REMARKS OF SENATOR DOLE

MAINE REPUBLICAN STATE CONVENTION

Friday, April 27, 1984--6:30 p.m.--Augusta Civic Center, Augusta, Maine

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.

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 half of total 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.

<u>Deficit downpayment in 1984</u>

- The President took 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. Now he has worked with congressional Republicans to outline a $150 billion package including defense savings ($40 billion), nondefense cut

($43 billion), revenue increases ($48 billion), and debt service savings ($18 billion). 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. Making a noticeable dent in the deficit will make our job easier in the years ahead. Even more importantly, it will demonstrate that we can face up to the deficit problem even in an election year.

- The Senate has adopted the Finance Committee's proposals on spending and revenue options just within its jurisdiction that achieve about $74 billion of the "downpayment" goal. To do that we draw on a number of proposals that have been on the table for some time, including some that were already in the legislative "pipeline":

  -Items included in the FY 1984 reconciliation bill, S. 2062

  -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. With an overall goal of $150 billion in savings, we can raise $48 billion in revenue, save $40 billion in defense, and save $43 billion in nondefense programs, including $24 billion in spending reduction from Finance Committee programs such as $3.1 billion from Grace Commission recommendations, and $9.6 billion in debt service savings. The remainder consists of additional spending changes and controls on appropriated funds.

- Feasibility. The key is to keep following 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 Action. On February 23, the Finance Committee began action to reduce the deficit. The Committee bill agreed to by the Senate includes changes in health care programs that save over $10 billion between now and 1987, the $3.1 billion in Grace Commission savings, and $9.6 billion in reduced debt service. In addition, the Senate agreed to tax reform and modest revenue raisers that generate about $48 billion between now and 1987. The House has also approved a $50 billion tax bill, so we are 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 2.2 million units a year, and jumped 11.2 % in February.

- Industrial output in 1983 rose 6.5%, and factory utilization is up to 80.7%--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 16%--this is 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% last November to 7.8% in February. Overall, this means unemployment has dropped 2.9 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 4.9 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.

HIGHLIGHTS OF SENATE DEFICIT REDUCTION DECISIONS

(Savings estimates are for period 1984-87, and include outlay savings in S. 2062)

Spending Restraint

- Medicare Part B Premium. Stablize the premium as a percent of program costs between 1985 and 1990. ($1.2 billion)
- Delay initial Medicare eligibility until month after an individual's 65th birthday. ($630 million)
- Working age. Non-working spouses age 65 to 69 could elect primary medical coverage under spouse's employer health plan rather than Medicare regardless of working spouse's age. ($1.1 billion)
- Physican freeze. Continue until July 1986 a freeze on physican's fees for those unwilling to accept assignment for all services to Medicare patients. ($2.8 billion)
- Fee schedule for lab services. Payments for clinical lab services would be held at 62 percent of prevailing charge levels through October 1987 ($1.0 billion)
- Limit on hospital costs. For FY 1985 and FY 1986 increases in hospital cost payments under Medicare would be limited to one-half percent less than the hospital wage and price index increase. ($1.1 billion)
- Grace Commission. Improved cash management techniques (e.g. faster deposits of receipts to the government), improving income verification procedures for benefit programs, and using IRS refund offsets to collect debts owed the government would be implemented. ($3.1 billion)
- Debt service. $9.6 billion.

Revenue Increases

- Tax reform. New rules would be applied to limit tax shelters in such areas as partnership allocation of expenses and income interest deductions on discount obligations, transactions between related parties, current deductions for future liabilities, and corporate deductions for extraordinary dividends received. ($10.2 billion)
- Tax benefits. Where a taxpayer receives a refund or other recovery for State taxes or other situations that previously gave rise to a deduction, the tax benefit portion of the deduction would be brought back into income first. ($800 million)

- Real Estate. Depreciation rules (20 years for all structures in FY 1984, 19 years in FY 1985, 18 years in FY 1986 and thereafter, new or used), and recapture rules for real property would be adjusted. ($4.4 billion)

