Speak briefly

April 8
Tues. A.M.

Joyce

can we agree to do??

Betty

Congressman Frank Wolf

in Arlington

March 4, 1986

OK

The Honorable Robert Dole
Majority Leader
United States Senate
Washington, DC 20510

Dear Bob:

I write to invite you to be the honored guests at my breakfast fundraiser on Tuesday, April 8, for the Northern Virginia Construction Industry. Your presence at this event would give my campaign a tremendous boost at a critical time.

The breakfast ~~will be at the~~ Washington Golf and Country Club at 8:00 a.m.. I anticipate that it will break up by 9:00 am or shortly after. I would be deeply grateful if you could speak for 5 - 10 minutes and then field a few questions.

Your help at this early date in 1986 would mean a great deal to me as I embark on what promises to be a very difficult campaign. As you know, the Democrats swept Virginia's statewide elections in 1985, and they are doubling their efforts, combining money and organizations from both the 8th and 10th districts in an effort to recapture the 10th district seat this year.

I deeply appreciate your consideration of this request. Please have your staff call me or Bill Mimms, my administrative Assistant, at 5-5136 if I can provide any additional information.

Sincerely,

Frank

Frank R. Wolf
Member of Congress

Really would appreciate your help.

Thank you —

P.O. Box 1055 • Vienna, Virginia 22180

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.

BOB DOLE
KANSAS

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

April 7, 1986

TO: Senator Dole

FROM: George Pieler

SUBJECT: Frank Wolf breakfast

For your Tuesday breakfast appearance for Congressman Frank Wolf, attached are materials on tax and budget.

Wolf's office advises that most of the attendees are involved in real estate development, either commercial or residential. While they don't have a particular position on tax reform, they are likely to reflect the general concerns the real estate industry has with the Packwood plan:

o 30-year depreciation (too long), straight line (too slow), and incomplete indexing (not made available for real estate). Most in the industry would like to see movement on all three issues.

o Minimum tax--object to inclusion of depreciation preference (difference between 30 years and 40 years).

o Construction period interest--would prefer to phase in the requirement that interest and tax costs for construction be fully capitalized.

Attachments

BOB DOLE
KANSAS

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

April 7, 1986

TO: SENATOR DOLE

FROM: GEORGE PIELER

SUBJECT: Thank you reception for balanced budget amendment coalition

A thank you reception will be held for the balanced budget amendment coalition on Thursday, April 10. The tab will be picked up by the Realtors.

They would like to hold the reception in the Majority Leader's office if possible. Time would be 5:00 p.m. this Thursday (April 10), which seems ok from your schedule.

The Labor Committee hearing room is available at that time if you prefer not to make the Majority Leader's office available.

Do you want to host the reception here?

____ yes ____ no

Ju 6

J Ben

April 7, 1986

BUDGET TALKING POINTS

o One piece of good budget news is that on Monday President Reagan signed the budget reconciliation bill that will yield more than $18 billion in savings over the next three years. It was a long time getting here but certain worth it.

OVERVIEW

o The Senate Budget Committee reported out a fiscal 1987 budget by a 13-9 vote. 7 Republicans and 6 Democrats voted for the resolution.

o I salute Chairman Domenici, and the rest of the members of the Budget Committee for their diligence and the speed with which the produced the budget.

o It is the first step in the process. It is my intention to begin a series of meetings with my colleagues this week to see if we can develop a consensus on budget strategy. We're already somewhat behind the schedule set out in the Gramm-Rudman-Hollings measure. But we're certainly far ahead of the House, which has chosen to do nothing to date.

IMPLICATIONS OF FAILURE TO MEET DEADLINES

o Missing the April 15 deadline would make it even more questionable that the reconciliation process necessary to achieve savings would be completed by June 15.

o Missing the April 15 deadline would further complicate and delay tax-reform legislation this year, since a major issue of revenue increases or neutrality in tax reform would remain an open issue.

o Procedurally, the failure to adopt a resolution by April 15 means that appropriation bill mark-ups would proceed with no general blueprint for FY 1987 spending.

o Assuming no resolution is adopted by May 15, then House appropriation bills would likely proceed to be reported, passed, and sent to the Senate. No point of order (Section 303) would lie against such bills in the House, but would lie in the Senate. The Senate could waive the point-of-order by a majority vote, voting on a resolution by the SBC. It is not clear that the SBC would be able to report such a resolution and such a resolution would likely be objected to by Minority Leader Byrd if it were reported using a poll.

