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Go, Dole, Go!

In past months the nation's standard of living has depended in large measure on the skills of one banker—Paul A. Volcker, chairman of the Federal Reserve Board. Its future may well depend on the skills of one bargainer—Sen. Robert Dole (R-Kan.), chairman of the Senate Finance Committee.

Both are trying to cope with massive growth of an already massive national debt that will, if it expands at its present rate, claim 15% of the entire 1989 federal budget for interest payments alone. That is the most measurable price that Americans will pay for letting their government live on the cuff at the rate of nearly $200 billion a year now, going up to $339 billion in the last fiscal year of the decade. The less visible effects are high interest rates that could be driven higher if government and industry start competing for scarce capital and the strains that those interest rates put on the economies of other industrial nations.

Volcker has warned Congress that there is a "clear and present danger" of more hard times if the White House and Congress do not get deficit spending under control starting this year. Next year, he says, may be too late. Congress has had the same message from its own economist, Rudolph G. Penner, director of the Congressional Budget Office, and from President Reagan's economist, Martin S. Feldstein, chairman of the Council of Economic Advisers.

A first attempt by negotiators for Congress and for the President to find common ground on which to discuss reductions in spending and increases in taxes ended in a shambles. Another meeting is scheduled this week. Given the fact that in election years politicians generally are preoccupied with more important matters than bankrupting the republic, there is little reason to hope that the second meeting will be different from the first.

In fact, Reagan poured more poison into the well last week when he told reporters that Democrats at that meeting acted like Soviet negotiators at arms-control talks. There is nothing like comparing people to their own worst enemies to make them feel warm all over.

All of which leaves it to Dole, who persuaded his committee to instruct him when Congress adjourned last year to prepare a package of spending reductions and tax increases. The plan is complete, and he will outline ways to cut the deficit by $100 billion over three years when the Finance Committee meets on Thursday.

In calling his proposal a "down-payment" plan, Dole acknowledges that the package would not bring the deficit down nearly enough. The package would cut the deficit next year by only $20 billion. Feldstein thinks that it must be reduced by $50 billion. But the Dole proposal is a place to start. And it does not include any defense measures, those being outside his committee's jurisdiction.

Thus the Senate could use the $100 billion as a base on which to build billions more in savings by dropping plans to deploy MX missiles, canceling some ambitious and expensive programs that would simply give one part of the Pentagon weapons that some other branch already has, and blocking plans to put weapons in space. One conservative proposal placed before Congress last year estimated that the defense budget could be cut $25 billion without hurting the Pentagon's ability to deal with any reasonable threat to national security.

To measure the enormousness of the task that Dole has taken on, consider a Congressional Budget Office estimate that such an unlikely combination as freezing defense spending at last year's levels, imposing a 1% national sales tax, repealing the indexing of income taxes to shelter taxpayers from inflation, and skipping cost-of-living increases in all federal programs would slice only $84 billion from a deficit of nearly $200 billion.

The President's economic program once was called a riverboat gamble. So is the Dole plan, and the stakes are every bit as high. Dole has always acted like a man with at least five aces in his deck. The nation's best hope is that he is not bluffing.

EDITORIALS

Dole Gets Down To Business

THOSE WHO WORRY about current and future federal deficits — and it appears from the Wall Street market reports that they are steadily increasing in number — may well have taken heart last week from the words and actions of Senator Robert Dole, R-Kan.

Senator Dole called his Senate Finance Committee to order and got down to business on deficit-reduction, something that Wall Street's leaders and other economic head-shakers were probably not expecting to see taken seriously this election year. It began with the Finance Committe pledging to cut the budget deficit by $100 billion over fiscal 1985, '86 and '87. This is the same amount in billions that President Reagan has been looking for in what he calls a deficit-reduction "downpayment" to be negotiated between Congress and the White House.

But the president seems to have run into trouble. Democrats, particularly in the House, are downgrading his approach; they are not meeting the White House in good faith. The top Republican on the Ways and Means Committee, Representative Barber Conable, complains about the uninfluential personnel sent to these negotiations by the Democrats. He says they have sent an "errand boy" to do a man's job. Anyhow, the bipartisan working group that the president convened on Thursday to go after the deficit came up with not much progress; it met again on Friday with little more to show.

BACK TO DOLE. "We just demonstrated we're going to do our job," he said. "There are enough of us around here who trust each other in both parties to get something done." That mention of bipartisan trust should put heart even in the cynics of Wall Street.

For the three years ahead, the Reagan budget forecasts that the deficit, unless brought under control, will be $180, $177 and $180 billion, respectively, $537 billion all told. While a downpayment of $100 billion against a $537 billion cumulative deficit, as Reagan and Dole propose, would mean something, certainly, it would mean a lot less if yearly deficits go up 50 percent, not down, by the end of the decade, as Martin S. Feldstein, the chairman of the Council of Economic Advisers, expects them to do. He has testified to the House Budget Committee that the 1989 deficit could grow to "a little over $300 billion," which, he said, would mean the government would have to borrow 75 percent of all the savings accumulated by consumers and businesses for new investment.

That's an alarm bell that Senator Dole doesn't want to set off. If he's honestly hopeful that there are "enough of us around here" to cut, slash and trim deep down to prevent it, God speed the work of the Finance Committee.

