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News from Senator

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FOR IMMEDIATE RELEASE
WEDNESDAY, FEBRUARY 22, 1984

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REMARKS OF SENATOR DOLE

NATIONAL PRESS CLUB
WEDNESDAY, FEBRUARY 22, 1984--1:00 P.M.--WASHINGTON, D.C.

SENATOR BOB DOLE

TOMORROW THE SENATE FINANCE COMMITTEE WILL CONTINUE CONSIDERATION OF SPENDING AND REVENUE OPTIONS TO REDUCE THE FEDERAL DEFICIT.

I KNOW MANY WHO ARE TIRED OF HEARING ABOUT DEFICITS. THEY HAVE BEEN TALKED ABOUT, WRITTEN ABOUT, AND DRAMATIZED IN MANY WAYS, BUT WE HAVE YET TO MEET THE PROBLEM HEAD-ON. THOSE OF US WITH PRIMARY RESPONSIBILITY ASK YOUR FORBEARANCE FOR A WHILE LONGER AS WE FINALLY START TO VOTE ON SUBSTANTIVE PROPOSALS IN COMMITTEE.

PROGRESS

I PREDICT PRESIDENT REAGAN AND THE CONGRESS WILL AGREE THIS YEAR ON DEFICIT-REDUCTION MEASURES THAT WILL MEET OR EXCEED THE "DOWNPAYMENT" GOAL OF $100 BILLION OVER 3 YEARS. VIRTUALLY EVERYONE IS ON RECORD IN FAVOR OF SUCH A MOVE. LAST FALL THE HOUSE OF REPRESENTATIVES, BY A VOTE OF 245 TO 176 APPROVED A RESOLUTION ASKING THE PRESIDENT TO CONVENE A SUMMIT ON THE PROBLEM OF BUDGET DEFICITS. IN THE STATE OF THE UNION ADDRESS, PRESIDENT REAGAN ISSUED HIS CALL FOR SUCH A SUMMIT. IN SHORT, HE CALLED OUR "BLUFF".

WHAT'S MORE, IT IS IN EVERYONE'S INTEREST TO ACT NOW. THE PRESIDENT BENEFITS FROM A DISPLAY OF LEADERSHIP, DEMOCRATS BENEFIT BY COUNTERING THE BIG SPENDER TAG, REPUBLICANS BENEFIT BY DEMONSTRATING THEIR ABILITY TO COMPROMISE WITHOUT SACRIFICING PROGRESS TOWARDS LOWER TAX RATES, SLOWER GROWTH OF DOMESTIC SPENDING, AND STABLE ECONOMIC GROWTH WITHOUT INFLATION. MORE IMPORTANTLY, THE NATION WILL BENEFIT NOW AND LATER FROM CONCRETE ACTION.

IN AN ELECTION YEAR, WE CAN EXPECT EVEN MORE THAN THE USUAL OUTPOURING OF POSTURING AND RHETORIC FROM SOME. BUT, IN MY OPINION, DELAYING OR BLOCKING ACTION ON DEFICIT REDUCTION WILL BE VIEWED AS BAD POLICY AND CHEAP POLITICS. THE ALTERNATIVE OF DOING NOTHING WILL BE DISASTROUS ECONOMICALLY SO IT IS HIGH TIME WE ACT.

FINANCE COMMITTEE INITIATIVE

SOME MIGHT SAY THE FINANCE COMMITTEE SHOULD WAIT FOR FURTHER "DOWNPAYMENT" DEVELOPMENTS. FIRST, I HOPE THAT OUR EFFORT WILL MESH WITH THAT OF THE DEFICIT REDUCTION WORKING GROUP. BUT BECAUSE OF THE FOOTDRAGGING WE HAVE SEEN IN RECENT WEEKS, PERHAPS A DEMONSTRATION OF THE KINDS OF THINGS THAT CAN BE DONE WILL EXPEDITE THE EFFORTS OF THE WORKING GROUP. FURTHERMORE, I WAS INSTRUCTED ON NOVEMBER 18, 1983, BY A 16 TO 1 VOTE IN OUR

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COMMITTEE TO HAVE DEFICIT REDUCTION PROPOSALS READY BY FEBRUARY 15.

