Madison Hotel
December 13
American Bankers Assn

TALKING POINTS ON REDUCING THE DEFICIT NOW

- In its midyear budget review, the Reagan Administration estimated that the Federal budget deficit would be roughly $200 billion for each of the next 6 years.

- Over that 6-year period, unless something is changed these deficits will cumulate to $1.2 trillion--just about doubling the national debt.

- Without action on the deficit, deficits for each of the next 6 years will exceed 4 percent of our Gross National Product--that is a postwar record previously matched only in 1976.

- Assuming a $200 billion deficit has to be financed at a 10 percent interest rate--a reasonable assumption given prevailing conditions--the interest alone on a deficit of this size amounts to $20 billion. That is enough to finance all of the Medicaid program at current funding--it is 2-1/2 times the cost of the AFDC program, or of the SSI program--it is over four times the cost of General Revenue Sharing.

- Over the next 5 years financing costs for the interest on this additional debt would amount to $100 billion.

- In addition, if nothing is done to prevent this $1.2 trillion addition to the national debt, interest payments on this additional debt alone would amount to $100 billion a year after 1988. That is nearly double the present cost of interest on the national debt, and is equal to over 20 percent of all the personal tax revenue we expect to collect in 1988.

- All of this additional debt, and the interest we pay on it, has to be paid for in some way--in higher interest premiums or inflation, in higher taxes, or more severe spending cuts. The longer we wait, the higher the cost of deficit reduction will be.

- Lowering outyear deficits now should help bring down interest rates; that can stimulate investment to keep recovery going. That means a stronger economy in the outyears when further spending reductions and tax increases we enact now would be coming in place. But absent such a boost to the economy, the economy may be too stagnant in those outyears to sustain a sudden restraint on fiscal policy--which means we would be compounding the problem and risking a downward economic spiral.

- Interest rates that are kept high by the size of anticipated deficits matter not just for government finance and the taxpayer--they matter for the homebuyer, who has seen rates creep back up to the 13+ percent range, and for the small businessman or entrepeneur trying to get started. High interest rates can cut short a promising economic future for everyone.

- The $1.2 trillion increase in the national debt over the next six years will add $5,217.39 in new debt for each man, woman and child now living in the U.S. This would come on top of the over $6,000 debt per capita already outstanding.

- Escalating deficits leading to higher interest rates do not just pose the threat of mortgaging our future. Higher interest rates mean lower capital formation and less long-term growth; more pressure for raising domestic barriers to free trade; and bad news for our basic industries, because the need for upgrading heavy plant and equipment means those industries are very sensitive to interest costs.

- In addition, the stronger dollar that tends to result from higher U.S. interest rates makes it more difficult for American companies to compete with low-cost imports and to secure a foothold in overseas markets.

- High deficits and interest rates retard capital formation and pose a real risk of 'disinvestment' in the United States, implying a much more fragile American economy. A low-growth path could condemn many citizens to poverty who might ottherwise be able to find productive and useful employment.

TALKING POINTS ON DEFICITS

- As Martin Feldstein, President Reagan's chief economic adviser, has said, if we don't do anything about controlling this deficit now, it will cost one-fifth of all personal income taxes collected by the Federal Government just to service the interest costs of the $1 trillion of new debt accumulated over the next five years.

- If we wait just one year to do something about controlling the increase in the deficit, it will require deeper spending cuts and higher tax increases.

  For every dollar in spending cuts needed this year, it will require 1.10 next year.

  For every dollar we raise taxes this year to accomodate the deficit, we will have to raise them $1.10 next year.

- Since 1981, we have brought about spending cuts amounting to $109 billion for the 1983, 1984 and 1985 budget years.

  But over the same period of time, we have seen the budget deficit increase by $91 billion.

  That means that the deficit has wiped out 83 percent of all the savings we have realized through our reductions in Federal spending.

November 29, 1983

BASIC COMPONENTS OF PROPOSED FINANCE COMMITTEE
DEFICIT REDUCTION PACKAGE

Overview

- The Finance Committee has aimed for $150 billion in total deficit reduction over the next 4 fiscal years, with most of the savings coming in fiscal years 1985 through 1987.

- The package will have at least one dollar in guaranteed spending cuts for each dollar of revenue increases.

- The Finance Committee will undertake to enact one-half of the spending reductions, and look to the other Senate Committees to produce an equivalent amount of savings.

- Any new revenue increases (other than pure loophole closers) will be expressly contingent on a certification that spending cuts have been achieved and will be triggered off if Congress later reneges on these spending cuts.

