

U.S. TOBACCO

100 WEST PUTNAM AVENUE, GREENWICH, CONNECTICUT 06830

NICHOLAS A. BUONICONTI
President

March 10, 1986

Senator Robert Dole
SH-141 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Dole:

On Wednesday April 30, 1986 Lou Bantle, Chairman of the Board of U.S. Tobacco, will hold a small private Luncheon at the Phoenix Park Hotel, 520 North Capitol St, N.W. Washington D.C. beginning at 12:00 noon as a part of the Company's annual visit to Washington.

U.S. Tobacco is a diversified consumer product company with operations in 12 states and across the world. Our best known products are Skoal and Copenhagen moist smokeless tobaccos, and Skoal Bandits moist smokeless tobacco in a pouch. In addition, the Company markets Chateau Ste. Michelle premium wines from Washington State.

At the Luncheon, we ask that you speak for fifteen minutes on the major issues before the 99th Congress. Because this luncheon is part of our Congressional Honoraria Program, we are pleased to offer you an honorarium of \$2,000 for your participation.

We hope this event will allow our Company to get better acquainted with you, and stimulate the interest of our employees in the political process.

To confirm your participation, please call me or Barbara Sterling at (203) 622-3612.

I look forward to hearing from you in the near future and hope to see you on April 30.

Sincerely,

Nicholas A. Buoniconti

3/17 Copy to Willie Kirk
3/27 Advised Barbara Sterling she would do
BJS/vfm

BOB DOLE
KANSAS

United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

April 29, 1986

TO: Senator Dole
FROM: George Pieler
SUBJECT: Talk to U.S. Tobacco

The U.S. Tobacco people indicated that they just want you to speak for 5 to 10 minutes on whatever subject you choose of current interest.

Attached are materials on budget and tax, contras, terrorism.

April 29, 1986

- o Senator Packwood today floated two possible options for the Committee to consider. One would have a maximum individual tax rate of 26 percent. The other would have a top rate of 27 percent.
- o To do this, he suggests repealing the itemized deductions for consumer and investment interest paid, for medical expenses and for casualty losses.
- o He would also repeal the special rate for capital gains and the IRA deduction.
- o His plan would provide an average tax cut of over 5.5 percent for individual taxpayers.
- o The corporate tax rate would be reduced to 33 percent.
- o He would raise corporate taxes by \$70 billion and excise taxes by \$25 billion over 5 years.

March 27, 1986

Tax Reform Talking Points

- o 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.
- o 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.
- o 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.
- o 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.
- o 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.
- o 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.
- o 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.

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- 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.

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:

- o 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.
- o 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.
- o \$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.

Gramm-Rudman, the Dollar, and Inflation

- o 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.
- o 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

- o 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.
- o 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.

- o 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

- o 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.
- o 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.

April 29, 1987

BUDGET TALKING POINTS

On April 21 the Senate began debating the fiscal 1987 budget resolution. The budget plan produced by the Senate Budget Committee is one that both I and many of my Republican colleagues believe misses the mark on three counts:

- o First, The revenue increase -- \$74.3 billion over three years is far too high.

- o Second, The defense spending authority figure is too low.

- o And finally, the budget does not go far enough in terms of spending reductions.

- o In an attempt to rectify these shortcomings, I have been meeting with Senator Domenici, chairman of the Senate Budget Committee, and Senator Lawton Chiles, the ranking Democrat on the committee. We have been trying to come up with a compromise -- one that would meet the Gramm-Rudman-Hollings deficit target -- but also address the concerns I just mentioned.

- o We hope we can fashion a budget that will have wide, bipartisan support. And we should know, in the next day or two whether this is feasible.

- o.. It's very important that we adopt a congressional budget resolution for a number of reasons.

IMPLICATIONS OF FAILURE TO MEET DEADLINES

- o Failing to set out a spending and tax guideline for Congress to follow would make everything we do in the coming months that much more difficult. But more important, failing to address the deficit issue head-on this year, while the economy is strong, means we are abdicating our responsibility to our children and grandchildren. We're living in a fool's paradise. Living on credit, and paying dearly for it -- \$145 billion in interest on the debt this year alone. But sooner or later those bills will come do -- and the effect that could have on the economy could well prove devastating.

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

- o Missing the April 15 deadline further complicates 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 could 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.

- o For those who argue that we should sit back and do nothing because the healthy economy will take care of the deficit, that just isn't so. Even if the very optimistic economic projections are realized, we won't meet the \$144 billion Gramm-Rudman deficit target. And those who argue that we can reach the target merely by trimming appropriations accounts are also wrong. It will take more -- changes in entitlement benefit programs, and maybe even some revenue increases.

- o We've got some tough choices ahead. If we, as a Nation, want our government to provide certain benefits, maintain certain programs, then we have to find a way to pay for them -- either by cutting back on other federal activities -- or by raising revenues.

- o The Senate's shown it's willingness to make them in the past. And I'm sure it will again. It would be nice, however, to have some company.

BUDGET DETAILS

- 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.

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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.

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TALKING POINTS: CENTRAL AMERICA

o PRESIDENT'S POLICIES WORKING:

-- DEMOCRACY GAINING GROUND: DEMOCRATIC ELECTION OF PRESIDENT IN PANAMA; DUARTE GOVERNMENT IN EL SALVADOR.