BUT THE MOST COMPELLING REASON TO BEGIN NOW IS THAT SOME OF THE SAVINGS ASSUMED UNDER S. 2062, THE PENDING SENATE RECONCILIATION BILL, DEPEND ON EARLY IMPLEMENTATION. THE SAVINGS IN CIVIL SERVICE AND MILITARY RETIREMENT PROGRAMS, FOR EXAMPLE, WOULD BEGIN TO AFFECT PAYCHECKS IN MAY AND JUNE, SO THAT WE HAVE TO ACT IN EARLY APRIL IF THE CHANGES ARE TO BE EFFECTIVE.

FINALLY, DOWN THE ROAD WE HAVE THE POTENTIALLY ACTION-FORCING DEADLINE OF A DEBT LIMIT INCREASE AWAITING US IN APRIL OR MAY.

FRAMEWORK FOR POLICYMAKING

NEARLY EVERYONE AGREES ON THE NEED TO REDUCE THE DEFICIT, BUT CONSENSUS ON HOW TO GO ABOUT IT IS DIFFICULT TO ACHIEVE. IN WORKING TOWARDS THE $100 BILLION GOAL THE PRESIDENT HAS SET, THERE ARE A FEW GUIDELINES DEVELOPED OVER THE PAST YEAR THAT CAN BE HELPFUL.

FIRST, AS THE PRESIDENT URGED, DEFICIT REDUCTION PROPOSALS TO BE WORKABLE MUST FALL IN THE "NON-CONTENTIOUS" CATEGORY. THAT EXCLUDES ITEMS SUCH AS SOCIAL SECURITY, THE THIRD YEAR OF THE TAX CUT, TAX INDEXING, ESTATE TAX RELIEF, MOST MEANS-TESTED ENTITLEMENTS, AND NUTRITION PROGRAMS, TO NAME JUST A FEW.

SECOND, THERE MUST BE A PROPER BALANCE BETWEEN SPENDING RESTRAINT AND REVENUE-RAISING. IN THE FINANCE COMMITTEE LAST FALL WE AGREED ON THE PRINCIPLE OF A 1-TO-1 BALANCE BETWEEN SPENDING AND REVENUES. THIS STILL SEEMS A GOOD RULE TO FOLLOW.

THIRD, THERE MUST BE BIPARTISAN SUPPORT. THAT MEANS FOCUSING FIRST ON POLICY OPTIONS THAT HAVE ALREADY RECEIVED CONSIDERABLE ATTENTION WHETHER IN THE FORM OF HEARINGS, DETAILED STAFF WORK, OR SUBSTANTIVE COMMITTEE ACTION.

A DOWN PAYMENT PLAN
(S. 2062)

BY APPLYING THESE GUIDELINES WE CAN QUICKLY GET DOWN TO SPECIFICS IN OUR COMMITTEE. THE MOST OBVIOUS SOURCE TO DRAW ON IS THE SET OF PROPOSALS AGREED TO BY THE COMMITTEE LAST OCTOBER 31 IN RESPONSE TO THE FY 1984 BUDGET RESOLUTION--THOSE PROPOSALS ARE STILL AWAITING SENATE ACTION AS PART OF S. 2062.

THESE ITEMS, WHICH WERE CONSIDERED AT LENGTH LAST YEAR, INCLUDE RESTRICTIONS ON THE TAX BENEFITS FROM LEASING ARRANGEMENTS ENTERED INTO BY TAX-EXEMPT GOVERNMENTAL UNITS; MODIFICATION OF THE RULES GOVERNING INCOME AVERAGING; REQUIRING ESTIMATED TAX PAYMENTS FOR THE ALTERNATIVE MINIMUM TAX; RULES TO PREVENT TAX AVOIDANCE IN THE AREAS OF STOCK OPTION STRADDLES, FOREIGN INVESTMENT COMPANIES, AND COLLAPSIBLE CORPORATIONS; AND CERTAIN IMPROVEMENTS IN TAXPAYER COMPLIANCE. ALTOGETHER, THE REVENUE PROVISIONS OF S. 2062 WOULD GENERATE ABOUT $21.1 BILLION BETWEEN NOW AND 1987. SOME OF THAT REVENUE WOULD BE GENERATED IN 1984, BUT ONLY A SMALL AMOUNT. IN THE CASE OF THESE AND OTHER PROPOSALS I WILL DISCUSS, MOST REVENUE INCREASES AND SPENDING REDUCTIONS WILL BEGIN TO TAKE EFFECT IN 1985. SO WE ARE TALKING ABOUT 3-YEAR NUMBERS, 1985 THROUGH 1987, WITH THE ADDITION OF A FEW ITEMS THAT TAKE EFFECT IN 1984.

