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KANSAS

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

10/19/85
Nuttfield, Vt.

October 18, 1985

TO: Senator Dole

FROM: George Pieler

SUBJECT: Talk to Vermont Republicans fundraising dinner

Both the Senatorial Campaign people in Vermont and Sen. Stafford's Vermont office recommend you talk about Gov. Snelling's candidacy, his work on and interest in the deficit issue, indicating how much of an impact freshmen in the Senate can have (a la Gramm and Rudman). Their theory is that Leahy will run on experience and seniority in the Senate.

Material on the Snelling candidacy and the deficit issue is attached along with Gramm-Rudman stuff.

On the political situation in Vermont, the Senatorial Campaign thinks the Snelling-Leahy race will be the race in Vermont, which may make it easier for Gov. Kunin to coast to re-election. John Easton, her 1984 opponent, probably won't run again, and Lt. Governor Peter Smith is also unlikely to run. The Assistant Majority Whip in the Vermont House, Mike Bernhard, is considering a run.

In 1984 the Democrats took control of the Senate for hte first time, and reduced the GOP House majority to 6 seats. Despite the GOP majority, the House by secret ballot elected a Democrat Speaker.

Attachments

Deficit and the stakes for the Republican Senate in Vermont

- The Republican Senate has been in the front trenches in the battle to reduce the Federal deficit. We took the initiative in 1982 and worked with the President to pass major deficit-reduction packages in that year, and again in 1984. In 1982 we passed the balanced budget amendment to the constitution, but were rebuffed by the Democratic House. And now we have worked with President Reagan to force the Democrats to ante up on the deficit with a device called Gramm-Rudman.

- We do get help from Democrats--often we need it. But don't let anyone tell you that Republican control of the Senate doesn't make a difference where the deficit issue is concerned. Just look at the vote on this year's Senate budget--a real, hard-hitting budget that would have gotten the deficit down to 2% of GNP by 1985, that completely eliminated 13 entire programs, and that put some real restraint on entitlements. That budget passed the Senate with only one Democratic vote. When we needed their help most to really reduce spending, most of the Democrats were nowhere to be found.

- I think that is beginning to change, because more Democrats are seeing the light. Some of them see so much light they are coming over to the GOP. But while we hope for bipartisanship, we have to work for Republican candidates and the Republican Senate if we really care about the deficit--if we really care about our economic future, and about the mountain of debt we are piling up for our children and grandchildren.

- Dick Snelling does care. I know that his determination to really do something about the deficit is one of the critical reasons why he is making this race. And let me say that the prospect of welcoming Senator Snelling to the U.S. Capitol is some of the best news I've had in a long time. It is not just good news for the Senate; and it is not just good news for Republicans. It is good news for the economy, and for the cause of restoring fiscal sanity to Washington.

- Governor Snelling is no newcomer to this cause. He's not a born-again budget-balancer: he was born that way the first time. As Chairman of the National Governors Association, Dick Snelling put deficit reduction on the front burner, where it has been ever since. Most importantly, he got the Governors to commit themselves to helping Congress reduce spending, rather than asking for more spending.

- And when Governor Snelling left office, he took the deficit issue along with him. He started a national organization, Proposition One, to focus public attention on the deficit and stimulate action in Congress.

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- Proposition One has helped get the message across. It is no accident that the deficit has become the Number One priority in the voters' minds. And Dick Snelling hasn't hesitated to remind those of us who are already serving in Congress that tackling the deficit is the key to economic health: and, in many ways, to the resurgence of the Republican Party.

- So we need Dick Snelling in the Senate. We need his support, and we need his leadership. Every member of the Senate has a chance to lead: ask Phil Gramm, or Warren Rudman, or any member of our freshman class of '86. And I can assure you we can always use fresh ideas, fresh imagination, and new energy in the cause of responsible government.

- The country is moving our way. People are switching to the GOP; Democratic officeholders are switching to the GOP. A recent Harris poll shows that the people prefer a Republican-controlled Congress to do the right thing on most of the major issues: national defense, controlling inflation, reducing the deficit, securing prosperity, protecting the taxpayer, and keeping the peace.

