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United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

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MEMORANDUM FOR SENATOR DOLE

FROM: GEORGE PIELER

SUBJECT: Talk to DuPont Plant and Sales Managers Seminar

You are scheduled to talk to the DuPont Plant and Managers Seminar on Monday, May 20th at 1:15 p.m. at the Capitol Hill Hyatt Regency. Attached are talking points on superfund, proposed house budget, key points on the Senate budget and deficit.

Superfund

• The Finance Committee agreed to fund the full $7.5 billion program (over 5 years) recommended by the Environment Committee. The current program expires on September 30, and we hope to complete action on the reauthorization well before then. Because this is a revenue measure, the Senate will have to wait for a bill to come over from the House before completing action.

• The $7.5 billion will go for an expanded cleanup program (about 5 times as large as the program for the last five years), plus health and toxicological studies and a trial program for compensating 'victims' of hazardous waste dumps. However, because the Finance Committee deleted all general revenues from the program, the victims' compensation program ($30 million a year) would have to be funded with a separate appropriation.

• The Finance Committee agreed to two revenue sources: the existing feedstock taxes on chemicals and petroleum (about $1.2 billion over 5 years) and a new excise tax on manufacturing at a rate of .08% on tangible personal property used by manufactureres or importeres (about $5.7 billion over 5 years). Exports would be exempt from the new tax.

• Finance also voted to repeal the post-closure liability fund, which was set up originally to cover liabilities of parties responsible for RCRA hazardous waste sites that have since been closed (it was repeal for fear that the fund would either be inadequate to cover liability, or a disincentive to thorough, safe treatment of sites).

• Timing for House action is uncertain: Congressman Florio has introduced a $10.1 billion program, but it is unclear how much support he has--especially when it is so difficult to find sufficient revenue sources. Ways and Means so far seems disinclined to include a broad based tax, which would limit them to increases in the feedstock tax, general revenues, and some form of waste end tax.

Proposed House Budget

- The House budget just is not credible or realistic. It won't do the job of keeping the economy on an even keel and reassuring financial markets.
- First of all, the House plan doesn't even aim as high as the Senate budget. It claims savings of only about $250 billion over three years, as opposed to the nearly $300 billion in the Senate plan. The House would leave the deficit nearly 20% higher in 1988 than the Senate
- The House budget really undermines the National defense at a time when our defense posture is critical to the success of arms control talks. The Senate plan already freezes defense in 1986, allowing no real increase: there just isn't any room for further cuts without jeopardizing security. The President is absolutely adamant on this point.
- About 50% of total savings in the House budget come from defense even though defense only accounts for 28% of the Federal budget.
- THe House plan avoids major savings in entitlement programs. It also terminates only <u>one</u> program--revenue sharing--where the Senate ends 14 programs and makes significant reforms in many others. That proves the House plan doesn't bite the bullet--it doesn't do anything to ensure the long-term savings that will reassure investors and shore up business and consumer confidence.
- The House budget also is full of smoke and mirrors. $12.2 billion in savings are assumed from reducing spending for contracting out services. But most analysts view contracting out as a cost saving device. $3.7 billion is saved in "offsetting receipts" that will probably not be realized.

KEY POINTS ON SENATE BUDGET

- Through spending cuts alone, the plan would reduce the deficit by $56 billion in FY 1986, and about $295 billion through FY 1988.

- Cuts of this magnitude leave remaining deficits of $171 billion in FY 1986, $145 billion in FY 1987, and $104 billion in FY 1988.

- This plan reaches the goal we set of getting the deficit down to 2% of GNP by 1988, <u>without</u> tax increases.

- Every area of the budget is hit hard: the President's defense request is cut to zero in 1986, 13 programs are terminated, and permanent entitlement savings are achieved by freezing all non-means tested COLAs for one year.

- These are real, meaningful cuts and should have a significant impact on financial markets. Results from a survey of leading Wall Street financial advisers indicates that we should expect interest rates to drop by 1 or 2 percentage points in the near term and by as much as 3 points in 1988 if we follow through this package.

- If that happens and keeps the recovery on track, we can expect:

  - almost 7 million new jobs by 1988
  - housing starts back up to the 2 million units/year level
  - inflation staying down at 4% or less
  - national personal income up by $800 billion by 1988
  - potential increase of 18-26% in net income for small business (due to lower interest rates)
  - a potential increase of $2-4 billion in net farm income (due to lower interest rates)

Why the Deficit Matters

- Sustained deficits in the $200 billion+ range are a direct threat of the economy, because they will lead to either higher inflation or stagnation with rising unemployment. Cutting the deficit is the key to creating lasting jobs and restoring our position in international trade.

- The worst risk is that endless deficits will compound themselves: 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 debt makes controlling spending that much more difficult.

- Endless deficits means higher interest rates--make it more difficult for people to own a home, borrow for their children's education, and plan for the future.

White House-Senate Budget Plan

- This is a very tough, very serious budget--no one understimates the difficulty of getting it passed. But it also is a balanced, reasonable package that calls on everyone--and every sector with a stake in the Federal budget--to give a little, to do with less Federal largesse than they would otherwise get.

- To demonstrate how serious this budget is: 13 programs would be eliminated. Defense would be held to an inflation increase in 1986 and to a 3% increase in each of the following two years: much less than the President wanted. And permanent savings would be achieved in all inflation-adjusted, non-means tested entitlement programs by freezing the COLA for the next year.

- In addition, to help lower-income Americans, SSI recipients would get both a full COLA and a $10 per individual/$15 per couple increase.

- All Federal pay, civilian and military, would be frozen for one year.

- The plan meets our goal of reducing the deficit to 2% of GNP by 1988, with reductions totalling about $295 billion over three years.

- This program goes beyond a freeze simply because a freeze is not enough to do the job. A freeze would not address the problem of long-term growth in spending and deficits, which is the key to eliminating fears about the stability of our recovery. In addition, a freeze just postpones making the policy decisions--in terms of priorities among spending program--that have to be made if we are serious about the deficit problem.

- Over the past three years deficits have totalled $606 billion: an average of 5.7% of GNP. That is just not sustainable if we want to continue a strong economic recovery.
- If we do nothing, the situation gets much worse, even under optimistic projections: $716 billion in additional deficits over the next three years.
- Under the compromise Deficit Reduction Plan, Federal borrowing as a percent of private savings would decline from an estimated 78% this year to 30% by 1988. That will dramatically reduce pressure on credit markets due to Treasury borrowing--free available capital for private investment and job creation--reduce interest rates, and help our trade position.
- Even with this budget plan, we will still be spending an enormous amount to meet the basic needs of our citizens. Nondefense spending still will increase each year, from $520 billion in 1984 to $583 billion in 1988. Similarly, combined Medicare and Social Security spending will continue to rise--from $232 billion in 1984 and $293 billion in 1988: nearly 7 times the amount that wao spent on those programs in 1970.
- Means-tested safety net programs are kept intact and will continue to grow as scheduled under present law. By 1988, safety net spending will still exceed the 1980 level by 72%.
- Agricultural programs will undergo major reforms, but by 1988 we will still be spending between $13 billion and $15 billion a year--much higher than any year before 1980. And don't forget that over the past three years we spent a record $53 billion on farm programs, while largely doing the agricultural economy more harm than good.