REMARKS OF SENATOR DOLE

JUNIOR LEAGUE

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Why worry about the deficit--What does it mean to the average American?

- If nothing is done to reduce deficit spending over the next five years, the total Federal debt will nearly double to over $10,000 for every man, woman and child in America.
- At this level, by 1989 it will take one-half of all Americans' personal income tax payments just to pay the Federal Government's interest bill.
- By 1989 the annual Federal interest cost will amount to $250 billion--about $1,100 for every American.
- That $1,100 per person interest cost is equal to 40% of each person's annual expenditure for food.
- Virtually all economists agree that the sustained enormous deficits that we are facing will be economically harmful.
- Many Americans will find home-buying more difficult with higher deficits. Consider a family purchasing a home at today's current interest rate, averaging about 12-1/2%, with a $55,000 mortgage. If the deficits push interest rates up, total interest costs over the 30 year term will be $15,500 more for each one percentage point increase.
- All Americans will directly feel the results of high deficits if they lose jobs as a result of a business slowdown resulting from a crowding out of private investment, or if they lose jobs to imported products made more competitive because of an abnormally strong dollar or if they end up paying higher prices because inflation is rekindled.

What is the Federal deficit likely to be?

- The estimates of future Federal deficits are quite sensitive to one's economic assumptions. Yet even under the most optimistic of economic assumptions, the deficit will remain at historically high $200 billion levels over the foreseable future, unless drastic action is taken.

proposed spending cuts and revenue proposals are enacted, the deficits are still projected to be:

FY 1985	FY 1986	FY 1987	FY 1988
$180 billion	$177 billion	$180 billion	$152 billion

- If economic growth is not so strong (3% real GNP growth) and interest rates are slightly higher (9% T-bill rate), and Administration's spending cuts are not enacted, the projected deficits would be:

FY 1985	FY 1986	FY 1987	FY 1988
$202.6 billion	$236.7 billion	$270 billion	$290.1 billion

- If we have an economic downturn during this period, we may be facing $300 plus billion deficits.

What about defense spending

- Over the period FY 1985-1987, the Administration's defense recommendation is about $65 billion higher than the 5% real growth path that Congress last year set as adequate for a strong defense.

- The Adminstration's defense recommendation is a first offer that sets its opening bargaining position. I believe that the final defense number for FY 1985 will be close to the $289 billion figure contained in last year's budget resolution.

- Even at a $289 billion level, defense spending will have increased 91% since 1981, the first year of the Reagan Presidency.

Why should we act this year on the deficit

- If we fail to deal with the deficit now, the problem will become worse. Current projections showing deficits holding in the range of $200 billion probably are optimistic, as they are based upon assumption of steady economic growth through 1989. However, postwar experience suggests that the average recovery lasts only 3 years, making a recession in 1985 or 1986 likely.

- If we postpone action until 1985 and we do suffer another recession, the deficits would then hit the $300-$400 billion range. At that point, it may be difficult to cut the deficit without further weakening the economy. Our choices would become very difficult indeed.

- Of course, failure to reduce the deficit in 1984 makes a recession likely to come sooner, as interest rates are forced up by private credit demands clashing with Treasury borrowing needs.

- By postponing action of the deficit, we increase the risk of recession. The average increase in the unemployment rate during a postwar recession is about three points, or three million jobs. By acting to reduce the deficit, we can significantly lower the risk that three million workers will lose their jobs in 1985 and 1986.

- The rise in interest rates will depress auto sales, housing starts, and capital goods orders. It is widely recognized that sustained economic recovery will be impossible unless these key sectors are healthy.

- Alternatively, the Fed could offset the deficits' impact on interest rates by "monetizing" the debt, leading to a resurgence of inflation in 1985. If we do nothing, we will force the Fed to choose between high interest rates and recession, or inflation.

- Failure to reduce the deficits in 1984 may also depress the stock market. A key factor in determining equity and bond prices is investors' confidence that Congress and the Administration can produce a sound fiscal policy. If we send the signal that the deficit problem is secondary to politics, equity and bond prices may fall.

- The exploding cost of servicing the Federal debt will make controlling spending more difficult each year, unless the deficits are reduced soon. Each year that we add $200 billion in new Federal debt adds about $15 billion to the next year's interest costs.

- The economy is now on a path where more and more of its resources go just to pay off the debt. According to economist Lawrence Summers, "It's a case where the miracle of compounding (interest) works against you."