-- NICARAGUA THE ONLY EXCEPTION TO DEMOCRATIC TREND.

o OBJECTIONS TO SANDINISTA REGIME:

-- OPENING COUNTRY TO SOVIET, CUBAN, LIBYAN AND OTHER FORCES AND "ADVISERS."

-- MASSIVE MILITARY BUILD-UP (SOVIET AND CUBAN ARMS) TO THREATEN AND POLITICALLY INTIMIDATE NEIGHBORS.

-- SUPPORT FOR INSURGENCIES IN NEIGHBORING DEMOCRACIES.

-- SUPPRESSION OF DEMOCRACY AT HOME.

o STRATEGY: MULTI-FACETED.

-- SUPPORT FOR FRIENDS (MILITARY AND ECONOMIC AID, POLITICAL SUPPORT.

-- SEARCH FOR NEGOTIATED REGIONAL SETTLEMENT UNDER CONTADORA.

-- THOUGH THAT PRETTY MUCH SCUTTLED BY SANDINISTA REJECTION OF LATEST CONTADORA REGIONAL PEACE PROPOSAL.

-- SUPPORT FOR CONTRAS AS PRESSURE POINT ON SANDINISTAS.

-- WITHOUT SUCH PRESSURE NO REASON IN WORLD FOR SANDINISTAS TO RESPOND TO OUR CONCERNS.

o HOUSE SHOULD ACT ON PRESIDENT'S PACKAGE NOW.

-- SANDINISTA INVASION OF HONDURAS SHOWED TRUE STRIPES.

-- SO DID SCUTTLING OF CONTADORA INITIATIVE.

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- o THESE CALLS TO "GIVE PEACE A CHANCE" MAKE NO SENSE.
- o SANDINISTAS DON'T WANT A NEGOTIATED SETTLEMENT, EITHER IN NICARAGUA WITH OPPOSITION OR IN REGION WITH NEIGHBORS.
- o O'NEILL PROMISED REAL VOTE. WHAT HE DELIVERED WAS SHAM.
- o HOUSE REPUBLICAN MANEUVER EXACTLY RIGHT MOVE.

-- STILL WILL BE TOUGH BUT OFFERS US SOME HOPE OF
A REAL VOTE IN HOUSE.

FACT SHEET ON TERRORISM BILL

ELEMENTS OF THE BILL:

- o Defines terrorism as an act of aggression by a foreigner, aimed at U.S. citizens and corporations, with the purpose of influencing our policy.
- o Gives the President clear-cut authority to deal with specific acts of terrorism with all appropriate means, including deadly force.
- o Gives the President authority to act to preempt as well as respond to specific acts of terrorism.
- o Makes clear terrorists include not only actual "bomb throwers" but also those who organize, lead, fund and support terrorists.
- o Requires the President to report to Congress within ten days of utilizing his authority, specifying in detail the terrorist threat or terrorist act that justified his action.
- o Supercedes the War Powers Resolution by: (1) imposing no time limit, such as the 60 and 90 day time limits in the resolution, on the President's use of force in a terrorist situation; (2) requiring no prior consultation with Congress; (3) and extending the reporting period from 48 hours to 10 days..

PROTECTIONS IN THE BILL

- o Limits the authority to terrorist situations.
- o Insures, through the reporting requirement, that the authority will be used only to combat specific acts of terror.
- o Does not expand the President's traditional powers to conduct foreign policy -- only to react to terrorism.
- o Applies only to acts by foreigners and has no impact on the rights of Americans.

TALKING POINTS ON ANTI-TERRORISM BILL

Justification for bill

-- PURPOSE OF BILL: TO CLARIFY AND STRENGTHEN PRESIDENT'S AUTHORITY TO DEAL WITH TERRORISM.

-- TERRORISM IS AN ACT OF AGGRESSION AGAINST THE UNITED STATES.

-- WHEN THERE IS A CLEAR-CUT CASE OF TERRORISM, PRESIDENT MUST HAVE AUTHORITY TO REACT: QUICKLY, DECISIVELY AND WITHOUT A BUNCH OF SECOND GUESSING.

-- PERSONALLY BELIEVE PRESIDENT ALREADY HAS THAT AUTHORITY.

-- BUT RECOGNIZE OTHERS VIEW THIS CONSTITUTIONAL MATTER DIFFERENTLY.

-- IMPORTANT THAT IT BE CLARIFIED AS SOON AS POSSIBLE.

-- ALSO IMPORTANT THAT WE HAVE POLITICAL AUTHORITY OF CONGRESS CLEARLY BEHIND PRESIDENT. WILL IMMEASURABLY STRENGTHEN HIS HAND.

Protections in Bill

-- LIMITED TO TERRORISM SITUATIONS.

-- DOES NOT EXPAND PRESIDENT'S TRADITIONAL POWERS TO CONDUCT FOREIGN POLICY -- ONLY TO REACT TO TERRORISM.

-- REPORTING REQUIREMENT TO FURTHER INSURE WILL BE USED ONLY TO COMBAT SPECIFIC ACTS OF TERROR.

-- APPLIES ONLY TO ACTS BY FOREIGNERS.

-- DOES NOT IN ANY WAY IMPACT ON RIGHTS OF AMERICAN CITIZENS.

-- EXCEPT FOR INSURING THE RIGHT TO FREEDOM FROM TERRORISM.