TALKING POINTS OF SENATOR BOB DOLE

ASSOCIATION OF COMMUNITY COLLEGE TRUSTEES

J. W. Marriott Hotel

Sunday, February 23, 1986

STATUS OF HIGHER EDUCATION ACT REAUTHORIZATION

- EDUCATION REPRESENTS THE CORNERSTONE OF OUR COUNTRY'S ECONOMIC SUCCESS AND NATIONAL SECURITY. COMMUNITY COLLEGES PLAY A VALUABLE ROLE IN EXPANDING ACCESS TO EDUCATION OPPORTUNITIES TO STUDENTS WHO OTHERWISE MIGHT HAVE TO FOREGO A HIGHER EDUCATION. PELL GRANTS HAVE BEEN IMPORTANT IN PROVIDING FINANCIAL ASSISTANCE TO LOW-INCOME AND DISADVANTAGED STUDENTS.

- THE OUTLOOK FOR HIGHER EDUCATION IN THE CONGRESS IS VERY POSITIVE. HEARINGS WERE HELD LAST FALL IN PREPARATION FOR THE REAUTHORIZATION OF THE HIGHER EDUCATION ACT THIS YEAR. THE SUBCOMMITTEE ON EDUCATION OF THE LABOR AND HUMAN RESOURCES COMMITTEE HAS ALREADY COMPLETED MARK-UP OF THE HIGHER EDUCATION BILL, WHICH IS AWAITING CONSIDERATION BY THE FULL COMMITTEE.

o UNDER THE LEADERSHIP OF SENATOR STAFFORD, THESE PROGRAMS ARE LIKELY TO FARE VERY WELL. THE SENATOR FROM VERMONT HAS ALWAYS BEEN A STRONG DEFENDER OF EDUCATION PROGRAMS, AT THE SAME TIME HE HAS DEMONSTRATED A WILLINGNESS TO ACHIEVE SPENDING REDUCTIONS THAT WOULD NOT IMPACT LOW-INCOME STUDENTS.

o IN THE SUBCOMMITTEE BILL, FUNDING LEVELS WILL BE BASED ON FY 1986 APPROPRIATIONS LEVELS -NOT THE USUAL AUTHORIZATION CEILINGS. THIS IS SOMEWHAT OF A NOVEL APPROACH. I BELIEVE IT IS THE COMMITTEE'S INTENT TO PROVIDE A 5 PER CENT INCREASE OVER THE FY 1986 FUNDING LEVELS FOR THE OUTYEARS, BEGINNING IN FY 1987. PROGRAMS THAT HAVE NEVER BEEN FUNDED WILL SIMPLY NOT BE REAUTHORIZED. PRIMARILY THIS LEGISLATION FOCUSSES ON STUDENT FINANCIAL AID PROGRAMS, AND CHANGES IN EXISTING PROGRAMS WILL BE VERY MODEST.

o I UNDERSTAND THAT TOM COLEMAN WILL BE SPEAKING TO YOU LATER ON WHAT IS HAPPENING WITH THIS PROCESS ON THE HOUSE SIDE.

RECONCILIATION PROPOSALS FOR STUDENT AID PROGRAMS

- AS THIS AUDIENCE IS AWARE, LAST YEAR, THE SENATE AND HOUSE PASSED SEPARATE VERSIONS OF A BUDGET RECONCILIATION MEASURE. THERE IS STILL SOME QUESTION AS TO WHETHER THE CONFERENCE REPORT WILL STILL BE PASSED. SAVINGS CONTAINED IN IT FOR FY'86 ARE FAST DWINDLING. A DECISION AS TO ITS FATE IS EXPECTED THIS TUESDAY.

- MOST OF THE PROPOSALS FOR HIGHER EDUCATION AND STUDENT FINANCIAL AID PROGRAMS RELATE TO THE GUARANTEED STUDENT LOAN PROGRAM AND ARE QUITE REASONABLE. SPENDING REDUCTIONS OF ABOUT $200 MILLION A YEAR HAVE BEEN INCLUDED. HOWEVER, THERE ARE NO MODIFICATIONS IN ELIGIBILITY CRITERIA, OR IN THE LEVEL OF AVAILABLE GRANTS AND LOANS.

- IN FACT, I AND MY STAFF WORKED CLOSELY WITH A STUDENT LEADER TASK FORCE FROM VARIOUS UNIVERSITIES IN KANSAS TO DEVELOP OPTIONS THAT WOULD TIGHTEN THE STUDENT AID PROGRAMS WITHOUT CAUSING REAL HARDSHIP FOR THOSE YOUNG PEOPLE WHO DEPEND ON THESE PROGRAMS SO THAT THEY CAN BE FINANCIALLY ABLE TO OBTAIN A COLLEGE EDUCATION.