- In 1976 net interest accounted for just 7% of total outlays <u>But if we do nothing</u>, by 1988 the total Federal debt will be more than <u>half of total</u> GNP, and the net interest cost of servicing this debt will reach 14% of all spending. Each year that we do nothing, the share of Federal spending that we can control gets smaller.

- Recent studies indicate that current and prospective budget deficits may have helped to overvalue the American dollar. If the deficits are not reduced, the problem of overvaluation could become worse, weakening the competitive position of American exports and costing the U.S. jobs in such industries as steel, electronics, and agriculture.

Deficit Downpayment in 1984

- The President has taken the lead to begin a deficit-reduction effort in 1984 by calling for bipartisan negotiations on a package to reduce the deficit by $100 billion over 3 years. As the President suggests, we can work with a variety of modest spending reductions, and tax reforms that raise revenue, to enact a significant deficit "downpayment" in 1984.

- Even though election-year politics makes it difficult to launch the kind of major assault on the deficit that we really need, that is no reason to do nothing. If we set reasonable expectations, we should be able to make a noticeable dent in the deficit that will make our job easier in the years ahead. Even more importantly, it can demonstrate to our citizens and to economic decision-makers in the private sector that we can face up to the deficit problem even in an election year.

- The Finance Committee is considering spending and revenue options just within its jurisdiction that can achieve the $100 billion "downpayment" goal. To do that we are drawing on a number of proposals that have been on the table for some time, including some already in the legislative "pipeline":

  -Items included in the FY 1984 reconciliation bill, S. 2062, which awaits Senate action

  -Treasury-endorsed proposals on tax shelters and other abuses

  -Administration -proposed spending cuts that were not followed through on last year

  -Administrative savings and other proposals made by the Grace Commission

  -Additional proposals considered in the Finance Committee last fall

- Target. We can aim at $100 billion in savings--$21.4 bilion in revenue changes pending in S. 2062, $13.6 billion in spending reduction from Finance Committee and other programs in S. 2062, $7 billion or so from Grace Commission recommendations, billions in debt service savings, and the remainder from additional spending and tax changes aimed at desirable policy reforms. The goal is a roughly one-for-one balance between spending and revenue changes.

- Feasibility. The key is to follow the President's suggestion and concentrate on relatively non-contentious items, avoiding things like the third-year tax cut and indexing, mean-tested entitlements, social security, and the like. Our effort must be bipartisan and balanced to do the job: Democrats and Republicans alike will benefit by cooperating to take swift action on the deficit. Time is of the essence if we are to make a beginning this year.

- Initial Finance Action: Spending. On February 23, the Finance Committee began action to reduce the deficit. To date, the Committee has agreed to changes in health care programs that save $10.6 billion between now and 1987, over and above the provisions in S. 2062, plus $3.2 billion from implementing some of the Grace Commission management reforms and $900 million from limiting rebates to Puerto Rico on distilled spirits that originate in the U.S. and are shipped to Puerto Rico for redistilling so they be claimed as products of Puerto Rico. Adding in debt service savings of $7.2 billion, plus the provisions of S. 2062, we have agreed to savings of $35.6 billion by 1987.

- Initial Finance Action: Revenues. In addition, the Committee agreed to the goal of raising $50 billion in revenue between now and 1987, provided at least that amount of spending reduction can be achieved. So far the Committee has agreed to $44.6 billion in revenue-raisers, or $23.2 billion over and above the revenue items in S. 2062. The House Ways and Means Committee has also completed markup on a $49 billion revenue package and the bipartisan working group is showing some signs of progress. So we may be on our way.

Recovery--What progress have we made

Strength of recovery

- A strong recovery is on track and appears to be moderating to a pace that can be sustained in the years ahead. As an indication, look at the expansion of real gross national product. It grew by 9.7% in the second quarter of 1983, 7.9% in the third quarter, and an estimated 4.5% in the fourth quarter. By this measure, the recovery is the strongest since 1961.

- Housing starts are running at a rate of about 1.7 million units a year, and new home sales are up by 91% over the recession low.

- Industrial output in 1983 rose 6.5%, and factory utilization is up to 79.4%--the highest level in two years, and close to the normal capacity of 82%.

- The Commerce Department's survey of business plans for 1984 show that business plans to increase capital investment by 9.4%--this is a rate about 2% higher than that seen at comparable points in previous postwar recoveries.

