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Director of Research

July 11, 1986

Dear Senator:

I'm delighted that you could accept our invitation to join the Washington Discussion Group for dinner on Monday, July 28.

The event will be held at the George Town Club, 1530 Wisconsin Avenue, N.W. Cocktails will begin at 7:00 p.m. in the Victorian Library, dinner at 7:30 in the Georgian Room, and we'll finish at 9:30.

Please don't prepare anything special for this talk. Your remarks can be on any subject and will be off-the-record. The usual procedure is for the guest speaker to be introduced after dinner and speak for 5-10 minutes, after which there'll be some question and answer time.

Attached is a list of the group's membership.

Thanks for agreeing to be with us. We look forward to seeing you on July 28.

With kind personal regards,

Sincerely,

Tom

Tom C. Korologos

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

Enclosure

8955

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July 28, 1986

The Economy in Mid-1986

o The economy is still doing all right, and basically we're on the right track. But economic forecasts for the rest of the year are getting increasingly schizophrenic: because there are some mixed signals out there.

o The economy grew at a 3.8% pace in the first quarter of 1986, and 1.1% in the 2nd quarter. The index of leading indicators has gone up steadily although at a declining rate. In fact, in April the index rose by 1.5% the highest monthly rise in three years.

o What's becoming increasingly clear is that the we're seeing the downside of lower energy prices and lower interest rates before we can reap the benefits The oil price plunge costs us jobs in the energy industry, and lower interest rates cut government revenues, thereby adding to the deficit. At the same time, the trade deficit is slow to respond to the drop in the dollar: exports are unlikely to boost the economy until late this year or early next.

o Still, there are undeniably powerful forces at work that should improve the prospects for strong growth. The drop in oil prices and lower inflation should work like a tax cut for energy users and helps moderate inflationary pressures that might otherwise build as the dollar declines. And the Federal Reserve for the most part has been willing to provide sufficient monetary stimulus to encourage steady growth, given the reduced risk of inflation.

o The key now, to revive an old phrase, is to "stay the course". The financial markets expect us to meet the Gramm-Rudman deficit targets--that reduction in the government's financing needs will do a lot to keep recovery on a steady path. We must reject the illusion of protectionism, and keep markets free and open by strengthening the President's hand in trade negotiations. If we can do all that, plus pass a tax reform bill designed to boost long-term growth and productivity, the economy can be in good shape for a long time to come.

o Another move toward lower interest rates -- and here the Fed has begun to provide real leadership -- would help us and help stabilize the world economy.

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July 28, 1986

INTEREST RATES AND THE ECONOMY

- On June 12 I called for the Federal Reserve to take the lead in lowering interest rates by further reductions in the discount rate (which then stood at 6 1/2%). After that, others indicated they agreed. Business Week called for Fed Leadership in lowering interest rates, and the June 27 Wall Street Journal cited several bank economists and market analysts as predicting another discount rate cut very soon. The Federal Open Market Committee met July 8 and 9 to review money supply targets and credit strategy, and on July 10 the Fed responded: cutting the discount rate to 6%. The prime rate came down, too, to 8%.

- I am still calling for lower interest rates because rates are still too high, considering everything that is going on in the real-world economy. For one thing, inflation is way, way down. In the first quarter of 1986 prices actually fell at a 1.9% rate. For all of 1986, prices are expected to rise at a 2% or 3% rate at worst. Yet the prime rate is still at 8.0%, which means real interest rates are hovering around 5 to 6%.

- In April the Fed cut the discount rate after Chairman Volcker secured agreement on coordinated action with the Germans and Japanese. Most everyone agrees that was a good move for the world economy. This time the Fed acted on its own, and we hope others will follow.

- Further steps may yet be needed. The economy grew at 3.8% in the first quarter but at only 1.1% in the 2nd quarter. Unemployment has crept back up to 7.3%. Lower inflation, disappointing growth rates, and plenty of unused productive capacity all point to the need for a lower interest rate environment.

- World impact. Lower rates and faster growth can help cut our deficit, which we have pledged to do as part of our agreement with Europe and Japan to moderate the value of the dollar. That's our most important weapon in the battle to cut the trade deficit. And lower world rates can help relieve the debt burdens of many of our friends in the third world, and help produce a better-balanced system of world trade and finance.

- Lower rates are also a key part of any effort to stave off protectionism and keep the doors open to the free flow of goods and services around the world. Nothing is more important to the American farmer than open export markets.

- Right now lower rates can help fight inflation as well, by helping us rally support for the kinds of changes that boost productivity--tax reform and lower tax rates, deregulation, privatization, restraint on government spending, and ending wasteful subsidies.

BOB DOLE
KANSAS

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

July 28, 1986

M E M O R A N D U M

TO: SENATOR DOLE

FROM: SHEILA BURKE
MARIE MICHNICH

SUBJECT: WASHINGTON DISCUSSION GROUP
MONDAY, JULY 28, 1986

Michael Bromberg (Federation of American Health Systems) is scheduled to attend this dinner. He is likely to continue his lobbying effort on behalf of investor-owned hospitals related to the budget reconciliation bill. Specifically, he may approach you on:

1. Medicare Hospital Capital Reimbursement -- This was hotly debated in both houses and has been essentially stalled this year, primarily due to Bromberg's efforts. What has resulted is a recommendation from both committees to delay any policy change until next year. Nevertheless, Bromberg will be arguing that existing capital commitments should be "grandfathered" into the payment rates whenever the change in payment policy is made. The impact of "grandfathering" is controversial because of its potential to reward those who recently made major capital commitments.

2. Update factor -- You will recall that Bromberg argued strongly against the Administration's proposal to provide a .5% update to the hospital DRG prospective payment rate. The Senate Finance Committee has recommended a 1.5% increase while the House Ways and Means Committee has recommended 1.3%. Of course, he will support the Senate figure and argue that decisions regarding the update factor should be removed from the Administration altogether.