- THE SENATE RECONCILIATION BILL LARGELY REFLECTS MOST OF THE RECOMMENDATIONS SUBMITTED TO ME BY THIS KANSAS STUDENT TASK FORCE. FOR ONCE, WE APPEAR TO HAVE DONE SOMETHING RIGHT.

SUMMARY OF RECONCILIATION PROVISIONS

o CHANGES IN EXISTING PROGRAMS WOULD MOSTLY AFFECT LENDERS AND TIGHTEN CURRENT ADMINISTRATION OF THE GUARANTEED STUDENT LOAN PROGRAM -THE RECONCILIATION PROPOSALS IN NO WAY REDUCE THE AMOUNT OF FINANCIAL AID AVAILABLE TO NEEDY STUDENTS. CHANGES IN THESE PROGRAMS INCLUDE:

-- CUTTING THE SPECIAL ALLOWANCE FOR LENDERS BY .25%, FROM THE CURRENT T + 3.5% TO T + 3.25%. BANK PROFITS WOULD BE REDUCED SOMEWHAT.

-- RECALLING STATE AGENCY ADVANCES.

-- ALLOWING LOAN CONSOLIDATION AND INCREASING THE INTEREST RATE TO 10% FOR 15 YEAR LOANS -AGAIN CUTTING THE BANKS' PROFITS.

-- REQUIRING MULTIPLE DISBURSEMENT OF LOANS AND PAYMENT OF THE ORIGINATION FEE UP FRONT.

-- INCREASING THE PENALTIES AND STRENGTHENING THE SYSTEM FOR COLLECTING ON DEFAULTS, ADOPTED FROM A QUAYLE DEFAULT BILL.

-- ALLOWING FOR THIRD-PARTY PRE-CLAIMS EFFORTS.

FEDERAL ROLE IN EDUCATION

- WHILE I AM A FIRM BELIEVER IN THE CONCEPT OF FEDERAL AID TO EDUCATION, I BELIEVE EVEN MORE DEEPLY THAT QUALITY OF EDUCATION DEPENDS ON THE QUALITY OF LOCAL INVOLVEMENT.

- PROVIDING FEDERAL FUNDS TO HELP EDUCATE OUR YOUNG PEOPLE REPRESENTS ONE OF THE BEST INVESTMENTS WE CAN MAKE WITH OUR TAX DOLLARS. HOWEVER, THE SOURCE IS NOT WITHOUT ITS LIMITATIONS.

- THE PRIMARY FEDERAL RESPONSIBILITY IN EDUCATION IS TO GUARANTEE EQUAL OPPORTUNITY AND ACCESS TO EDUCATION FOR ALL AMERICAN CHILDREN.

- EQUAL EDUCATIONAL OPPORTUNITY AND ACCESS MEAN EXACTLY THAT -POOR CHILDREN OF FARM FAMILIES IN IMPOVERISHED RURAL AREAS SHOULD HAVE THE SAME OPPORTUNITY TO GET A GOOD EDUCATION AS THE CHILDREN OF RICH PARENTS IN A WEALTHY SUBURBAN OR METROPOLITAN AREA.

- YOUNG PEOPLE DISADVANTAGED BY PHYSICAL OR MENTAL HANDICAPS SHOULD HAVE AS MUCH OPPORTUNITY TO DEVELOP THEIR LEARNING POTENTIAL AS IS PROVIDED TO THEIR MORE FORTUNATE SCHOOL-MATES. BLACK CHILDREN AND BROWN CHILDREN SHOULD HAVE THE SAME EDUCATIONAL OPPORTUNITIES AS WHITE CHILDREN, WHETHER THEY LIVE IN KANSAS OR IN MISSISSIPPI OR IN TEXAS OR CALIFORNIA.

o ONE OF THE MAJOR REASONS THE FEDERAL GOVERNMENT BECAME SO DEEPLY INVOLVED IN ELEMENTARY AND SECONDARY EDUCATION WAS THE FAILURE OF SOME STATES AND OF TOO MANY COMMUNITIES TO PROVIDE EQUAL OPPORTUNITIES TO CHILDREN DISADVANTAGED BY POVERTY, RACE, OR BY PHYSICAL OR MENTAL DISABILITIES.

