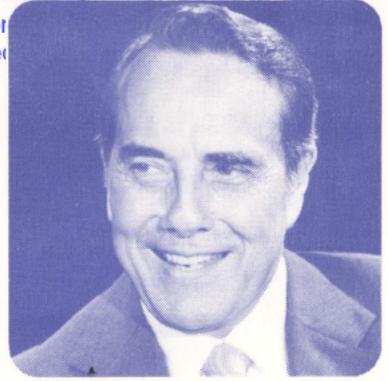


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REMARKS OF SENATOR DOLE

HOME BUILDERS ASSOCIATION OF GREATER KANSAS CITY

BARTLE EXPOSITION HALL, KANSAS CITY, MISSOURI

APRIL 7, 1984

Tonight, I bring good news from Washington. After months of rhetoric, Congress is finally getting down to the real work of cutting budget deficits. The Senate is about to take up legislation implementing the President's "Down-Payment" deficit reduction plan, which would lower deficits by \$150 billion over the next four years.

After all of our speeches, we finally find ourselves in a position to do something about deficits which we all agree threaten continued economic recovery. By enacting in an election year these savings, about half of which result from Finance Committee actions, Congress and the Administration will be committing itself to do whatever is necessary in 1985 and beyond to end this budget crisis once and for all.

Those of us who have been working on this package since last fall are gratified that the President is on board and that the prospects for a timely, successful completion are bright. But we realize this is only a first step, and there is much more work to be done.

The stakes are high. The economy stands at the threshold of steady, noninflationary growth. If we can eliminate this one remaining cloud, the future will look a bit brighter.

WHY WORRY ABOUT THE DEFICIT

Those of us who are concerned about the impact of deficits sometimes are characterized as "Nervous Nellies." And indeed, John Maynard Keynes might wonder what all the fuss is about. All the economic news is good. Real GNP is growing rapidly, business investment is beginning to surge, unemployment is plummeting, and inflation is subdued. In several respects we are experiencing the strongest recovery since World War II. 1984 seems to have brought the best of all economic worlds.

So why have the financial markets behaved so erratically of late? A cynic might suggest that on Wall Street all news is bad news. And it is difficult to figure out a stock market that a few weeks ago suffered a broad decline on a belief that the economy was overheating, yet dropped further the next day on worries that the recovery was slowing prematurely.

The alleged irrationality of the market aside, there is real cause for concern. Investors and financial planners must be forward looking, and their view of the economic future has been clouded by budget deficits. A conflict between an economy nearing full employment and annual deficits of \$200 billion or more can be resolved only by rising interest rates, accelerating inflation, or both.

Unfortunately, danger signals already are appearing, as interest rates have begun to turn up and there have been hints of rising inflation.

Yet I believe that the real source of concern is not so much those mind-numbing deficit projections that are regularly churned out of Washington computers, but the fear that congress and the Administration are paralyzed when it comes to taking the necessary actions to get the deficits under control.

This is why passage of the down-payment budget package is crucial. Certainly, draining \$150 billion in red ink from the budget is beneficial in itself. But it is more important to demonstrate that Washington is capable of doing more than just offering budget resolution targets and making speeches.

The Congressional Budget Office projects that without further action, the deficit will rise to \$326 billion in FY 1989. If these projections are realized, there is truly cause for alarm. But we still have time to prevent the projections from becoming reality. Like the visions that Dickens' Ghost of Christmas Future brought to Ebenezer Scrooge, these future deficits are now just menacing shadows. Like Scrooge, we hope that these are things "that may be, not must be." However, unlike some who believe we can sit on the sidelines and allow economic growth to balance the Federal budget, I believe that Congress and the Administration must earn its redemption.

THE DEFICIT-REDUCTION PLAN

The down-payment budget would reduce deficits by nearly \$150 billion over the next three fiscal years, including \$48 billion in new revenues and nearly \$100 billion in spending restraint. On the spending side, defense would be reduced by \$40 billion, entitlements and Federal pay by \$28 billion, and nondefense discretionary spending by \$13 billion. In addition, lower deficits would save the Treasury \$18 billion over three years in interest costs on the public debt.

But the key feature of this plan is that--unlike budget resolutions of the past that were more promise than prospect--the down-payment budget is backed up by actual legislation. All of the entitlement reforms, as well as the \$48 billion revenue gain, represent specific measures that have been approved in committee. This legislation has been drafted, and is ready for floor action. In addition, we are working on a procedure which will set a limit on defense and nondefense appropriations, guaranteeing that the savings in these programs will be achieved.

About half of the deficit reduction package, or \$72.6 billion, results from Finance Committee actions. Last month the Committee unanimously approved measures which would yield \$48 billion in new revenues and lower spending by \$24.5 billion from fiscal year 1984 through 1987.

The Finance Committee revenue package continues to build upon the philosophy that revenues should be raised by broadening the tax base, rather than raising tax rates. There are no broad tax increases in the bill. Instead, as in the Tax Equity and Fiscal Responsibility Act of 1982, the Committee relied upon specific reform measures that would correct tax abuses and eliminate unproductive shelters and obsolete tax preferences. In my view, if we can raise the required revenue by broadening the tax base and closing so-called "loopholes," any adverse effects on the economy will be minimized. The President shares this philosophy, and he is a strong supporter of our efforts.