- That proves we have an outstanding record to build on--it proves that responsible government is the winning ticket. With candidates who having proven their quality as national leaders--candidates like Dick Snelling--we can keep that public support we have worked so hard to earn, and build on it. That is the right road to GOP resurgence.

SENATOR BOB DOLE

TALKING POINTS ON THE GRAMM-RUDMAN-HOLLINGS BUDGET PROPOSAL

Budget Reform is Needed

- As one who battled the deficit for years, with at best mixed success, it is clear to me that the current budget process is not working.
- We spent the first seven months of this year concentrating the full attention of the Senate on the deficit, but produced only an inadequate budget resolution.
- Now Fiscal Year 1986 has already begun and we still have not implemented legislation which will achieve the savings assumed in the resolution.
- Moreover, looking at the House reconciliation product to date, I am not optimistic that we are any closer to the reconciliation targets and that we will achieve real savings at the end of the process.

Gramm-Rudman-Hollings Proposal

- Therefore, I welcome the Gramm-Rudman-Hollings proposal, as a new approach to attempt to force some meaningful action on the deficit.
- The proposal establishes the kind of guaranteed downward glide path on deficits that virtually all Senate Republicans set as our goal last January.
- The Gramm-Rudman-Hollings proposal does not tie our hands except to force us to meet our targets. We are given the opportunity, as is the President, to propose alternative means of meeting our targets if we choose not to sequester funds across the board.
- Obviously the broader the spectrum of programs dealt with by the proposal, the fairer it is perceived to be. However, having spent a considerable period of time on the subject of social security in our earlier debate on the budget it was clear that this one issue could again derail our efforts to achieve serious long-term deficit reform.
- It is for this reason that an agreement was reached, at the outset, to exclude OASDI from the proposal. The same is true for the means-tested entitlements like SSI.

How it Works

- For each fiscal year from 1987-1991, the President must submit a budget that meets the deficits mandated in the Gramm-Rudman-Hollings plan.
- Starting this November, however, if new estimates by the CBO and OMB on Nov. 1 project a deficit that exceeds \$180 billion -- the deficit target contained in the legislation -- by 7 percent (\$193 billion) -- the president must issue a "sequestering" order. The president has 14 days after receipt of the report to issue the order if there is positive GNP growth, 30 days if negative real growth is projected. (The same procedure will follow each year, however, the OMB/CBO reporting date will be Sept. 25. For fiscal 1987, the maximum deficit is \$144 billion; fiscal 1988 \$108 billion; fiscal 1989, \$72 billion; fiscal 1990, \$36 billion and fiscal 1991, \$0 billion.)
- The president must eliminate the excess by reducing automatic spending increases (e.g. entitlement COLAs) across-the-board, and by withholding other (controllable) spending. Each category would have to contribute one-half to the reduction plan. The actual sequestering, if it were to take place, would take effect 30 days after the presidential order was issued. However, within 10 days of the Presidential report, the congressional budget committees could propose an alternative plan for achieving the same deficit reduction.
- The president could suspend the deficit limitation of Gramm-Rudman-Hollings in the case of a recession.
- Social Security is not eligible for reduction.

Budget Procedure Reform

- In addition to establishing a target and sequestering procedure for ratcheting down the budget deficit to zero, the proposal contains a number of useful changes in the budget process, such as suspending the requirement for a second concurrent budget resolution; making 302 (b) allocations mandatory; and requiring that amendments to the budget resolution cannot increase the level of the deficit. Waiving these BUDGET PROCEDURES WOULD REQUIRE A SUPER MAJORITY -- OR TWO/THIRDS.
- Social Security would be removed from the unified budget in 1986 and thereafter.

