BOB DOLE
KANSAS

United States Senate
OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

October 7, 1985

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TO: SENATOR DOLE

FROM: GEORGE PIELER

SUBJECT: TALK TO CHEMICAL MANUFACTURERS' ASSOCIATION

You are scheduled to talk to the CMA on Tuesday, October 8, at 2:00 p.m.

Their main interest this year are in Superfund and Tax Reform. Talking points on Superfund are attached, and material Rich has prepared on their tax reform concerns. Also attached is a CMA paper highlighting their concerns about their declining position in world trade.

Attachment

CMA

Superfund

• The Chemical Manufacturers' Association has been one of the leaders of the fight for the new broad-based (value-added) tax to finance Superfund. Their rationale has been to avert increases in the existing Superfund feedstock taxes imposed solely on their industry and on the petroleum industry, and to spread the tax burden for financing Superfund more widely.

• The real question is whether the CMA strategy is the only way to avoid a big feedstock tax increase. If there are less drastic solutions available, there is no excuse for jumping into a potent new revenue source like the VAT, which undermines all notions of fiscal responsiblity in this program and, potentially, for other government spending as well.

• Last year at the Finance Committee we examined (at the staff level) quite a number of financing options designed for a $5-6 billion Superfund program. While none of the options were ideal--ever kind of tax offends somebody--it is clear from that experience that we can fashion a funding mechanism for a much-expanded Superfund without resorting to a major new tax.

• Some combination of existing feedstocks, a tax on hazardous waste, and some kind of earmarking or perhaps a modest change in some existing tax, may be the only way to go (Note: last year CMA promoted one version of a waste-end tax, structured with exceptions for certain kinds of treatment, that would hit the chemical industry very lightly. Most waste-end or waste-generation taxes fall heavily on chemicals, so they are very sensitive to the form of a waste-end tax--they strongly oppose the administration's version).

• We are waiting now to see what the House Ways and Means Committee does.

• CMA supports a strong Superfund program and its members are active with Clean Sites, Inc., which was set up to coordinate waste clean-up activities between government and the private sector, with local community involvement.

THE DEFICIT AND THE AVERAGE AMERICAN

- Unless we enact a massive deficit reduction measure, American families will face either higher interest rates or higher inflation: not to mention the risk of a disastrous new recession throwing millions of breadwinners out of work.

- Most economists believe that enactment of the deficit reduction package as large as the Senate offer will produce a drop of at least 1 percent in interest rates over the short run and 2 to 3 pecentage points over the long term: relative to what they otherwise would be.

- With a 2% drop in interest rates, the monthly payment on a median priced home ($80,000) will go down by about $100 a month.

- Conversely, if we don't reduce the deficit to keep rates as low as they are now, homeowners could face that large an increase-or-more in monthly payments.

- A 2% drop in interest rates would mean an additional $4,000 in income for the average wheat farmer with a 1,000 acre operation.

- This year alone, the Federal government will overspend close to $1,000 for every man, woman and child in America.

- This $1,000 per head of additional Federal debt will be one more burden for our children to repay in higher taxes or higher inflation in the future.

- I don't believe we can let this budget negotiation fail. If we don't act now on major deficit reduction, the American people will pay the price. By 1989, interest on the debt alone would take up half of all individual income tax payments. The interest cost would be $250 billion or $1,100 for each American.

- If we can get something like this package I am very, very optimistic about the course of the economy. I think we take too much for granted what we have achieved so far: strong growth without inflation. We can keep that going if we reduce the deficit substantially. The way is open to economic performance unprecedented in the postwar period if we have the will to find it.

ESCALATING DEFICIT

The main threat to continued economic expansion is run-away Federal spending.

- Since 1940, the Federal Government has run deficits in 37 out of the last 45 years. Since 1960, we've run deficits in 24 out of 25 years.
- In 1985, the gross Federal debt will total $1,841 trillion, an increase of 533% over 1960, 238% over 1975, and 101% over 1980. The total debt in 1985 now stands at 48% of our GNP.
- With no changes in Federal spending policy, CBO projects that Federal outlays will rise from $950 billion in 1985 to $1,378 trillion in 1990--an increase of $428 billion in five years.
- If no changes are made, the budget deficit will increase from $214 billion in FY 85 to $300 billion in 1990 and the National debt will increase to $2,786.

INTEREST ON THE DEBT

This massive increase in debt has itself created one of the largest and fastest growing components of Federal spending--interest on the debt. Constant deficits have put fiscal policy on an endless treadmill of paying for the irresponsibility of previous decades:

- In 1965, interest on the National debt cost $9 billion and consumed 1.4% of GNP. By 1980, annual interest costs rose to $52 billion--2% of GNP. But the worst was yet to come.
- In 1985, interest on the National debt will cost taxpayers $130 billion--almost three times the level of five years ago. This represents 3.8% of GNP, 13.5% of the entire 1985 budget, and a 1,450% increase in costs over 1965.
- $130 billion is equal to the sum total of all Federal spending from 1789--the founding of the Republic--to 1936. It also equals total Federal outlays in 1966, the entire defense budget in 1980, and twice the level of medicare funding today.
- To put it in even simpler terms, about 40% of all revenue collected by the Federal Government from personal income taxes ($330 billion in 1985) will go to pay interest costs and no Federal services at all.

- Chemical Industry Trade Data ($ Billions)

	1980	1981	1982	1983	1984
Exports	20.7	21.2	19.9	19.8	22.3
Imports	8.6	9.3	9.5	10.7	13.7
Trade Balance	12.1	11.9	10.4	9.1	8.6

- Major Challenges Facing Chemical Industry
  - Exports stagnant; imports growing 13% per year
  - Petrochemical investment in U.S. very low
  - Petrochemical investment abroad very high
  - Petrochemical investment abroad is mostly government owned or controlled
  - Intellectual property rights are being violated
  - Health and environmental costs not usually borne by foreign producers
  - U.S. market has been opened up by tariff decreases (Generalized Systems of preferences, GATT multilateral trade negotiations, U.S./Israel free trade, other bilateral free trade agreements to be negotiated.)
  - Dollar value important but <u>not</u> the major problem
- CMA Activities
  - Alerts members to all important trade developments and what to do
  - Published two popular "how to do it" books on import remedies and export laws
  - International Trade Committee forms trade policy recommendations to Board
  - Publishes economic data for industry
  - Maintains relations with key Congressional and agency officials
  - Furnishes advisors to government for international meetings
  - Participates in Industry Sector Advisory Committee for chemicals