ON THE SPENDING SIDE S. 2062 MAKES LIMITED CHANGES TO CONTROL COSTS IN MEDICARE, MEDICAID, AFDC, AND SSI. FOR INSTANCE, WE TRY TO CONTROL PAYMENTS TO PHYSICIANS FOR THE SERVICES THEY PROVIDE, RATHER THAN REDUCE THE LEVEL OF SERVICES THAT ARE COVERED. THIS

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CAN BE DONE BY, AMONG OTHER THINGS, LIMITING CHARGES FOR PHYSICIAN SERVICES UNDER MEDICARE, AND ESTABLISHING FIXED FEES FOR CLINICAL LAB SERVICES.

IN THE INCOME SECURITY AREA S. 2062 AIMS AT IMPROVING THE PROGRAMS IN QUESTION AS WELL AS SAVING MONEY. FOR EXAMPLE, UNDER AFDC, FAMILIES COULD NO LONGER EXCLUDE FROM THE FAMILY A MEMBER WHO HAS OTHER INCOME (SUCH AS CHILD SUPPORT INCOME). THAT PRACTICE ENCOURAGES EFFORTS TO MAXIMIZE BENEFITS, EVEN THOUGH PRIMARY FINANCIAL RESPONSIBILITY MUST REST WITH THE FAMILY AND NOT THE GOVERNMENT. COUNTING ALL FAMILY INCOME GIVES A CLEARER PICTURE OF THEIR TRUE FINANCIAL CIRCUMSTANCES AND HELPS ENSURE THAT FAMILIES WITH THE LEAST RESOURCES GET A FAIR SHAKE. THIS AND OTHER CHANGES IN S. 2062 WERE ENDORSED BY THE AMERICAN PUBLIC WELFARE ASSOCIATION.

ALTOGETHER THE SPENDING RESTRAINT OPTIONS REPORTED BY THE FINANCE COMMITTEE IN S. 2062 WOULD SAVE ABOUT $21.2 BILLION BETWEEN NOW AND 1987. SO, IN EFFECT, THE FINANCE COMMITTEE HAS ALREADY AGREED ON $42.3 BILLION IN DEFICIT REDUCTION.

ADDITIONAL OPTIONS

THE SAME APPROACH OF IDENTIFYING DESIRABLE POLICY CHANGES SHOULD GOVERN OUR SEARCH, BEGINNING TOMORROW, FOR ADDITIONAL ITEMS THAT, COMBINED WITH THE $42.3 BILLION IN PROPOSALS ALREADY REPORTED, CAN REDUCE THE DEFICIT BY $100 BILLION OR MORE.

ON THE REVENUE SIDE, WE SHOULD MOVE AHEAD WITH SOME OF THE REFORMS RECOMMENDED BY THE TREASURY DEPARTMENT IN ITS FY 1985 BUDGET, AND EXPAND ON THAT LIST. THE QUESTION WE HAVE TO ASK OURSELVES IS: WHAT IS SOUND TAX POLICY?

1. FOR EXAMPLE, IS IT SOUND TO ALLOW CORPORATE OWNERS OF CHRYSLER PREFERRED STOCK TO GET A DOUBLE BENEFIT FROM LAST YEAR'S $110 MILLION DIVIDEND, JUST BECAUSE DIVIDENDS ARE SUBSTANTIALLY TAX-FREE TO CORPORATIONS. THE NET TAX LOSS TO THE TREASURY JUST FROM THIS ONE TRANSACTION EXCEEDED $100 MILLION--A HUGE WINDFALL FOR CORPORATIONS AND HIGH-INCOME INDIVIDUALS. THIS IS AN AREA WE WILL BE ADDRESSING.