PRESIDENT'S LEADERSHIP IN EDUCATION

o NOW ECONOMIC FORCES AND POLITICAL TIDES ARE CAUSING OUR NATION TO REEXAMINE THE PROPER ROLE OF THE FEDERAL GOVERNMENT IN THE EDUCATION OF YOUNG AMERICANS.

o THE PRESIDENT HAS INITIATED A GREAT REEVALUATION OF THE SHAPE AND COURSE OF THE FEDERAL GOVERNMENT. THERE IS PERHAPS NO ISSUE MORE IMPORTANT TO OUR COUNTRY'S FUTURE THAN THE EDUCATION OF OUR CHILDREN, AND YET PERHAPS THERE IS MUCH THAT CAN BE DONE TO PROMOTE DEREGULATION OF THOSE AREAS OF FEDERAL EDUCATION POLICY WHICH HAVE BECOME OVERLY INTRUSIVE IN STATE AND LOCAL AUTONOMY.

o BY NOW WE ARE ALL FAMILIAR WITH THE REPORT "A NATION AT RISK" THAT MOBILIZED THIS COUNTRY TO TAKE ACTION TO IMPROVE ITS PUBLIC EDUCATION SYSTEM. IT WAS UNDER PRESIDENT REAGAN'S AND TED BELL'S LEADERSHIP THAT THIS REPORT WAS CONDUCTED. THE REPORT MADE OFFICIAL WHAT WE HAD KNOWN FOR ALONG TIME --THAT THE QUALITY OF OUR PUBLIC EDUCATION SYSTEM HAD SERIOUSLY DETERIORATED. INTERESTINGLY ENOUGH, WHAT THE REPORT DID NOT RECOMMEND WAS A MASSIVE INFUSION OF FEDERAL FUNDS.

- AS A RESULT OF THIS REPORT, STATES AND LOCAL COMMUNITIES HAVE GEARED UP TO IMPLEMENT IMPROVEMENTS IN THEIR SCHOOLS. WE HAVE THE PRESIDENT TO THANK FOR GENERATING AN AWARENESS OF THE SERIOUSNESS OF THE PROBLEM AND FOR EXHORTING THOSE CONCERNED TO TAKE ACTION TO CORRECT THE PROBLEMS.

- LEADERSHIP AT THE STATE LEVEL IS DIRECTED AT CREATING THE LARGER FRAMEWORK OF EDUCATIONAL ACTIVITY AT THE LOCAL LEVEL, WITH THE ADDITIONAL IMPORTANT RESPONSIBILITY OF ENFORCING EQUITY WITHIN THE STATE.

- SENATOR ROBERT A TAFT, SR., ONCE DESCRIBED THE FEDERAL ROLE THIS WAY: "EDUCATION IS PRIMARILY A STATE FUNCTION, BUT IN THE FIELD OF EDUCATION, AS IN THE FIELDS OF HEALTH, RELIEF AND MEDICAL CARE, THE FEDERAL GOVERNMENT HAS A SECONDARY OBLIGATION TO SEE THAT THERE IS A BASIC FLOOR UNDER THOSE ESSENTIAL SERVICES FOR ALL ADULTS AND CHILDREN IN THE UNITED STATES."

MEMORANDUM

February 6, 1986

TO: Senator Dole

FROM: Christina Bolton

RE: President's FY'87 Education Budget Proposals

Highlights:

Elementary and Secondary Education programs are the top priority for the Department. Level funding is provided for Chapter 1, Chapter 2, Bilingual Education, P.L. 94-142, and increases for Teacher Training Programs, such as Math/Science. The only elementary and secondary programs eliminated are Migrant Education, Follow-Through, and Impact Aid "B"s. There is a 40% cut in Vocational Education.

The budget for Higher Education is cut by imposing a needs analysis system on all student financial aid programs. This would severly restrict participation by lower-middle income students. There are also proposals to restructure the loan programs to minimize federal subsidies and share costs with both lenders and guarantee agencies. Some Titles in the Higher Education Act that lend support to institutions would be eliminated.

Outlays for education are estimated to be $15.4 billion for FY'87 -a 12.4% decrease from the 1986 level. Attached is a chart put together by the Education Subcommittee staff, comparing '86 and '87 funding levels for various programs.

Guaranteed Student Loans:

The new needs analysis system is designed to require a greater family contribution per student. Students would be required to pay in-school interest as it accrues. Interest rates would be fixed at the T-Bill rate with a flat 3% special allowance until the thrid year of the program, when repayment goes to market rates. Lender guarantees against default are reduced to 90%, as is the reinsurance for State Agencies. The origination fee is renamed a guarantee fee and increased to 5%.

Pell Grants:

The new needs analysis system would cap family income at $23,400 for Pell eligibility. "Ability to Benefit" students are eliminated from the program -recipients must have a high school diploma. A four-year eligibility restriction is imposed.

