

175. 1982

Interview With Bob Dole, Chairman, Senate Finance Committee

## "This Is a Tough Budget" For Congress to Swallow

The President's deficits are too big, says an influential senator. To trim red ink, lawmakers will go after the Pentagon and take another look at tax breaks voted in 1981. Other tax changes may be ahead, too.

**Q** Senator Dole, how big a fight will President Reagan have in getting Congress to go along with his budget program this year?  
**A** There will be a lot of opposition. Many of us will try to suggest alternatives based on fairness and common sense. We don't like the \$2-billion-dollar deficit—that's the big stumbling block. These deficits have got to be an embarrassment to the President. After all, he has campaigned all his life on balanced budgets. But we're going to try to cooperate with the President.

The White House understands this is a tough budget. It was easier years ago when you just added a little more money here, a little more there. Now we're trying to turn the country around, we're cutting spending. So not everyone is going to embrace the budget, even among Republicans. But the Reagan administration has made it clear that it wants give-and-take. As long as that is its attitude, we can make some progress.

**Q** What will be your approach?  
**A** After two or three weeks, it might be helpful if the Republican and Democratic leaders of several key committees—Finance, Budget, Appropriations, a few others—see if we can work out some agreement on where we'd like to head. If we can agree, then it will be worthwhile to go to the White House.

**Q** What makes you think the White House will want to cooperate? Last year, the President stood very firm and was very successful.  
**A** First of all, it's a year later. Congress did adopt most of the President's program last year, so it can't be faulted for not cooperating.

The big thing that hits us this year is the deficit. We just can't live with interest rates as they are and the recession as it is and unemployment as high as it is.

So it will be a different year. Last year, Reagan won every showdown. He'll probably win some this time. We're not discounting the President. We want him to win.

**Q** How will the President's request for big increases in defense spending fare?  
**A** We will cut defense. We've heard a lot from voters about high interest rates and the deficit. When the President says, "No more revenue increases," and everything else is being cut, you just naturally ask, "What about defense?" That's the biggest ticket of all.

**Q** How much will you cut it?  
**A** It's too soon to say. Those of us without expertise are working with the Budget Committee now to pick out areas where we can cut either cut spending or defer it. The problem is that it takes a big cut in obligatory authority to get significant savings in outlays. It sounds easy to take 10 billion out, well, it's hard to do.

**Q** But won't you have to cut defense spending at least 10 billion dollars to make a dent in the deficit?  
**A** There are other things we can do. We can take more out of Medicare than the 2.5 billion dollars the President has proposed. It's a program that's almost out of control. In its early days, it was expected to cost 9 billion dollars by 1990. Now it costs 50 billion dollars and is headed for 115 billion by 1990. Medicare is another big one. 35 billion dollars this year in total costs. That's a lot of money. We don't have to duck these programs.

**Q** On defense, can Congress really override the President if he digs in his heels as he did in 1981?  
**A** We're not trying to beat him. We want lower deficits. We want lower interest rates. We've got small-business people, farmers, people who are not buying cars or building homes because of high interest rates. That has got to be the highest priority. We wouldn't focus on deficits if interest rates were 10 percent, but they're not.

**Q** Which of Reagan's proposed spending cuts will have the hardest time in Congress? You've defended the food-stamp program, for instance.  
**A** You can't balance the budget on the back of one or two programs. You can make reasonable cuts in programs such as food stamps and Medicaid, but that shouldn't be the centerpiece. Our centerpiece ought to be a balanced program that cuts across the board. Republicans keep saying, "Cut more from social programs." I think they have to take their foot off that accelerator.

We have an obligation to look at everything the President sends us. But he's not going to get it. He knows that, and that knowledge raises another frightening aspect of the deficit. Let's say we only get half of the 56 billion dollars Reagan is after in his five-part deficit-reduction program. Add 28 to 91.5, and you're talking about a deficit around 120 billion.

**Q** How do you feel about criticism Reagan has gotten from conservative activists for failing to live up to their expectations?  
**A** There are some who think if they support you in an election that you're their property. But I think conservatives ought to be very happy with President Reagan. He's stuck to his guns. Congress has been making progress on some of the traditional conservative issues: School prayer, abortion, balanced budget. Conservatives should be particularly pleased with the President.

**Q** Do you favor speeding up the personal-tax cuts scheduled for July 1 to stimulate the economy?  
**A** If it were possible to change the withholding tables without added cost, I would have no quarrel with the idea. We have the

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Budget Director David Stockman and White House Chief of Staff James Baker discuss the Reagan economic plan with Dole.

Treasury Department looking into the cost of changing the tables. But I don't want to do anything that will raise the 1982 deficit. It would be too easy to send it over 100 billion dollars, and nobody wants that.