On the spending side, we have continued our efforts to contain the growth of the medicare and medicaid programs. This bill would produce savings in these health programs, and in welfare programs, of \$10.8 billion through Fiscal Year 1987. Everyone talks about entitlements as if they were sacred cows. But since 1981, the Finance Committee has approved changes in its entitlement programs--including social security, medicare, and welfare programs--that will have saved \$85 billion by FY 1987. The popular view that entitlements haven't been touched is just plain wrong.

I know that many of you have a keen interest in the fate of the report of the Grace Commission. I am pleased to report that the Finance Committee has seriously considered each and every recommendation made by the Grace Commission for programs under its jurisdiction. Our bill includes Grace Commission proposals which the Congressional Budget Office estimates will save the Federal government \$3.1 billion over the next 3 years. These would: (1) use tax refunds to offset delinquent debt owed to the Federal government; (2) allow information from tax returns to be used to prevent fraud and abuse in Federal welfare programs; and (3) require the Federal government to adopt modern cash management techniques.

I salute Mr. Grace and those who served on his Commission. Even if only the Finance Committee provisions are enacted into law, he will have saved the country \$3 billion over the next three years.

THIS IS NOT JUST A BUDGET RESOLUTION

Let me again emphasize that the Republican down-payment budget is based largely upon completed legislation. These are not just numbers, but real deficit-reduction policies. Of course, this is the time of year when budget plans bloom like the cherry blossoms; and they last just about as long.

It seems that everyone in Congress has his or her own budget. The object of the game is to come up with a larger deficit reduction total than the other guy. That's not very difficult to do on paper, especially when you don't have to worry about bothersome details such as how your budget would be implemented, or whether there are any votes for it.

Remember this when you hear all of the talk about budget "freezes" and "Pay-as-you-go," and hear Congressmen quoting dramatically lower deficit numbers. The problem is that there is no reality behind most of those numbers.

Take the House Democratic budget plan. They claim to save some \$182 billion from deficits over 3 years. Now this appears to be a more substantial reduction than the Senate Republican package. But if you take a closer look, you will see that they are calling for \$56 billion more in defense cuts than the compromise agreed to by the President. Frankly, I doubt whether they have the votes to pass such a large defense cut even in the House, let alone the Senate. Like other plans that call for freezing social security benefits or repealing tax indexing, it just isn't going to happen.

This unrealistic defense number is used to mask the fact that the House Democrats would cut only \$12 billion from the entire nondefense budget over the next 3 years. Compared with the \$41 billion in nondefense savings in the Republican budget, such a paltry effort seems inconsistent with the great hand-wringing over the deficit that we have witnessed from Jim Jones, Jim Wright, and Tip O'Neill. Once you clear away the smoke, the House budget plan looks a bit undernourished.

The Senate Democratic budget is even more unrealistic. They would raise taxes by \$75 billion over the next three years, or \$27 billion more than in the Republican plan. They would pick up this extra revenue in the worst possible way, by delaying tax indexing and allowing inflation to continue to raise Americans' tax burden silently. Not only is such a tax unfair to middle-income working people, but even the sponsors must know it will never be enacted. A similar indexing delay was defeated by a 2 to 1 margin in the Finance Committee last month. And the President is playing goalie on this one--he has pledged to veto any tampering with tax indexing. It seems to me that the Senate Democrats are about \$27 billion short.

We in the Senate are trying to avoid such budget charades this year by taking a bill directly to the floor. That bothers many Senators, primarily those who want to offer their budget resolutions, Vote on numbers, and issue press releases--all without getting their hands dirty on actual legislation.

Budget resolutions are great fun in an election year, but the public has gotten wise. We can't afford to wait for the budget process this year. The last two years, the budget resolution has not been in place until June. This year, due to the Presidential campaign and party conventions, the legislative session will be all but finished by then.

THE ECONOMY AT A CROSSROADS

From the start, this Administration's economic goals have been more ambitious than those of prior Administrations. We have tried to avoid another short-lived economic recovery which, like so many before, would burn up in its own inflationary fires. This Administration has always taken the long view. Republicans wanted to restore a prosperity that is solid, not cyclical.

In order to accomplish this goal, it was first absolutely essential that inflation, raging out of control in the last days of the Carter-Mondale Administration, be brought down. Bringing inflation down from 12 percent and 13 percent to under 4 percent in just 3 years, while engineering a robust recovery, stands as one of the greatest economic successes in the post-war era.

The job is nearly completed. The economy is expanding smartly and inflation is under control. If we make the right choices now, we can look forward to a period of prolonged economic growth without inflation.

But if we fail to beat the deficits, we will once again be plunged back into boom-and-bust, inflation-and-recession cycles. The huge borrowing needs of the Treasury will force the Federal Reserve to choose between inflation and high interest rates. Either way, the chance for extended prosperity will be lost.

Everyone has a tremendous stake in this effort--the home builders industry in particular. You have seen a remarkable revival in residential construction, and everyone wants the good news to continue. And it will, if everyone pitches in and works together for the common goal of reducing the deficit and escaping for good the inflation-interest rate trap that has plagued the economy.

Some see the deficit as a problem, but I see it as a tremendous opportunity. If we can pull it off, we will have done more than strengthen our economy. We will have made a major contribution to restoring faith and trust in our political institutions.