NDSL's:

There will be no new federal contributions to Direct Student Loan Revolving Funds unless schools want to participate in a newly structured program. An income-contingent repayment is required for borrowers. Interest would accrue at T-Bill rate plus flat 3% to be paid by borrower. The Department would invest $190 million in new capital to this program in FY'87.

SEOG and College Work Study: Funds would be block-granted.

TRIO: three programs would be block-granted; there would be a 5-year non-renewable grant for Special Services Program.

SSIG: funds eliminated.

Title III Aid to Institutions: Level funding with new focus on endowments.

FIPSE: $10 million -a 10% decrease.

PLUS Loans: market rate loans with no federal subsidies.

Titles eliminated from Higher Education Act: Libraries, Teacher Training, International Education, Facilities (no new loans or grants), Cooperative Education, Graduate Education.

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THE ECONOMY IN 1986

- No one can really predict the course of the economy in 1986, although of course we have to take a stab at it to guide our budget decisions. But it is increasingly clear that the economy began picking up late last year. Leading indicators rose 0.9% in December, the eighth month in a row. Unemployment is down to 6.7%, the lowest since 1979.

- There are forces at work that improve the prospects for strong growth this year. One of these is the drop in oil prices, which acts like a tax cut for energy users and helps moderate inflationary pressures that might build as a result of the dollar's decline. Coupled with the monetary stimulus the Federal Reserve provided in the last six months of 1986, and the prospect for improvement in our balance of trade later in the year (as the effects of the dollar decline are felt), this means we have a good chance for healthy growth in 1986.

- Clearly the number one threat to maintaining a healthy economy remains the U.S. budget deficit. If it's not reduced sharply this year, we won't meet the commitment we made to our trading partners to secure their agreement to ease the dollar down. What's more, we would put an unconscionable burden on the Federal Reserve to keep the recovery going by pumping more money out in order to keep interest rates down. That's a sure recipe for inflation.

- We've created 9 million jobs with a near record economic recovery. We've got inflation down to the lowest levels in two decades. Let's not throw it all a way by punting on the deficit issue. The fact is that all the economic pundits we've been hearing in recent years have been wrong: the economy is more resilient than many believed, but not so strong as to be able to sustain huge deficits this late in the recovery. It's time for everyone to "give" a little in the interest of a deficit-reduction plan that will steer us safely through the potentially treacherous waters ahead.

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BUDGET FOR FY 1987

- The President's budget for FY 1987 is a blueprint for deficit reduction that Congress will have to take seriously even if we can't agree with it in all particulars. It is important to keep in mind OMB Director Miller's contention that, if we adopt this budget in full, we can meet the Gramm-Rudman targets for the rest of the decade without the need for major additional cuts.

- The 1987 budget plan is designed to get the deficit down to $143.6 billion: just below the G-R-H target of $144 billion. Total spending is projected at $994 billion, and revenues at $850.4 billion. Total interest expense is $206.85 billion, and net interest (exclusive of intra-government payments) is $148 billion.

- The deficit would be reduced by $38 billion in FY 87, and by $166 billion over three years. Defense would still grow by 3% in real terms (increase in budget authority adjusted for inflation). Increased funds would be provided for fighting terrorism, for law and drug enforcement, for the space program, aviation safety, and AIDS research.

- Major new deficit-reduction initiatives include privatization of government activities, ranging from Amtrak to power facilities to Ex-Im bank loans; transferring a few programs to the States, such as the Agriculture Cooperative Extension Service and highway; a wide array of user fees on government services; eliminating programs like EDA, UDAG, SBA, maritime subsidies, and the ICC.

- There are additional receipts in the budget as well: extending the cigarette tax, higher fees for black lung, repealing the gasohol exemption, increased contributions to civil service retirement and the like.

- The CBO indicates that the President's budget may be some $14 billion short of its 1987 goal because of low estimates of defense spending already in the pipeline. That is a legitimate matter for review, but if baseline spending is higher, then any cuts will have more of an impact as well.

Gramm-Rudman, the Dollar, and Inflation

- Gramm-Rudman should help us meet the commitment we made last September to our trading partners: to reduce the deficit as part of our effort to moderate the value of other dollar.

- By the same token, the risk of inflation should be reduced if we bring down the deficit under Gramm-Rudman, because the pressure to pump up the money supply to keep interest rates down will ease considerably.

Gramm-Rudman: Challenge to the Established Fiscal Order

- The first actions in response to the new Gramm-Rudman deficit control reform will be taken early in 1986. For those of you who missed it, late last year the Congress imposed a new fiscal straightjacket on itself. The new law sets firm deficit targets for each of the new five years, and mandates automatic across the board spending cuts if the deficit exceeds the target. The first round of automatic cuts under the proposal will take effect March 1 unless Congress comes up with a better way to meet the target.