**Q** What revenue-raising measures are you considering?  
**A** We are looking at the tax bill we passed last year, the Economic Recovery Tax Act. We will leave the individual-tax cuts alone, but we're looking at the leasing provision. That in effect allows profitable firms to reduce their tax bills by leasing investment tax credits from companies losing money. We're also looking at the minimum tax on individuals and corporations and the alternative tax on individuals to see if they can be expanded.

**Q** How would your minimum tax work?  
**A** We've got nine different proposals so far. The idea is to make sure everyone pays some taxes, even those who make a lot of money. There are people who end up owing no taxes because of their preference income—that is, income that gets special tax treatment. It's not illegal. In fact, you'd be foolish if you had something to deduct and you didn't do it. But we think everyone should pay something.

**Q** Why are you considering changes in the leasing law?  
**A** It's perceived as corporate welfare at the very time we are cutting programs for low-income people. It's difficult to swallow reports of huge profitable firms getting big tax advantages through leasing. We're looking at four or five different proposals to limit it, to repeal it.

I understand the lobby groups are already gearing up to save leasing, and they may be able to do it. But right now, if it came down to a choice between a higher excise tax on something and the repeal of leasing, it's a safe bet that leasing would lose. I'm not saying it has been abused, it's just too generous.

**Q** Do you see any likelihood that the 1983 tax cut will be postponed to reduce the deficit that year?  
**A** I would say little likelihood. Of course, it is the easiest way to pick up a bundle of revenue—something like 40 billion dollars. But that would take all the pressure off finding ways to cut spending. And we are good at avoiding cuts in spending. So I would not support a delay in the 1983 tax cut.

As it is, it will be tough to head off members who want little goodies added to the tax code despite the big deficits. For instance, we'd like to figure out a way to tighten up the individual retirement account program, perhaps even disallow it if we could pick up some extra revenues. But we won't do anything like that unless it is offset by a revenue enhancer.

**Q** So you're in favor of the President's philosophy: Keep the lid on spending.  
**A** That, plus we have to give people back more of their money. The American people... The 1981 cut was hardly noticeable. But people will notice this 10 percent one, and they'll

notice the next 10 percent one in 1983. Now, if we get into a real economic crisis, all bets are off. But to start tinkering with the individual cuts to raise revenues—that would be the last thing I would support.

**Q** The President has proposed withholding tax on dividends and interest. Do you agree with that?  
**A** It will be difficult to get it passed, but the idea is workable. We are addressing the whole problem of the underground economy, and this is part of it. A lot of income isn't reported, including interest and dividends. It doesn't help when the Treasury Secretary says the President is lukewarm to the idea. If he's lukewarm, certainly no one on Capitol Hill is on fire.

**Q** Should the one-year holding period required for long-term capital gains be reduced to, say, six months?  
**A** It wouldn't bother me. The question remains about what it would do to revenues. The real stumbling block has been the House Ways and Means Committee. But I don't want to get started on another big tax bill. A lot of members didn't get what they wanted last year. If we have another big bill, we'll end up with a 191 billion-dollar deficit.

**Q** What do you think of the idea of a lame-duck session of Congress to handle Social Security?  
**A** I assume Congress will do nothing until the President's bipartisan advisory committee makes its recommendations late this year. That is the tendency around here. To sit back. I doubt there will be a lame-duck session. That means no action until next year. But there are some things I think we should do this year to at least put some kind of lid on spiraling costs.

The one big failure of the administration and Congress in 1981 was not addressing Social Security. We've got to stop scaring people that we're going to take away their checks, and instead do something to slow the growth of the program. More increases in the payroll tax rates are out. Funding from the general Treasury fund is out. Reform is in. I don't see that much political resistance to it back home.

**Q** What action do you see Congress taking on the issue of tax exemptions for schools that discriminate racially?  
**A** As it now stands, probably very little. I don't believe we can pass legislation.

What we would like is for the U.S. Supreme Court to announce later this month that it is going to hear the court case that is the basis of this controversy. The Court would tell us either the Internal Revenue Service doesn't have the authority to decide on tax exemptions on these grounds or we need new legislation. It's clear, though, that this issue and the handling of Social Security last year are this administration's two greatest political hurdles so far.

**Q** What's the outlook this year for the President's proposal to create urban "enterprise zones"?  
**A** We're going to hold hearings on it, and the Senate probably will pass something this year. It's easy to pass things when you're giving money away. But I want to look at it very carefully. It seems to me it holds out more hope than promise.

**Q** Sentiment seems to be growing in Congress for trade protectionism, particularly toward Japan. How much danger do you see of a trade war?  
**A** We are not looking for trade wars. The Japanese understand that's really serious about our trade situation. We want free trade, but when we have a 15-billion-dollar trade deficit and the Japanese have a trade surplus heading toward 50 billion, that's not fair trade.

So we are looking at a number of measures. One is reciprocity. You open your doors, we'll open ours. We're looking at export subsidies. We're going to renew the President's tariff-negotiating authority. Trade is on the front burner in the Finance Committee.

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