March 20
Thurs.

Telex: 248434

ERNEST WITTENBERG ASSOCIATES, INC.
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WASHINGTON, D.C. 20006

(202) 783-2080

December 17, 1985

The Honorable Robert Dole
United States Senate
SH-141 Hart Senate Office Building
Washington, D.C. 20510

Dear Bob:

I would be delighted if you could participate in our 1986 series of the 20/20 Group on Thursday, March 20, from noon to 2:00 p.m. at the Madison Hotel. You will recall your meeting last year over lunch with this group of 20 corporate executives.

Our meetings, now in their fifth year, will retain the same format of a few minutes of opening remarks by you on the important issues before Congress and your committees, followed by Q&A and informal discussion over lunch. An honorarium of $2,000 will be provided.

We look forward to having you on our program again.

Warmest wishes for a happy new year.

Sincerely,

Ernie

Ernest Wittenberg
Chairman

P.S. I realize this invitation comes early, but we want to be sure that you're on our list of guest speakers for 1986.

1/15 Advised Liz we would be in touch asap. on this.
2/18 Advised Ernie Sen would do, if possible -- if it's flexible..

TALKING POINTS ON CONTRA AID

President's request/compromise

-- STRONGLY SUPPORT PRESIDENT'S REQUEST ($30 MILLION HUMANITARIAN, $70 MILLION UNRESTRICTED AID).

-- NOT WORKING ON ANY COMPROMISE.

-- DON'T EXPECT TO LOSE, BUT IF WE DO WILL THEN SEE WHERE WE GO FROM THERE. PREMATURE TO CONSIDER NOW.

Situation on vote

-- PRESIDENT WANTS UP-DOWN VOTE. VOTERS HAVE RIGHT TO SEE WHERE EACH OF US STANDS ON THIS ISSUE.

-- HOUSE WILL VOTE LATER TODAY. WILL BE CLOSE. HAVE FIGHTING CHANCE.

-- SENATE WILL VOTE NEXT WEEK (PROBABLY TUESDAY).

-- OUTCOME IN HOUSE COULD AFFECT OUR VOTE. BUT CONFIDENT NOW WE HAVE VOTES IN SENATE.

National security issue

-- PRESIDENT MADE ESSENTIAL POINT IN HIS SPEECH: NOT A PARTISAN MATTER BUT QUESTION OF NATIONAL SECURITY.

-- SANDINISTAS ACTIONS (ATTACK NEIGHBORS, BUILD-UP MILITARILY AND SUPPRESS PEOPLE) NOT DEFENSIVE BUT CENTRAL TO THEIR GOALS AS MARXISTS.

-- THEY WANT ONE-PARTY STATE AT HOME.

-- THEY WANT TO BE MILITARILY AND POLITICALLY DOMINANT IN REGION.

-- THEY WANT TO ASSIST SOVIETS AND CUBANS IN PURSUIT OF THEIR GOALS.

US goals/policy

-- OUR DEMANDS: SANDINISTAS MUST:

-- (1) END AGGRESSION AGAINST NEIGHBORS, OUR FRIENDS AND ALLIES;

-- (2) DRASTICALLY REDUCE SOVIET AND CUBAN PRESENCE AND COMPANION MILITARY BUILD-UP;

-- (3) REESTABLISH DEMOCRACY AT HOME; AND

-- (4) START DIALOGUE WITH CONTRAS.

-- POLICY:

-- (1) SEEK NEGOTIATED SETTLEMENT (WILL TALK TO SANDINISTAS WHEN THEY AGREE TO TALK TO CONTRAS); AND

-- (2) KEEP UP PRESSURE THROUGH SUPPORT OF CONTRAS.

-- DOES ANYONE REALLY BELIEVE THAT, IN ABSENCE OF CONTRA PRESSURE, SANDINISTAS WILL TAKE ANY POSITIVE STEPS?

Support in region

-- INDEPENDENT POLLS SHOW WIDESPREAD PUBLIC

UNDERSTANDING/SUPPORT OF US POLICIES AMONG PEOPLE OF CENTRAL AMERICA.