- Freeze. Expensing for small business investment would be frozen at $5,000, the cost of used property eligible for the ITC would be frozen at $125,000, and the foreign earned income exclusion would be frozen at $80,000. ($1.9 billion)

- Distilled Spirits. Federal excise tax would be increased $2.00 per proof gallon ($1.0 billion)

- Income Averaging. The base period for determining the income averaging threshold would be reduced to 3 years and the formula slightly modified. ($1.6 billion)

- Earnings and Profits. The definition of earnings and profits would be modified so that it more closely reflects a corporation's economic income rather than its taxable income. This change will reduce a corporation's ability to pay tax-free dividends. ($1.7 billion)

- Add-Ons. In addition to miscellaneous items, the Committee agreed to phase in spousal IRAs; an R&D package; foundation tax changes; extend the targeted jobs credit for 3 years; enterprise zones; increase the earned income credit; Foreign Sales Corporations; energy credit extension with credit reordering; and others.

March 23, 1984

PRELIMINARY ESTIMATES OF THE SENATE FINANCE COMMITTEE PACKAGE

SPENDING	1984-87 Total (Savings in $ billions)
Reconciliation (S. 2062)	
Finance Committee provisions	3.8
Additional Spending Reductions	
*Part B Premium	0.4
*Delay in Initial Eligibility for Medicare	0.6
Working Aged	1.1
*Physician Freeze	0.8
Hospital Market Basket	1.1
Lab Fee	0.9
Medicaid Reduction	1.4
Alcohol Rebate	0.9
Revaluation of Assets	0.3
Lesser of costs of charges	0.3
Competitive Bidding/Claims	0.1
Round Part B Payments	0.2
SNF Rates	(0.1)
Grace Commission	3.1
Debt Service	9.6
Total	24.5

	1984-87 Total (in $ billions)
Reconciliation Tax Provisions (S. 2062)	21.4
Additional Revenue Items:	
Tax shelter, accounting abuse, and corporate reform	10.2
Tax Federal Home Loan Mortg. Corp.	0.3
Tax benefit rule	0.8
Alcohol and tobacco collections	0.5
Freeze ACRS expensing, ITC for used prop. and foreign income exclusion	1.9
Postpone finance lease rules	2.7
Extend telephone-excise tax	3.2
Modification of Sec. 1231	0.2
Factoring of trade receivables	1.4
Source of shipping income	0.2
Recharacterization of U.S. income as foreign source income	0.3
Trust distributions	0.7
Income averaging modification	1.6
Delay in ESOP	0.4
Corporate preference exclusion increase	0.5
Increase distilled spirits tax	1.0
Deferred rent on real and taxable property	1.7
Repeal dividend reinvestment	0.4
Installment sale recapture rule	0.2
20-year life for structures	4.2
Other miscellaneous revenue increase proposals	2.6
Major Revenue Loss Provisions:	
Spousal IRAs	-.9
Enterprise zones	-1.3
R&D credit extension and expansion	-2.0
R&D foreign source allocation	-0.2
Targeted jobs tax credit	-1.6
Life insurance tax change	-1.3
Earned income tax credit	-0.4
Mortgage revenue bond extension-IDB package	-0.6
Grand Total	$48.1

Senate Floor Amendments (Adopted)

Tuesday, April 10, 1984

(1) Kennedy Amendment - (84 yeas to 12 nays) expressing the sense of the Congress that no funds shall be obligated or expended for the purpose of planning, directing, executing, or supporting the mining of ports or territorial waters of Nicaragua. (Division II of the amendment was withdrawn.)

(2) Dole Amendment - permitting Indian tribes to nominate (in conjunction with State and local governments) areas off the reservation as enterprise zones.

Wednesday, April 11, 1984

(3) Danforth Amendment - striking section 183, Foreign Earned Income Exclusion Treated as Preference Item.

(4) Dole Amendment - of a technical and clarifying nature.