I. Spending Reduction Proposals Within the Jurisdiction of the Senate Finance Committee

The total package, including provisions totalling $5.3 billion in savings incorporated in the Reconciliation Act of 1983 as reported by the Budget Committee, would result in a savings of $38 billion over 4 years. The majority of the proposals would have an effective date of January 1, 1985.

- Rounding of Social Security COLA. Proposal modifies the COLA paid in 1985, 1986 and 1987 by rounding the increase to the next lower whole percentage amount.

  FY 1984-87: $5.1 billion

- Modify timing and rate of increase in Part B Premium. The premium would be permitted to increase each year until it reached 35% by 1990. (Modification of 1983 Administration proposal)

  FY 1984-87: $2.9 billion

- Delay In Initial Eligibility for Medicare Entitlements. Delays eligibility for both Parts A and B of Medicare to the first day of the month following the month of the individual's 65th birthday. (1983 Administration proposal)

FY 1984-87: $1.0 billion

- Restructure Medicare Cost Sharing/Apply Co-Pays to Hospital Days and Provide Unlimited Hospital Days. Modifies cost sharing on hospital stays and nursing home stays and provides catastrophic protection under Part A of Medicare. (Modification of 1983 Administration proposal)

  FY 1984-87: $1.6 billion

- Modification of Working Aged Provision. Modifies 1982 provision which made Medicare benefits secondary to benefits under employer group health plans. (Strongly supported by OMB and HHS)

  FY 1984-87: $1.2 billion

- Participating Physician Program. Freezes certain physician fees for 2 years and creates incentives for physicians to take assignment. (Modification of 1983 Administration proposal)

  FY 1984-87: $2.2 billion

- Limit Increase in Hospital Costs Per Case. Limits increases in hospital costs per case to the increase in the hospital market basket price index. (Modification of 1983 Administration proposal)

  FY 1984-87: $2.9 billion

- Fee Schedule for Clinical Laboratory Services. Establishes fee schedule for payment to all laboratories for services provided to Medicare patients.

  FY1984-87: $0.9 billion

- Extend Reduction in Federal Payments. Extends the existing reduction in Federal Medicaid payments to States for 2 years. (Modification of 1983 Administration proposal)

  FY 1984-87: $1.0 billion

- Debt Service. The reduced outlays and increased revenues would decrease interest on the Federal debt by $13.9 billion over FY 1984-87.

II. Revenue Provisions

The total package, including provisions totalling $21.1 billion incorporated in the Omnibus Reconciliation Act of 1983 as reported by the Budget Committee, would increase revenues by $72.8 billion over 4 years.

A. Contingent Revenue Increases

The following revenue provisions, totalling $59.8 billion over 4 years, would take effect on January 1, 1985 only upon verification that the required reductions in Federal outlays have, in fact, been achieved:

- Energy Tax. A two and one-half percent tax would be imposed on the sale of sources of energy consumed in the United States.

  The President's 1984 budget included a $5 per barrel excise tax on domestic and imported oil.

  FY 1984-87: $20.9 billion

- High Income Individual Surchage. A surcharge of two and one-half percent would be imposed on income above approximately $60,000 for joint returns ($42,000 for single returns).

  The President's 1984 budget included a surcharge on individuals approximately equivalent to one percent of taxable income.

  FY 1984-87: $5.1 billion

- Tax on Corporate Economic Income. A two and one-half percent tax would be imposed on the economic income (over $100,000) of corporations.

  The President's 1984 budget included a surcharge on corporations of approximately one percent of taxable income.

  FY 1984-87: $14.5 billion

- Rounding Down of Indexing. Indexing of brackets, exemptions, and the zero bracket amount would be computed with reference to the Consumer Price Index rounded down to the next lower full percentage point. This proposal would be consistent with the modification of Social Security COLA's.

  FY 1984-87: $5.6 billion

- Zero-Bracket Amount (ZBA) Increased. The ZBA (formerly the "standard deduction") would be increased by $100 ($200 for joint returns) in 1985. Heads of households would be given a ZBA halfway between simple and married taxpayers, with a new rate schedule.

FY 1984-87: $7.4 billion

B. Treasury-Supported Revenue Reforms.

The deficit reduction package would include proposals, totalling $13 billion, supported by Treasury testimony to the Finance Committee limiting tax shelters and accounting abuses and reforming the taxation of corporations.