2. IS IT GOOD POLICY TO GIVE SUCH GENEROUS TAX TREATMENT TO USED REAL PROPERTY THAT OLD BILLBOARDS CAN BE TURNED INTO A ONE-HALF BILLION DOLLAR SYNDICATED TAX SHELTER TO DATE. THAT IS WHAT HAPPENED WITH 45,000 BILLBOARDS METROMEDIA SOLD. WE ALL KNOW THAT BILLBOARDS COME IN HANDY, BUT MAYBE A LONGER WRITEOFF PERIOD FOR THIS KIND OF PROPERTY WOULD GIVE A MORE REASONABLE RESULT.

3. IS IT RIGHT TO ALLOW PARTNERS TO CONVERT ORDINARY INCOME TO CAPITAL GAINS BY CONTRIBUTING ASSETS TO A PARTNERSHIP; OR TO GET A LARGE UP-FRONT DEDUCTION FOR COSTS OF ORGANIZATION WHEN THE ORGANIZER IS MADE A PARTNER. THERE ARE COMMON-SENSE LIMITATIONS ON THIS KIND OF MANEUVER THAT SHOULD BE CONSIDERED.

4. THE SAME ANALYSIS SHOULD BE MADE OF PREPAYMENTS FOR GOODS AND SERVICES THAT WILL BE DELIVERED OR PERFORMED IN FUTURE YEARS. NOW INVESTORS IN A REAL ESTATE TAX SHELTER CAN PREPAY $100,000 OF MANAGEMENT FEES AND EXPENSES AND TAKE A CURRENT DEDUCTION RATHER THAN DEDUCT AMOUNTS AS SERVICES ARE PERFORMED. THAT MAY NOT BE GOOD TAX POLICY EITHER.

5. IS IT A GOOD IDEA TO LET TAXPAYERS EXCLUDE ALL THEIR EMPLOYER-PAID HEALTH CARE BENEFITS FROM INCOME, EVEN WHEN THOSE AMOUNTS CAN BECOME FAIRLY SUBSTANTIAL. THE ADMINISTRATION WOULD LIKE TO INCLUDE IN INCOME AMOUNTS OVER $175 PER MONTH FOR A FAMILY PLAN AND $70 PER MONTH FOR A SINGLE PLAN. WE CAN CONSIDER

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A SOMEWHAT MORE LENIENT RULE. IN ANY EVENT A CHANGE MIGHT GIVE TAXPAYERS AN INCENTIVE TO SHOP AROUND FOR MORE EFFICIENT PLANS.

6. AS A MATTER OF TAX POLICY DOES IT MAKE SENSE TO GIVE EVERY STATE AND LOCAL GOVERNMENT THE ABILITY TO WRITE A BLANK CHECK FROM THE FEDERAL TREASURY TO AMERICA'S LARGEST CORPORATIONS. BANK OF AMERICA DID $8 MILLION IN SMALL ISSUES IN 1980, SHELL OIL USED OVER $8 MILLION IN 1981. AND THE PRACTICE CONTINUES RIGHT NOW: ABOUT $60 MILLION IN SMALL ISSUES BY K-MART WERE ISSUED IN THE LST 2 YEARS, EVEN THOUGH WE TIGHTENED UP ON USE OF IDB'S IN 1982. WE WILL CONSIDER LIMITING IDB BENEFITS TO COMPANIES WITH LESS THAN $40 MILLION IN BONDS OUTSTANDING, SO THAT WE CAN BEGIN TO TARGET BENEFITS TO COMPANIES THAT MAY BE MORE DESERVING.

7. AND IS IT GOOD POLICY TO ALLOW A "SWEETHEART" DEAL BETWEEN PUERTO RICO AND RUM DISTILLERS. WE NOW REBATE EXCISE TAXES ON RUM MANUFACTURED IN PUERTO RICO TO THE GOVERNMENT OF PUERTO RICO. BUT IT IS SHIPPED INTO PUERTO RICO FOR A BIT MORE DISTILLING, WITH THE REBATE TO PUERTO RICO AMONG THE GOVERNMENT AND THE DISTILLERS.