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America Must Avoid an Economic 'Black Hole' on Deficits

If We Postpone Action Until After Political Year, Financial Structure Could Be Too Weak for Tough Cuts

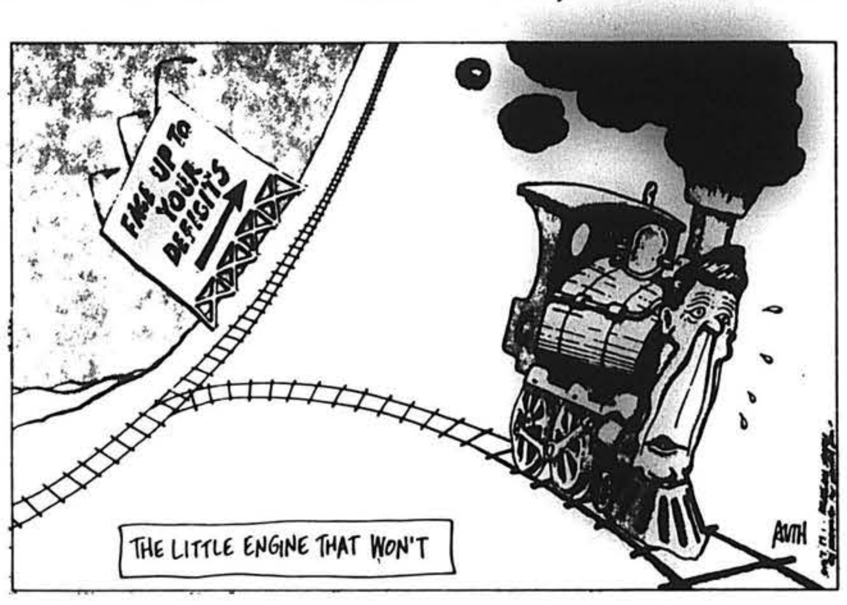
By ROBERT J. DOLE

No one likes to consider doomsday scenarios, but we have to be realistic about the risks run if we delay action on the federal government's $200-billion deficit. The danger has to be put into terms that the public understands, so that the public will support the kinds of measures—and give us the political backbone—needed to restore fiscal balance to the federal government.

If the deficit is not reduced, interest on the national debt will equal $250 billion by 1989—about $1,100 per person, a sum equal to 40% of each person's annual food budget. Or consider the effect of deficits on home-financing costs: With deficits of the size that we are contemplating, higher interest rates could add $15,500 for each percentage-point increase over the life of a 30-year, $55,000 mortgage. Again, if we do not reduce the deficit over the next five years the national debt will grow to a level of $10,000 per person. At that level, by 1989 it would take 50% of all Americans' personal income-tax payments just to pay our national interest bill.

These payments won't help one home buyer, one farmer, one small businessman, one unemployed American—or anyone else.

If we are to do anything about these troublesome figures, we must acknowledge the political realities here in Washington. The Democrats hold a 100-seat advantage in the House of Representatives, and Speaker Thomas P. (Tip) O'Neill Jr. favors more taxes to reduce the deficit. President Reagan opposes a tax increase, and wants instead to cut spending. The reality is that neither man can have it all his own way. Of course, we can continue the long-running spending cut-versus-tax increase debate, but that, too, isn't going to be of much help. Compromise is needed, because without it we face some very serious risks.



In the Senate Finance Committee we have worked for many months on a possible deficit-reduction package, giving due regard to political reality. The experience of trying to put together a consensus on the committee has shown just how tough the job is. But progress has been made. Before Congress recessed, the committee instructed its staff to draft a $150-billion, four-year deficit-reduction plan based on the proposals discussed. That plan will be ready for our review by Feb. 15, and it could form the basis for action on the deficit in 1984.

The job will not be easy, but there is no doubt that it needs to be done, now. As part of its examination of the deficit problem, the Finance Committee held three days of hearings last month. Above all, the hearings dramatized the need for immediate action and indicated general consensus on a few guidelines that we might want to follow:

—*Spending should be reduced further*. Few of the hearing witnesses agreed on the precise spending cuts that should be made, but virtually all believe that further spending cuts are essential to get deficits down.

—*No area of the budget can be off limits*. Again, while there is no clear consensus on where to cut, there were few witnesses who felt that a particular program or area of the budget should be exempt from budget scrutiny.

—*Spending alone is unlikely to do the job*. Most agreed that revenues would have to play a role in the process of deficit reduction. It is a simple fact of political life: There are not enough votes in Congress to reduce the deficit sufficiently just through spending cuts, any more than there are enough votes to do the job just through an enormous tax increase.

Again, we need give and take on all sides.

As we begin a new year, and consider the failure of Congress to come to grips with the deficit in 1983, many are asking: Why act in 1984? This being a political year, it is said, Congress is more likely to do the easy thing than the right thing. So why not accept the inevitable, and defer the deficit issue until 1985?

We can't. The $200-billion deficit figure forecast by many analysts in and out of government is projected on the assumption that recovery continues at a moderate but steady pace. That means going for five or six years without a downturn or a recession—a remarkable record for the postwar period, if it happened. Of course, we all hope that it will happen, but if it does not, we face the prospect of $300-billion deficits or worse. And we run the risk that the economy could become too weak to sustain tough deficit-reduction measures, plunging the country into an economic "black hole" from which it would be difficult to escape.

Already presidential candidates are discovering the deficit as an inviting campaign topic, and no doubt federal red ink will remain a major issue in the 1984 sweepstakes. But so far the campaign talk has been just that—all talk, no substance.

The American people don't want to see the deficit issue become mere campaign rhetoric. They want realistic solutions. It is my hope that candidates will avoid actions that could impede or politicize serious congressional efforts to slash deficits. If there is a plan, we should hear the specifics. But let's remember that a plan also needs votes, and that all the rhetoric and all the specifics aren't going anywhere unless they can find a consensus in Congress.

The challenge for 1984 is to deal evenhandedly with the deficit. It should be clear by now that everyone has a vital stake in this issue—not just Presidents or politicians, or candidates and Wall Street, but Main Street and the workingman and workingwoman as well. It's time to get to work.

Robert J. Dole (R-Kan.) is chairman of the Senate Finance Committee.

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