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Weaknesses and Negatives

- The obvious weakness is that what Congress writes into law, it can rewrite and undo.
- Congress has regularly missed the deadlines under the existing Budget Act.
 - The cuts in the defense budget may be far greater than the administration is willing to accept. If the administration does not live up to the letter of the law on defense then it will be harder to make cuts in other domestic programs stick.
- Not realistic that Congress could come up with an alternative in 10 days. It took 10 days to get the Gramm-Rudman-Hollings proposal off the floor.
- There is the problem with projections-- what if a recession happens in the middle of the year -- one that OMB or CBO does not project. Benefits are going to be taken away from people when they most need them.
- With Social Security off the table, a huge chunk of federal expenditures are off limits. But we lost that battle earlier in the year.
- There is a particular problem with agencies that have lots of loan guarantees like Agriculture where the fiscal year and loan timings do not coincide.
- Finally, no legislation can mandate backbone. And ultimately, Congress will have to make policy decisions that are not going to be easy -- either politically or substantively.

Despite these weaknesses, however, the Gramm-Rudman-Hollings plan is an important step in tightening up the budget process -- both for the administration and Congress. And under the emergency situation we now find ourselves -- where resolving the deficit crisis will determine whether the U.S. economy continues to grow, this action is more than warranted.

We are not in this mess because of Republican policies. The 1981 tax cut helped spark one of the strongest and longest economic rebounds since the end of World War II. Inflation and unemployment remain at low levels, while interest rates have tumbled.

THE DEFICIT AND THE AVERAGE AMERICAN

Yang
Feng

- 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 percentage points over the long term: creative 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.

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ESCALATING DEFICIT

The main threat to continued economic expansion is runaway 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.

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- 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.
- Under current fiscal policies, if no action is taken to curb deficits, interest on the debt will rise to \$230 billion in 1990, about 15% of the budget. This will equal almost half of all personal income tax revenue.

TRADE

- Historically, free trade has spurred U.S. economic growth, and fair competition from abroad has encouraged our industries to be more efficient. As a Senator from an agricultural State, I appreciate the importance of world markets for U.S. farmers. But, the United States cannot be the world's only free trader any more than we can unilaterally disarm.

\$150 BILLION TRADE DEFICIT

- Last year, as you know, we faced a record shattering \$123 billion merchandise trade deficit and this year it could reach \$150 billion. Our deficit with just four of the places I recently visited--Japan, Korea, Taiwan, and Hong Kong--will amount to \$70 billion this year.
- This gross imbalance has devastated important sectors of our economy, particularly manufacturing which is costing us millions of jobs, offsetting employment gains in the service sector. In the last ten years, it is estimated that the United States has lost over 600,000 jobs in just three industries alone: textiles and apparel, steel and footwear. And this trend has now spread to such high technology areas as telecommunications and semiconductors.

IMPACT ON AGRICULTURE

- The deterioration in the U.S. trade position has been equally pronounced in the agricultural sector. From a record high of \$43.5 billion in 1980, farm exports has plummeted \$10 billion in the past five years.
- To a large extent, our trade woes are self-inflicted. American business can be faulted for not being more aggressive in pursuing export markets. The U.S. economy also has recovered from the worldwide recession more quickly and vigorously than the economics of our major trading partners. The biggest culprit, however, is the

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overvalued dollar, which has made U.S. goods 40% more expensive over the past four years--and at the root of this problem is our inability to control budget deficits.

- The best known of the trade bills include the Thurmond/Jenkins bill, which establishes annual limits on the growth of all imports of textiles and apparel, except for goods from the EC and Canada. With 53 cosponsors in the Senate and over 290 in the House, passage must be considered a strong possibility. Another major contender is the Danforth/Finance Committee bill responding to Japanese Unfair Trade Practices, which mandates U.S. retaliation unless Tokyo acts to remove trade barriers. A similar nonbinding resolution passed the Senate by a vote of 92-0 in the spring. There is also the Bentsen/Rostenkowski bill, which provides for a 25% surcharge on all imports from Japan, Taiwan, Korea and Brazil.