Inflation

- The best news about this recovery is that it is noninflationary. In 1983 the producer price index rose just 0.6%--the lowest increase since 1964. The CPI for 1983 was 3.8%, the lowest since 1972. Continued moderation in producer prices indicates low inflation will continue.

Creating Jobs

- People are going back to work, and the pace of job creation has been unusually high for a postwar recovery. On January 6 the Labor Department announced the civilian unemployment rate dropped from 8.4% to 8.2% in December. Overall, this means unemployment has dropped 2.5 percentage points over the past year.

- The continued strength of the recovery shows that recent growth in employment has not just been a statistical fluke, but shows a real turnaround in the labor market. Unemployment fell 230,000 in December, and there have been 4 million jobs created in the last year.

- What is more, the growth in jobs is broad-based. While manufacturing industries showed the most dramatic gains, all industries other than government and agriculture showed dramatic drops in unemployment.

March 8, 1984

ACTION TO DATE BY THE SENATE FINANCE COMMITTEE

SPENDING	1984-87
Reconciliation	13.6 (4.2 Finance)
Additional Spending Reductions	
*Part B Premium	3.3
*Delay in Initial Eligibility for Medicare	.8
Working Aged	1.1
*Physician Freeze	2.0
Hospital MarketBasket	1.1
Lab Fee	.8
Medicaid Reduction	1.2
Alcohol Rebate	.9
Revaluation of Assets	.3
Grace Commission	3.2
Debt Sevice	7.2
Finance Subtotal	26.2
TOTAL	35.6

REVENUES	1984-87
Reconciliation	21.4
*Tax Reform	13.6
Tax benefit rule	0.8
Tax FHLMC	0.3
Freeze $5000 expensing	1.4
Extend telephone tax	3.2
Other freeze items	0.5
Electronic funds transfer	0.5
Individual Minimum Tax	1.4
Modification of Section 1231	0.4
Postpone Finance Lease Rules	2.6
Total	46.1

*in Administration Budget

(Plus $2-3 billion expected from reforms in the real estate tax area)

TAX INITIATIVES ADDRESSING WOMEN'S CONCERNS

- At a time that we are attempting to reduce $200 billion deficits, it is necessary to target any tax expenditures addressing the special concerns of women so that they most efficiently serve those needs.

Pensions

- Much time and effort has been directed towards the Retirement Equity Act. My bill, which was passed by the Senate, would increase available pension benefits for women whose work patterns may differ from the traditional mode. For example, the bill liberalizes break in service rules in order to assist persons who may take a few years off from work to raise a family, and attempts to ensure that persons who enter the workforce at an early age are qualified to participate in a retirement plan.

- The top heavy rules passed last year in TEFRA also assist women by requiring that employers who give themselves generous pension benefits in effect share those benefits with employees. While some efforts are being made to change these rules, I expect that any changes made will be minor and will not affect the intent of these rules.

Spousal IRAs

- Other retirement programs are more costly. It is estimated that expanding IRAs to allow a $2,000 annual deduction for non wage-earning spouses would cost $1.8 billion over the next 4 years, with a cost of almost a billion a year by 1988.

- Moreover, some persons think IRAs are more likely to be used by--and provide tax shelters for--only the wealthy who have the additional funds to set aside.

- I have asked my staff to examine the various spousal IRA proposals to determine if these proposals can be modified to meet these concerns.

Dependent Care Tax Credit

- Another proposal that has received some attention is the expansion of the tax credit for the costs of child and dependent care.

- Since this provision significantly increases the amount of expenses eligible for the credit, its cost is high--over $2.2 billion over the next 4 years, and another billion if the credit is refundable.

- The Administration has included in its FY 1985 budget a proposal to target the credit to those who earn less than $60,000 a year and thus reduce costs significantly, while providing a greater benefit to those who need it most.

Increase in Zero Bracket Amount

- Another proposal would increase the zero bracket amount for heads of House bill to $3,400, the amount for married taxpayers.

- Again, this proposal is expensive--it is estimated to cost over $4 billion over the next 4 years.

- It may also advantage those who have investment or other sources of income but who met the criteria for treatment as a "head of household."