(5) Hawkins Amendment - amending the effective date of the incentive stock option provision to provide transitional relief.

(6) Levin Amendment - providing a transition rule under which certain corporations would be permitted to continue to rely on certain provisions of existing law to implement a proposed restructuring of its business.

(7) D'Amato-Moynihan Amendment - allowing a utility that serves at least 97 percent of their retail customer in a two contiguous county region to qualify for the local furnishing of electricity.

(8) Gorton Amendment - allowing employers additional time to acquire a targeted job credit certification in certain cases.

(9) Evans-Gorton - providing a limited exception to the accelerated effective date for increasing death benefit insurance policies.

(10) Dixon Amendment - allowing executors who elect special use valuation treatment for estate purposes to have a reasonable period of time to make technical corrections in the election agreement.

(11) Trible-Dole Amendment - exempting agricultural vehicles from the heavy truck use tax where use on public highways does not exceed 7,500 miles.

(12) Dole-Danforth Amendment - providing for a payment schedule for reimbursement of back claims due the States under the Social Security Act.

(13) Nunn Amendment - changing the effective date regarding contributions of capital gain property to the date of enactment.

(14) Quayle Amendment - allowing dislocated workers to withdraw contributions to Individual Retirement Accounts.

(15) Helms Amendment - delaying the effective date of any ruling changing the tax treatment of certain expenses incurred by members of the uniformed armed services and ministers who receive housing and subsistence allowances.

(16) Murkowski Amendment - expressing the sense of the Senate that no termination date be imposed on the issuance of qualified veterans' mortgage bonds, and that no qualified veterans' mortgage bonds be taken into account in applying section 103A(g) of the Internal Revenue Code.

(17) Armstrong Amendment - providing a definition of energy property.

(18) Dole Amendment - clarifying the definition of Section 38 property in sale-leaseback transactions.

(19) Armstrong Amendment - exempting from the installment sales recapture provision any disposition made pursuant to an agreement entered into before March 16, 1984.

(20) Bradley-Lautenberg Amendment - providing Medicare payments for costs of hospital-based mobile intensive care units.

Thursday, April 12, 1983

(21) D'Amato Amendment - excluding tax-exempt interest in determining amount of social security benefits to be taxed (32 Yeas to 63 Nays).

(22) Stevens-Murkowski Amendment - revising the exemption from income under the SSI program for the Alaska bonus payments.

(23) Dole Amendment - of a technical and clarifying nature.

(24) Bentsen Amendment - establishing the authorization for the maternal and child health block grant program at $478,000,000; and including the food stamp program in the provision requiring income and eligibility verification procedures.

(25) Quayle Amendment - revising the prospective payment classification procedures with respect to certain rural hospitals.

(26) Huddleston Amendment - providing a transition rule of noninsurance business.

(27) Cohen Amendment - deleting the repeal of the energy conservation credit (38 Yeas to 55 Nays).

(28) Boschwitz-Durenberger Amendment - providing tax-exempt status for local police and fire associations that provide pension and other benefits to members that would otherwise be provided by a State or local government.

(29) Boschwitz Amendment - allowing investment tax credits on container equipment used by leasing companies, even though they may be transferred or used elsewhere.

(30) Inouye-Matsunaga Amendment - amending title XVIII of the Social Security Act, providing that services furnished by a clinical psychologist shall be reimbursed under Medicare when furnished by a health maintenance organization under a risk-sharing contract to a member of that organization.

(31) Bentsen Amendment - exempting certain traditional State programs from the provisions regarding consumer loan bonds.

(32) Dole (for Mattingly and Nunn) Amendment - providing that no Superfund tax be levied on barium sulfide having only a transitory existence during a manufacturing process.

(33) Dole (for Kennedy) Amendment - adding educational institutions, such as universities, to the list of organizations that are recipients qualified to receive donated scientific research equipment that is eligible for a deduction.

(34) Baucus Amendment - limiting the depreciation and investment credit allowable for luxury automobiles over $15,000.