-- ALTHOUGH GOVERNMENTS UNDERSTANDABLY RELUCTANT TO ENDORSE OUR CONTRA PROGRAM, BELIEVE THERE IS ALSO SILENT SUPPORT THERE.

-- MET WITH (WILL MEET WITH) HABIB THIS MORNING FOR UPDATED REPORT ON REGIONAL SITUATION.

cc.JOYCE
DALE

BALANCED BUDGET AMENDMENT

- The compromise amendment we are supporting embodies a simple principle: in the normal situation, outlays of the Federal Government should not exceed receipts. Our amendment just requires that to allow a deficit, Congress must by 3/5 vote authorize a specific excess of outlays over receipts. In addition, the Senate has adopted a provision imposing a similar vote requirement to raise the debt ceiling. And to preserve a bias in favor of controlling spending we say that tax increases cannot be passed except by a majority of all Members of the House and Senate: not just those present and voting.

- So the Senate is being presented with an historic opportunity. This proposed Constitutional Amendment would restore a proper balance to the way we conduct the fiscal affairs of the Government. The proposal before us is not a quick fix, a response to a sudden shift in public opinion, or an attempt to evade our assigned duties under the Constitution with regard to decisions on taxing and spending. This is an idea that has been around for quite some time, but that has gained momentum in recent years because of the growing realization that there is something fundamentally wrong with the way we conduct fiscal policy.

- Fundamental problems demand fundamental solutions. Those of us who have worked to develop a responsible Constitutional Amendment over the years have not taken lightly our duty to respect the form and the spirit of the basic law of the land. The language of this amendment is appropriate to the Constitution. It is not premised on any particular economic philosophy, but rather on the belief that Congress ought to make specific decisions on fiscal policy and be held accountable for those decisions. The amendment requires that we follow consistent procedures in setting fiscal policy, and establishes firm parameters to govern those procedures. That is all there is to it, and it is something we very much need.

A POPULAR MANDATE

- The American people clearly are convinced that our fiscal house is not in order. Popular concern over runaway budgets is the reason why the drive for a Constitutional Convention to draft a fiscal restraint amendment is only a few states short of its goal. Polls consistently show that 70-80 percent of the American people support a balanced budget amendment. No one should maintain that we ought to take certain steps just because they are popular; but in this case it seems that the people are ahead of the politicians. They understand that Congressional spending habits have to be put under a firm limitation, and that only new procedures, externally imposed, can do the job.

- I would also suggest that this amendment, if approved by Congress, is not the end of the story. It is the beginning. Legislative implementation and compliance will be a complex and difficult matter--we should not deceive ourselves on that point. And we are learning from the experience of the Gramm-Rudman-Hollings law that enforcement is not a simple matter. But it can and will be done once we have a clear Constitutional obligation to fulfill. We can demonstrate our willingness and ability to follow through on this amendment by moving swiftly to meet the fiscal 1987 targets for Gramm-Rudman.

March 19, 1986

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.

- The Senate Finance Committee has begun action on tax reform and will have a full schedule next week. A lot of difficult decisions await the Committee if it is to maintain momentum towards the goals the President has outlined: lower tax rates, a $2,000 personal exemption for everyone, and more incentive for saving and capital investment.

- The 'Packwood draft' of tax reform goes a long way toward meeting the President's goals, including a top rate of 35% and a $2,000 personal exemption for all but the wealthiest taxpayers. Still there are many controversial points that will be closely scrutinized.

--the deduction for State and local sales and personal property taxes would be repealed, and that for income taxes would be available only through the first two brackets.

--Interest deductions would be more severely limited than in the House bill, including a $1,000/$2,000 limit on the consumer interest deduction.

--The minimum tax would have a lower rate and a broader base than in the House bill, but is still likely to be controversial.

--Excise taxes would be increased significantly including those on beer and wine.

o On the plus sides, from the viewpoint of many taxpayers--

--The nonitemizer charitable deduction would be made permanent without adopting the floor under the charitable deduction included in the House bill.

--Investment credit repeal would not take effect until March of this year.

--ACRS would remain the basic depreciation system, with a limited inflation adjustment allowed.