PENSION EQUITY BILL
(Finance Committee amendment to H.R. 2769)

The bill passed by the Senate last fall and awaiting House action, reflects the concerns addressed in S. 19, the Retirement Equity Act of 1983, and in the pension provisions of S. 888, the Economic Equity Act of 1983. The compromises also reflect the stated concerns of employers, plan and women's groups. The major provisions of the bill would:

1. Lower the minimum age of participation under ERISA from 25 to 21.
2. Lower the minimum age for vesting credit from 22 to 18.
3. Provide that, in most cases, any participant who leaves the service of an employer for fewer than 5 years would not lose credit for participation and vesting for any prior period of service.
4. Require spousal survivor coverage for all plan participants who attain age 45 and have 10 years of service.
5. Require that a spousal survivor annuity be the normal form of benefit if an annuity form of benefit is provided in a retirement plan.
6. Require that any election out of spousal survivor coverage be authorized by the non-participant spouse.
7. Create an exception to ERISA's prohibition against assignment of benefits for court orders relating to child support, alimony, or other martial property rights in the case of a "qualified" domestic relations order.
8. Provide rules for the tax treatment of retirement plan distributions upon divorce.
9. Increase the level at which plans may cash out participants from $1,750 to $3,500.

Child Care Credit

Background

- Before the increase of the child care credit in ERTA, the credit had not been increased since 1976, even though employment-related expenses have increased substantially since that time.

- The increases in the credit percentage were directed toward the low and middle-income taxpayers. This was done by providing a sliding-scale credit which phases down from 30 percent to 20 percent as income rises from $10,000 to $28,000.

- In the case of two-earner married couples with children, this provision along with deductions for two-earner married couples, provides a substantial tax reduction, especially at lower income levels.

- A major improvement made by ERTA was providing a tax incentive for employers to become more involved in providing dependent care for their employees. Under certain conditions, employer payments for dependent care assistance will be exempt from income and payroll taxes.

Changes in credit made by ERTA

- ERTA increased the amount of the child and dependent care credit by increasing the percentage amount of the credit for taxpayers with adjusted gross income of $28,000 or less and by increasing the amount of the employment-related expenses that may be taken into account for purposes of the credit.

- In addition, ERTA relaxed the restriction on claiming the credit for dependent care sevices provided outside the home, but requires that payments to a dependent care center are eligible for the credit only if the center complies with applicable state and local regulations.

- ERTA increased the amount of employment-related expense that may be taken into account for purposes of the credit from $2,000 to $2,400, if there is one qualifying individual, and from $4,000 to $4,800, if there are two or more qualifying individuals.

- The percentage amount of the credit was increased from 20 percent to 30 percent for individuals who have $10,000 or less of adjusted gross income. Thus, the maximum credit is $720 if there is only one qualifying individual, or $1,440 if there are two or more qualifying individuals.

- The 30 percent credit rate is reduced by one percentage point for each $2,000 (or fraction thereof) of adjusted gross income above $10,000.

- ERTA also provided that employment-related expenses which are incurred outside the taxpayer's household may be taken into account if they are for the care of a physically or mentally incapacitated spouse or dependent of the taxpayer who regularly spends at least eight hours each day in the taxpayer's household.

CHILD SUPPORT

March 8, 1984

- The Finance Committee has a strong commitment to programs which benefit children. In fact, many of the programs you are interested in originated in the Finance Committee--the Child Support Enforcement Program for example.

- For the past few years, the Finance Committee has studied the various programs and a number of them have been subjected to budget reductions. I am aware that the Junior League is concerned that spending reductions may impair the effectiveness of the programs. I believe, however, that the reductions have been well-targeted and have not jeopardized the programs involved.

- I would also remind you that no funding reductions have been enacted for the child welfare, foster care and adoption assistance programs. These programs are continuing to function under full funding with no reductions proposed by the Administration and none anticipated by the Committee. The Committee has also rejected the Administration's most recent proposals to block grant these programs.

- With regard to the Social Services Block Grant (Title XX), you are all aware of the actions taken by Congress in the 1981 Reconciliation Act. Title XX was revamped and is close to being a true block grant. Along with the removal of a number of Federal requirements on the States, the entitlement level for the block grant was reduced.

- Last fall, however, the Finance Committee unanimously approved a $200 million increase in the Title XX statutory funding level. That increase has become law. The current and future funding level is now set at $2.7 billion.

- There will probably be efforts to increase the Title XX entitlement once again this year. It is my view that in light of the serious deficits facing the country this year and for many years in the future, we simply cannot afford it.