FY 1984-87: $13.0 billion

III. Summary

	Fiscal Years 1984-1987
Spending Restraint Already Agreed to by the Finance Committee	5.3
Spending Restraint Proposals Within Finance Committee Jurisdiction Contained in Proposed Package	32.7
Spending Restraint Requirements Within the Jurisdiction of Other Committees	37.5
Revenue Increase Already Agreed to by the Finance Committee	21.1
Revenue Increase Proposals in Proposed Package	51.7
TOTAL	148.3

MAJOR TAX REFORM: "FLAT RATE" OR CONSUMPTION TAX

- When most people talk of a flat-rate tax, they mean not only doing away with the progressive rate structure (so all persons pay the same rate), but also doing away with many credits, deductions, and exemptions that add complexity to the system and tend to subvert the progressive rate structure by allowing the well-advised wealthy individual to pay little tax, all quite legally.

- There are literally scores of special credits, deductions, and exemptions that, if repealed or modified, could allow a much lower general rate; as a few examples:

  - reinvested utility dividends
  - excluded income earned abroad
  - exclusion of a variety of fringe benefits
  - IRA, Keogh, and pension contributions
  - excluded unemployment compensation
  - intangible drilling costs deduction
  - percentage depletion
  - R & D expenses
  - interest deduction
  - jobs credits
  - earned income credit

- The task of broadening the tax base and lowering rates is not simple, however--many deductions serve very popular goals, such as the charitable deduction, the home mortgage interest deduction, and accelerated depreciation.

- Even under the simplest system, substantial problems remain. What fringe benefits would be taxable? What are deductible costs of earning income--expenses in moving to a new job, tickets to entertain clients at the Superbowl? A new simpler system cannot be designed or implemented overnight, and will require a careful balancing of conflicting interests and a thorough review of the policies and goals of our tax system.

- The other major alternative--a consumption tax--is a matter of serious interest to the Finance Committee, because many believe that we need to do more to encourage savings and capital formation in this way--and because potentially tax compliance could improve. Members have shown an interest in moving towards consumption taxation by suggesting an across-the-board energy tax as part of a possible Finance Committee deficit reduction package. The relative merits of taxing consumption versus income are the subject of serious debate, much more so than in the past.

NAM
National Association
of Manufacturers

Jerry J. Jasinowski
Executive Vice President
& Chief Economist

December 7, 1983

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

Dear Senator Dole:

I was delighted to learn that you will speak at our December 13, 1983, Issue Breakfast meeting dealing with taxes and the deficit. The session will be held at the Capital Hilton Hotel, 16th and K Streets, NW, and I will be in contact with your staff on Monday to confirm the room location. We have revised our schedule so as to promptly start the substantive portion of our program at 8:30 a.m. We hope you will be able to join us for breakfast that morning, beginning at 8:00.

Enclosed is a copy of the program announcement sent to invitees of our Issue Briefing Breakfast. Please feel free to modify the subject matter and presentation to fit your particular interests.

Again, many thanks for your willingness to participate in what we believe will be an important opportunity to focus the business community on what lies ahead in "Facing Up to the Deficit." If I can be of any assistance to you on this or other matters, please do not hesitate to call.

Sincerely,

Jerry J. Jasinowski

Enclosure
c.c. Betty Meyer

1776 F Street, N.W.
Washington, D.C. 20006
(202) 626-3700

Speak

December 13
Tuesday

NAM
National Association
of Manufacturers

Jerry J. Jasinowski
Executive Vice President
& Chief Economist

December 5, 1983

8:00 Bkfst
8:30 SPEAK
9:10 Depart

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

Dear Senator Dole:

As I discussed with Ms. Betty Meyer, we would like to invite you to be the principal speaker at the December 13 NAM Issue Briefing Breakfast program. The session will be held in the South American Room at the Capital Hilton Hotel (16th and K Streets, N.W.), and will run from 8:30 a.m. to 10:00 a.m. We leave the topic of the session to your choice.

The NAM's Issue Briefing Breakfast series is a regular program of monthly breakfasts designed to present the Washington business representative community with the latest issue information delivered by Congressional and regulatory authorities. Our audience is carefully selected for each such briefing and on December 13 we will target corporate personnel interested in Finance Committee matters. We anticipate an attendance of approximately 100, to include a press contingent of roughly 15 from national, local and syndicated media organizations. Past speakers at these sessions have included Assistant Attorney General William Baxter; Eximbank Chairman, Bill Draper; Energy Secretary, Donald Hodel; and Congressional members including Senators Heinz and Danforth.

I do hope you can accept this invitation. We would be very glad to answer any questions about the meeting and to work with your staff to ensure that your participation is arranged to meet your schedule.

With best regards,

B.J., sec'y

Sincerely,

Jerry J. Jasinowski

c.c. Ms. Betty Meyer

$1,000 hon.