--The R&D credit would be made permanent.

--The amount of new equipment costs small businesses can expense would be dramatically increased.

o All in all, the Packwood draft does a better job of lowering tax rates while encouraging new investment and a productive climate for business.

TAX REFORM EFFECTIVE DATES

- Last December the Senate passed my resolution urging that the general date for tax reform legislation should be January 1, 1987. The reason for making tax reform "prospective only" is to eliminate the cloud of uncertainty that pending tax reform legislation leaves over many economic decisions that are influenced by tax policy.

- The House also passed an "effective date" resolution, urging the chairman of the tax-writing committees to agree on some determination of effective dates other than the January 1, 1986 date in the House-passed bill.

- Unfortunately, since last December only modest progress has been made in clarifying the effective date issue other than in the tax exempt bond area. Last week Senator Packwood, Senator Long, Congressman Rostenkowski, Congressman Duncan and Secretary Baker released a joint statement that certain of the tax-exempt bond provisions should not go into effect before September first.

- Senator Packwood has also released his package of tax reform with a general effective date of January 1, 1987, although some items such as the repeal of the investment tax credit would be effective March 1, 1986 and other items such as the rate reductions would be delayed until mid-1987.

- I also understand, however, that Senator Packwood's proposal to include all tax-exempt interest as a preference item for the corporate and individual minimum tax is causing some of the same uncertainty for the bond market as the effective date problem.

- Yesterday at our first markup session I joined 17 of my colleagues on the Committee in agreeing not to sign any tax reform conference report unless the effective dates substantially followed those in the Senate bill. We also agreed not to negotiate a conference agreement on substantive issues until the effective date issue was resolved.

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 rèsult 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 <u>all</u> 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.

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 <u>if</u> 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 <u>without</u> 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.

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.

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Seminar Section:

20/20 Group • Wednesdays With the House • Congressional Leadership Seminar

Thursday, March 20, 1986

ROSTER FOR ROBERT DOLE LUNCHEON

AMERICAN CAN COMPANY	Robert C. Schneider Vice President Corporate Taxes
ARTHUR ANDERSEN & CO.	Byrle M. Abbin Managing Director Office of Federal Tax Services
BANK OF AMERICA NT & SA	Fred Martin Vice President
BELL ATLANTIC CORPORATION	Aubrey Sarvis Director Federal Relations
BELLSOUTH CORPORATION	Raymond Nolin Vice President Federal Relations
FOCUS LEASING CORPORATION	Gary L. Mingle President
GENCORP	Terry King Director of Congressional Affairs Aerojet General
GTE CORPORATION	Sam Shawhan Vice President Government Affairs
MARINE MIDLAND BANK	John Petty Chairman of the Board
MERIDIAN BANCORP, INC.	Clair Snyder Executive Vice President
MITSUI & CO. USA, INC.	Bill Bell Research Associate
PEPCO	W. Reid Thompson Chairman of the Board

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R.R. DONNELLEY & SONS CO.	James M. Ratcliffe Director of Public Affairs
U S WEST	Kim Oboz Executive Director and Attorney
UNITED TELECOMMUNICATIONS	Dan Fisk Vice President and Washington Counsel
VINSON & ELKINS	Ky P. Ewing, Esq.
VIRGINIA POWER	Dan Flanagan, Jr. Flanagan & Associates, Inc.

<u>GUESTS</u>:

BRITISH EMBASSY	Peter Lo Counsellor for Hong Kong Commercial Affairs Hong Kong Government Office
MERRILL LYNCH AND CO.	Bruce Thompson Vice President and Director Federal Relations

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BACKGROUND ON MEMBER COMPANIES
OF 20/20 GROUP '86

AMERICAN CAN COMPANY — Greenwich, Connecticut

Sales: $4.10 billion
Employees: 30,000

Products: Packaging, specialty retail sales and financial services; manufacturing and marketing of container and package products; distribution and packaging products; distribution of non-durable items through direct mail and retail outlets; underwriting and marketing of life, accident and health insurance and other financial services.