8. IS IT GOOD POLICY WHEN A TAXPAYER DONATES GEMSTONES TO THE SMITHSONIAN INSTITUTION AND CLAIM AN $80,680 CHARITABLE DEDUCTION--FIVE TIMES THE PURCHASE PRICE, AND ONLY 9 MONTHS AFTER THE PURCHASE.

9. SHOULD WE BE CONTENT WITH A POLICY THAT ALLOWS A $600,000 WRITEOFF FOR $100,000 WORTH OF EQUIPMENT BY CREATIVE USE OF DEPRECIATION ALLOWANCES AND THE INVESTMENT TAX CREDIT. THIS WAS DONE BY A MAJOR INVESTMENT FIRM, AND WE WILL CONSIDER REFORMS OF THIS KIND OF ARRANGEMENT.

THESE ARE JUST A FEW REFORMS WHICH CAN BE IMPLEMENTED AND WHICH WILL RAISE REVENUE.

SPENDING RESTRAINT

POLICY CONSIDERATIONS MUST ALSO GOVERN OUR CHOICE OF SPENDING RESTRAINT OPTIONS WITHIN THE JURISDICTION OF THE FINANCE COMMITTEE. SHOULD WE CONTINUE TO PAY PHYSICIAN SERVICES WITHOUT PROPER COST CONTROLS, WHEN THE COST OF THOSE SERVICES IS RISING FOUR TIMES FASTER THAN THE CONSUMER PRICE INDEX. THE PROVISION OF S. 2062 LIMITING CHARGES FOR PHYSICIAN SERVICES CAN BE EXTENDED A FEW MORE YEARS.

AND WHILE HEALTH CARE PRICE INFLATION CONTINUES TO OUTPACE THE CONSUMER PRICE INDEX, WE OUGHT TO CONSIDER WHETHER WE SHOULD KEEP PAYING LABS FOR CHARGES AND FEES WITHOUT FIRM LIMITS. WE CAN LIMIT THE RATE OF INCREASE IN PAYMENTS THROUGH THE CREATION OF A FEE SCHEDULE FOR LAB SERVICES PROPOSED IN S. 2062.

IS IT GOOD POLICY TO REIMBURSE THE COST OF ROUTINE CUTTING OF TOENAILS--WHICH WE DO--WITHOUT SOME CERTAINTY THAT A REAL NEED IS INVOLVED. NOW THE GOVERNMENT PICKS UP THE TAB FOR SERVICES NOT BASED ON MEDICAL NEED. A PROVISION OF S. 2062 REQUIRES HHS TO PROVIDE REGULATORY GUIDELINES FOR CONTROLLING THIS SERVICE, INCLUDING NOT REIMBURSING SERVICES PERFORMED MORE OFTEN THAN EVERY 60 DAYS.

ANOTHER SOURCE OF POLICY SUGGESTIONS IS THE WORK OF THE GRACE COMMISSION. WHILE WE CANNOT DO EVERYTHING THE COMMISSION SUGGESTED, WE SHOULD DETERMINE WHAT IS DOABLE NOW AND ATTEMPT TO SAVE $7 BILLION OR MORE OVER 3 YEARS. AMONG THE TEN OR ELEVEN OPTIONS WE MAY CONSIDER--AND I AM NOT ENDORSING ANY PARTICULAR ONE--ARE REDUCING THE NUMBER OF IRS SERVICE CENTERS, SOME ADMINISTRATIVE CONSOLIDATION OF WELFARE ADMINISTRATION, AND

STANDARDIZING USE OF INCOME DATA TO CONTROL FRAUD AND OVERPAYMENTS.