DETAILS OF BUDGET RESOLUTION

o From my perspective the resolution approved by the Budget Committee leaves something to be desired. First, I believe that the defense spending authority for next year is too low. And second, that the increase in revenues -- close to $75 billion over three years -- is much too high. I'm not alone in this thinking. Just before Congress adjourned for the Easter recess, I received a letter signed by 24 Republican senators expressing the same concerns.

o However, I understand the problem Senator Domenici faced in getting a resolution out of the committee -- the delicate balance between enough for defense, but not too much, enough cuts in domestic programs, but not too much, and enough revenues to meet the $144 billion deficit figure in Gramm-Rudman-Hollings.

o The total deficit reduction in the resolution is $38.8 billion in fiscal 1987; $58.9 billion in 1988; and $74.4 billion in 1989.

o The Committee's budget resolution contains $18.7 billion in additional revenues in fiscal 1987 and a total of $74.3 billion from fiscal 1987-89. Revenue effects from spending measures assumed in the budget, such as retirement reforms and the sale of CONRAIL, plus revenue from reconciliation would account for $6.1 billion, $22.3 billion over three years. And the president's budget contained $5.9 billion in FY 87 revenue increases, $21.6 over three years.

o Defense spending under the resolution would call for $295.1 billion in FY 87 budget authority and $280 billion in outlays. The President requested $320.4 billion in budget authority, outlays, $282.2 billion. According to the Budget Committee, the amounts included in the resolution allows for 2.8 % growth in budget authority from the FY 86 post-sequester budget authority level. In FY 1988 and 1989 there would be a 1% real growth rate.

o The budget resolution would reduce non-defense spending in FY 87 by $17.3 billion in outlays, and by more than $70 billion from FY 87-89, mostly through freezes and reductions. However, $2.3 billion in additional FY 87 spending would be allocated for critical programs such as embassy security, space shuttle construction, a farm credit initiative ($400 million over 3 years), IRS, Head Start and key education programs.

Social Security, military and civil service pensions and all other indexed programs would receive a cost-of-living adjustment. All civilian and military personnel would receive a 3% pay raise.

o Agriculture: The budget resolution assumes the enactment of the tobacco price support program contained in reconciliation with projected reduced budget authority and outlays of $100 million in fiscal 1987 and $600 million over three years; It assumes $ 300 million in savings over three years from enactment of the 1985 farm bill; and it increases budget authority by $150 million in each of the next three years and $130 million in fiscal 1987 for farm credit programs.

o Committee vote: For the resolution: Andrews, Boschwitz, Danforth, Domenici, Gorton, Grassley, Kassebaum, Chiles, Exon, Hollings, Johnston, Metzenbaum, Riegle.

Against: Armstrong, Hatch, Kasten, Quayle, Symms, Hart, Lautenberg, Moynihan, Sasser.

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.

- 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.

March 27, 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 after the Easter recess. 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.

OIL IMPORT FEE

- The future of an oil import fee, at least this year, is in doubt. Although there may be some very good energy policy arguments in favor of an import fee, even domestic producers are not in agreement that it should be imposed at this time.

- In addition to avoiding renewed dependence on imported oil, one major argument that is being used by advocates of an import fee is that it would raise substantial revenues. The Joint Tax staff estimates that a $5-per-barrel fee on imported crude oil and petroleum products, with no exemptions, effective October 1, 1986 would increase net revenues by $7.4 billion in FY 1987. Over 5 years the fee is estimated to raise $37.8 billion.

- However, exemptions could reduce receipts significantly. Mexico and Canada, for example, accounted for 32 percent of petroleum imports in the first six months of 1985. If we exempted these imports, revenues would drop by almost one-third.

- Similarly exemptions for home heating oil and industrial use of petroleum also would substantially reduce revenues.

  About 3 percent of petroleum is used for residential heating oil and 26 percent is used by industry. By contrast, gross imports accounted for 32 percent of U.S. petroleum production in 1985. Therefore, unless refunds were carefully limited to home heating oil and industrial use of products refined from imported oil, much of the revenue from an import fee could be lost.

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 <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.