(35) Matsunaga Amendment - changing the time period for applying the energy percentage for solar, wind, geothermal, and ocean thermal projects.

(36) Dole Amendment - dealing with transition rules for effective date of deferred rental payments.

(37) Wilson-Cranston Amendment - providing that special rules relating to sound recordings shall not apply to contingent amounts incurred in the taxable year to which the sound recording is placed in service or in the first succeeding taxable year; and that such amounts shall be treated as 3-year recovery property and qualified investment placed in service in the year in which they are incurred as costs to the taxpayer.

(38) Wilson-Cranston Amendment - defining "tenant-stockholder's proportionate share" for property taxes of cooperative housing corporations.

(39) Domenici-Percy Amendment - providing a credit for photovoltaic property.

(40) Dole (for DeConcini) Amendment - providing for the duty-free entry of articles required for the installation and operation of a telescope in Arizona.

(41) Dole (for Thurmond) Amendment - exempting the Greenville Coliseum, in Greenville, South Carolina, from the tax-exempt entity leasing provisions.

(42) Dole Amendment - of a clerical nature with respect to the Payment-in-Kind program.

(43) Grassley Amendment - extending the period for depreciation of certain agricultural structures and providing a 20 percent investment tax credit for certain soil and water conservation expenses.

(44) Boren Amendment - clarifying the type of vocational schools which would qualify for the special deduction for certain equipment donations.

(45) Tsongas Amendment - relating to the taxation of property transferred in connection with the performance of services.

(46) Baucus Amendment - providing a 1-year extension for certain trusts created before June 30, 1953.

(47) Dole (for Symms) Amendment - providing a special rule for geothermal energy equipment.

(48) Pressler Amendment - providing for review of certain decisions affecting tax-exempt bonds.

(49) Specter Amendment - modifying the permissible purchaser-lessors in sale-leasebacks of principal residences.

(50) Hatfield Amendment - providing for an evaluation of the feasibility and the ability of weight-distance truck taxes to provide the greatest degree of equity among highway users, to ease the cost of compliance for such taxes and to improve the efficiency by which these taxes might be administered.

(51) Stennis Amendment - exempting UDAG assisted projects and manufacturing facilities from the small issue limitation on industrial development bonds.

(52) Sasser-Baker Amendment - providing that the election to use the alternate valuation date for purposes of the eatate tax may not be made under certain circumstances and permitting an election to be made on a return that is filed late.

(53) Murkowski-Stevens Amendment - providing that facilities for the local furnishing of electric energy also shall include a facility that is part of a system providing service to the general populace under certain specified circumstances.

(54) Bradley Amendment - relating to treatment of subsidiary dividends.

(55) Boschwitz Amendment - providing real estate depreciation modifications (62 Yeas to 19 Nays).

(56) Tower Amendment - amending section 1034(h) of the Internal Revenue Code of 1954 in the case of members of the Armed Forces stationed overseas or required to reside in Government quarters.

(57) Baker Amendment - providing for increased payments for Presidential Nominating Conventions.

(58) Pryor Amendment - amending the Internal Revenue Code of 1954 with respect to the unrelated business taxable income of private corporations established under Federal law.

(59) Dole Amendment - increasing the gasohol exemption.

(60) Domenici Amendment - providing an exclusion for the Sandia Corporation, of Albuquerque, New Mexico.

(61) Wilson Amendment - providing a transition rule for Section 173 concerning films.

(62) Dole Amendment - of a technical nature.

(63) Heinz Amendment - amending title XVIII of the Social Security Act to allow Medicare coverage for post-hospital home health services provided on a daily basis.

(64) Dole Amendment - relating to reduction of State ceiling by amount of special mortgage bonds issued before 1985.

(65) Specter Amendment - maintaining the reduction of the coal and iron ore corporate preference item of 15 percent.

(66) Dole Amendment - of a technical nature.

(67) Dole-Long Amendment - providing for certain spending reductions and revenue increases, as amended (Yeas-76, Nays-5).