- In addition, President Reagan's budget for fiscal year 1987 is due to Congress by February 5. So we will have reconsideration of the 1986 budget proceeding simultaneously with our first shot at the 1987 budget.

That is a tall order, but is one we ought to be able to fill. Difficult as it seems, we should remember that the Gramm-Rudman law contains new procedures designed to make it easier to meet the deficit targets. We explicitly bring loan programs and other 'off-budget' items into the budget process; set a point of order against legislation from committees that have not met their budget savings allocation; and rule out of order legislation inconsistent with the deficit targets.

Possible Problems. We know there will be a rocky road ahead in implementing Gramm-Rudman. Congressmen Synar and others already have won the first round in their suit claiming it is unconstitutional, and the Reagan Administration also has some problems with the role of the Congress' General Accounting Office in mediating the deficit forecasts. The Supreme Court will have to give us a final ruling on all that in a few months. Even more important, what Congress can legislate, Congress can back out of. That's why we need a constitutional mandate for budgetary restraint, as well as a statutory one.

- So Gramm-Rudman hasn't made our options any easier: but if it works as planned, it will force us--and the President--to make some decisions and choose among the various deficit-reduction options. That means everyone's cherished spending programs will be put to the test of fiscal responsibility.

Spending the Key. Finally, let me emphasize that Gramm-Rudman is a device for reducing Federal spending. It is not a tax increase plan, or a subterfuge for one. If we fail on the spending front, we can look at other options. But the sooner we entertain any revenue options, you can bet the pressure for spending cuts will drop fast.

The Deficit and the Average American

- Unless we follow a deficit reduction path like that mandated under Gramm-Rudman, 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. That is what the Gramm-Rudman-Hollings initiative is all about.

- Most economists believe that enactment of deficit reduction measures that eliminate the deficit by the end of the decade 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: relative to what they otherwise would be.

  -- With a 2% drop in interest rates, the monthly payment on a median priced home ($80,000) would 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.

  -- In 1985, 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.

Interest on the Debt

The 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 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.

But if we can adhere to the deficit-reduction goals we've set for ourselves, 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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Tax Reform Talking Points

- The President's tax plan and the House bill are similar in concept--they both shift more of the tax burden to corporations and reduce the tax burden on individuals. But the bills are very different in how they make the change.

- Both substantially reduce tax rates for individuals (the President to a maximum of 35%; Ways and Means to 38%) and for corporations (President 33%; Ways and Means 36%). But the Ways and Means rates take effect at much lower income levels: the 35% rate clicks in at $43,000 for married couples, as opposed to $70,000 under the Reagan plan.

- Neither plan gets an A+ for the major objectives of tax reform--simplification and fairness, but the President's plan repealed many more of the overly complicated provisions of the tax code than the Ways and Means Committee effort. The House bill just modifies, but leaves in place, many complex tax rules.

- The House bill falls far short of the President's on fairness grounds. Fringe benefits and itemized deductions are major causes of differing tax liabilities, and unlike the President's proposal, the House retained the State and local tax deduction, did less to limit interest-paid deductions, and did nothing on fringe benefits. This means that taxpayers with equal incomes can still have substantially different tax liabilities.

- I have personally long favored income tax reform and, as Chairman of the Senate Finance Committee, led the fight over a number of years to plug unjustified tax loopholes.

- It is possible for the Senate to fashion a tax reform bill by June, but only with an interest intensive effort by the President to push the bill and reshape it along the lines he favors: and to help us along in finding a bipartisan solution to this year's deficit problem.

State and local tax deduction

- It probably won't be possible to repeal the entire deduction for State and local taxes, but we'll have to impose some major restrictions on it if we want to make some of the changes the President wants in the tax bill. The President's proposal to repeal the deduction is worth $98 billion over 5 years.

- There are losts of options for restricting the deduction that we can consider, such as allowing only a percentage of all State and local taxes to be deducted, limiting the deduction to certain types of taxes, or imposing a "floor" or a "cap" on the deduction. Some of these options may be less viable than others, but something needs to be done.

- I know this issue divides the States. That's why we'll have to compromise. But it's legitimate to ask why Federal tax policy should have the effect of subsidizing high-tax States: and Kansas is below average in the taxes it imposes on its citizens.

- The bottom line is that you can't reduce tax rates enough to make a dramatic difference without touching major deductions like the one for State and local taxes. The House bill proves that.