ALTOGETHER, ADDING THE NEW REVENUE ITEMS TO THOSE IN S. 2062, WE CAN RAISE ABOUT $51 BILLION BY 1987. WE CAN SAVE ANOTHER $51 BILLION IN FINANCE COMMITTEE SPENDING PROGRAMS BY COMBINING THE PROVISIONS OF S. 2062 WITH THE ADDITIONAL ITEMS I HAVE DISCUSSED, INCLUDING $9.5 BILLION IN SAVINGS IN DEBT SERVICE FROM THE DEFICIT REDUCTION. THAT GIVES A GRAND TOTAL OF $102 BILLION IN SAVINGS BY 1987--AGAIN, THE BULK OF THOSE SAVINGS WOULD BE FROM PROPOSALS THAT FIRST TAKE EFFECT IN 1985, THOUGH AS STATED THERE WOULD BE SMALL SAVINGS IN 1984.

WHAT CAN BE DONE

I HAVE DISCUSSED WHAT COULD BE DONE JUST WITHIN THE JURISDICTION OF THE FINANCE COMMITTEE TO ACHIEVE DEFICIT REDUCTION. OF COURSE THE ITEMS MENTIONED ARE NOT SACRED, NOR IS IT CERTAIN ALL CAN BE DONE. WE HAVE LEARNED TO BE LEARY FROM THE REPEAL OF INTEREST AND DIVIDEND WITHHOLDING WHICH WILL REDUCE REVENUES $8.8 BILLION BETWEEN NOW AND 1987, AND LIFE INSURANCE TAXATION, WILL BRING IN ABOUT $3 BILLION LESS THAN EXPECTED BETWEEN NOW AND 1987 ACCORDING TO TREASURY.

ANOTHER MAJOR FACTOR IS THE DESIRE OF MANY MEMBERS, AND THE ADMINISTRATION, TO ADD "REVENUE-LOSER" TO THE PACKAGE. EVERYTHING THAT REDUCES REVENUE SHOULD REQUIRE A DIRECT OFFSET IF WE ARE TO ACHIEVE EVEN OUR MINIMUM DEFICIT REDUCTION GOAL. WE WILL DO OUR BEST TO ACCOMMODATE MEMBERS' PRIORITIES, AND THE PRESIDENT'S, BUT THE OVERRIDING PRIORITY IS DEFICIT REDUCTION. IF WE SUCCUMB TO THE TEMPTATION TO ADD TOO MANY NEW TAX BREAKS TO THE PACKAGE, WE MAY BE TAKING TWO STEPS BACKWARD FOR EVERY STEP FORWARD. SOME PROPOSALS THE PRESIDENT AND THE CONGRESS WOULD VERY MUCH LIKE TO IMPLEMENT THIS YEAR--THIS SENATOR INCLUDED--MAY HAVE TO BE DEFERRED IF WE FAIL COME UP WITH OFFSETTING REVENUE-RAISING OR SPENDING REDUCTION PROPOSALS.

NONETHELESS, THE POTENTIAL CLEARLY EXISTS FOR A SIGNIFICANT DEFICIT REDUCTION PACKAGE IN 1984. REMEMBER THE OTHER AUTHORIZING COMMITTEES, AND THE APPROPRIATIONS COMMITTEE, WILL BE UNDERTAKING A REVIEW SIMILAR TO OURS. IF WE CAN ACHIEVE $100 BILLION IN DEFICIT REDUCTION IN THE FINANCE COMMITTEE ALONE, SURELY CONGRESS CAN MEET OR EXCEED THE PRESIDENT'S DOWNPAYMENT GOAL.

REDUCING THE DEFICIT BY A PAINSTAKING REVIEW OF NUMEROUS POLICIES AND PROGRAMS MAY NOT BE EXCITING, OR CHARGE THE PUBLIC'S IMAGINATION. OBVIOUSLY, WE WILL WIN SOME AND LOSE SOME AS WE PROCEED WITH OUR "PACKAGING" EFFORT SO WE MUST MAINTAIN BIPARTISIAN FLEXIBILITY AS WE GET INTO SPECIFICS. TOMORROW WE BEGIN TO MATCH PERFORMANCE WITH RHETORIC AND IF WE FAIL--THOSE WHO VOTE "NO" SHOULD REMAIN FOREVER SILENT ABOUT DEFICITS.