS, AND HOPEFULLY MANY DEMOCRATS, REMAIN DETERMINED TO REDUCE THE DEFICIT THIS YEAR IN A BIG WAY. THERE ARE NO EASY OR PAINLESS SOLUTIONS TO THE DEFICIT DILEMMA. WE DID ALL THE SO-CALLED EASY THINGS IN 1981, 1982, AND 1984.

DURING THE PAST WEEK, I'VE HAD A FEW URGENT PROBLEMS TO COPE WITH--A FILIBUSTER, THE FARM CREDIT CRISIS, CONFIRMING ED MEESE AS ATTORNEY GENERAL. BUT I HAVE NOT LOST SIGHT OF THE MOST CRITICAL ISSUE ON THE SENATE'S AGENDA--THE BUDGET. AND I REMAIN CONFIDENT THAT WE WILL ALL PULL TOGETHER--CONGRESSIONAL REPUBLICANS AND DEMOCRATS,

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AND THE ADMINISTRATION--AND IN THE COMING WEEKS DRAFT
A DEFICIT PACKAGE THAT WILL BOTH BE FAIR AND GET THE
JOB DONE.

THAT JOB IS TO GUARANTEE THAT OUR THRIVING ECONOMY,
WHICH IS BENEFITING MILLIONS OF AMERICANS IN THEIR DAILY
LIVES, REMAINS HEALTHY AND EXPANDS TO GATHER IN THOSE
MANY OTHERS WHO HAVE YET TO ENJOY ITS FRUITS. WORKING
TOGETHER, WE CAN SECURE AN UNPRECEDENTED ERA OF
PROSPERITY FOR THE UNITED STATES--AND FOR OUR ALLIES ABROAD.