ARTHUR ANDERSEN & COMPANY — Chicago, Illinois

Fees: In excess of $1 billion
Employees: 25,000

Business: One of the largest accounting and auditing firms in the world, with 1,500 partners and 130 offices, 70 in the U.S.

BANK OF AMERICA NT & SA — San Francisco, California

Deposits: $89 billion
Employees: 74,106

Business: Full-service commercial banking.

BELL ATLANTIC CORPORATION — Philadelphia, Pennsylvania

Assets: Approximately $19.8 billion
Employees: 80,000

Business: Holding company; telecommunications.

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*Source: Standard & Poor's Register of Corporations, Directors and Executives (Volume I) and member companies.

BELLSOUTH CORPORATION — Atlanta, Georgia

Assets: Approximately $25 billion
Employees: Approximately 100,000

Business: Holding company; telecommunications.

FOCUS LEASING CORPORATION — Chicago, Illinois

Assets: $40 million
Employees: 6

Business: Venture capital and leasing company.

GENCORP — Akron, Ohio

Revenue: $2.06 billion
Employees: 32,000

Products: Tires, industrial rubber products, chemicals and plastics, aerospace and defense products, radio and television broadcasting, soft drink bottling, airline transportation.

GTE CORPORATION — Stamford, Connecticut

Revenue: $12.90 billion
Employees: 185,000

Business: Owns equity securities of telephone operating, directory publishing, research, manufacturing companies, producing telecommunications and lighting products, precision materials, metal framing systems, data communications systems.

MARINE MIDLAND BANK — New York, New York

Subsidiary of Marine Midland Banks, Inc.
Revenue: $2.15 billion (Marine Midland Banks, Inc.)
Employees: 11,000

Business: Commercial national bank

MERIDIAN BANCORP INC. — Reading, Pennsylvania

Revenue: $5.11 billion
Employees: 2,800

Business: Three-bank holding company

(more)

MITSUI & CO. USA, INC. New York, New York

Sales: $11.50 billion
Employees: 730

Products: Import, export and distribution of steel, ferrous and non-ferrous metals, coal, industrial machinery and aircraft, chemicals and plastics, petroleum and its products, fertilizers, foodstuffs including grain, canned goods and frozen fish, pulp and paper medical and surgical supplies, sporting equipment arrangement of transportation and storage for these goods.

PEPCO Washington, D.C.

Revenue: $1.17 billion
Employees: 5,353

Business: Electric utility

R.R. DONNELLEY & SONS COMPANY Chicago, Illinois

Revenue: $1.54 billion
Employees: 16,000

Business: Commercial printers, books magazines, catalogs, directories and financial documents.

UNC RESOURCES, INC. Annapolis, Maryland

Sales and revenue: $329 million
Employees: 4,350

Business: High technology services and products in aerospace/aviation, telecommunications and nuclear technology.

U S WEST CORPORATION Englewood, Colorado

Revenue: Approximately $900 million
Employees: 80,000

Business: Holding company; telecommunications

(more)

UNITED TELECOMMUNICATIONS, INC. Kansas City, Missouri

Revenue: $2.51 billion
Employees: 29,309

Business: Holding company (telecommunications systems and equipment, data network services).

VINSON & ELKINS Houston, Texas

Lawyers: Over 340
Clients: 8,000 (active)

Business: General, civil and trial practice law firm.

VIRGINIA POWER Richmond, Virginia

Revenue: $2.36 billion
Employees: 12,600

Business: Electric and natural gas utility.

# # #

ERNEST
WITTENBERG
ASSOCIATES, INC.

Speak

Elizabeth Parker Nibley

George

December 17, 1985

Memo to: Ms. Betty Meyer
Office of Senator Dole

Re: Invitation to speak in our 1986
20/20 Group luncheon series

Betty, we hope that the Senator can participate in our 20/20 Group program in 1986 at the Madison Hotel. The luncheon will be held from 12:00 to 2:00 p.m. in the Mount Vernon Room.

Sheraton Grand

If we could get a tentative yes for now, that would be great.

Have a wonderful holiday.

Sincerely,

Liz

Tax / BBA / Contra vote

Enclosure

1616 H Street, N.W., Washington, D.C. 20006 • (202) 783-2080