OPTIONS

- Section 301 authority permits the Administration to respond by imposing tariffs, import quotas, or other restrictions, when an unfair foreign trade practice is burdening U.S. commerce. But Section 301 has only been used in two cases since its enactment in 1974. There are indications the Administration has recognized this need.

Some of the options available to Congress would include:

- More active and coordinated exchange rate policy.
- A temporary and generalized increase in U.S. tariffs to offset the effects of the overvalued U.S. dollar and reduce the U.S. budget deficit.
- A review of the Generalized System of Preferences (GSP) to eliminate some of the better-off beneficiary countries.
- Reform of U.S. trade remedy laws to make them more responsive to complaints by U.S. industry and encourage more expeditious adjustment to foreign competitors.

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Speak
November 11, 26, 27
(all Saturdays)

United States Senate

WASHINGTON, D.C. 20510

February 25, 1985

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Devin
10/27
6:30

Honorable Robert Dole
Majority Leader
United States Senate
Washington, D. C.

Dear Bob:

This is a follow up to our conversation of last Friday evening.

per Paul
10/27
6:30

The Vermont statewide Republican organization extends an invitation to you to be our annual fundraising dinner speaker in Vermont on the following dates- whichever might be convenient to you: October 19 - October 26 - November 2 (all Saturdays).

This is the only fundraiser Vermont Republicans have. You were kind enough to come to our annual dinner a few years back when you were National Chairman.

Your coming would insure a very successful dinner this year. I would anticipate 1,400-1,500 people would be in attendance. I hope you can accept for one of these dates.

Cordially yours,

RTS
Robert T. Stafford
United States Senator

RTS:jwa

SENATOR JOHN HEINZ
CHAIRMAN

TOM GRISCOM
EXECUTIVE DIRECTOR

National Republican Senatorial Committee

October 17, 1985

*Also: John
Post will
call*

TO: Dean Burridge

FROM: *John* Murphy/Kaiser *Burridge, the Kennedy Line*

RE: Vermont Talking Points
Saturday, October 19, 1985

It would be nice if Senator Dole would say:

One of the best pieces of news I've had in quite a while is that your former Governor, Governor Dick Snelling, is going to run for the United States Senate.

I happen to know that President Reagan is pleased as punch as well.

You don't need me to tell you that Dick Snelling is a very special person. I know enough about Vermonters to know that they don't elect anyone to be their Governor four times unless they think they have got a real leader. But what you may not know is how many people in the rest of the country have discovered Governor Snelling's talent for leadership. When he was the Chairman of the National Governors Association, the Governors were brought to the center of national policy debate -- and Governor Snelling earned the respect of Governors of both parties and of the national press corps. He got the Governors to do something that impressed me -- he got them to commit themselves to stop asking the Congress for more and more money and to concentrate their policy debate on how best to help the Congress get deficits under control.

More recently, just as soon as he left the office of Governor, he started a National organization (Proposition 1) to bring the deficit issue to public attention and to try to stir the Congress into action.

Governor Snelling went all over this country -- on hundreds of radio and television programs explaining what will happen to this country if we don't discipline ourselves to stay within our means. He stopped in to see me more than once -- and I guess he paid a visit to hundreds of other members of the Congress.

I know this -- his willingness to get out there and take a stand had an effect. Governor Snelling has more friends in the U.S. Congress and more respect than some who have already served a couple of terms! And I think the people back home have been waking up to what Dick Snelling and others have been preaching.

A year ago it was hard to get members of Congress to face the deficit because the people back home didn't seem to be interested. One poll showed that only 8% of all Americans saw the deficit as a matter of concern. Now, polls show the deficit is viewed as one of the most urgent concerns -- and the Congress is beginning to get the message (as the 75/25 vote for Gramm-Rudman makes clear).

You can be proud that your own Dick Snelling has been playing a leadership role in this important fight for national solvency.

Add: Whatever seems appropriate about Senate candidacy.

* Effectiveness as Freshman

Explain how Freshmen can be important (ie. Gramm, Rudman)

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