

REMARKS OF SENATOR BOB DOLE
NATIONAL COUNCIL OF SAVINGS INSTITUTIONS
HYATT-REGENCY HOTEL
BALTIMORE, MARYLAND
MONDAY, MAY 14, 1984

DEFICITS AND POLITICAL REALITY

THANK YOU VERY MUCH. I AM HONORED TO BE THE KEYNOTE SPEAKER AT THIS FIRST ANNUAL CONFERENCE FOR THE NATIONAL COUNCIL OF SAVINGS INSTITUTIONS. THIS NEW ORGANIZATION REPRESENTS MORE THAN 600 SAVINGS BANKS, AND SAVINGS AND LOAN ASSOCIATIONS, SO AS CHAIRMAN OF THE SENATE FINANCE COMMITTEE, I AM DELIGHTED TO ADDRESS THIS AUDIENCE.

THERE IS LITTLE DISPUTE -- EITHER IN CONGRESS, IN THE MEDIA, OR I WOULD GUESS WITH ANYONE IN THIS AUDIENCE -- THAT THE MOST IMPORTANT THING WE CAN DO TO KEEP ECONOMIC RECOVERY GOING IS TO REDUCE THE ALARMING BUDGET DEFICIT. AND WE ARE TRYING TO DO THAT THIS YEAR, AT LEAST MAKE A BEGINNING, EVEN IF IT IS ONLY A DOWNPAYMENT ON THE MORE COMPREHENSIVE

ASSAULT THAT IS REALLY NEEDED.

THE REASONS WE MUST REDUCE THE DEFICIT ARE WELL KNOWN. THEY THREATEN HIGHER INTEREST RATES, HIGHER INFLATION, OR A PERMANENT DECLINE IN OUR TRADE POSITION -- OR SOME COMBINATION OF THESE. HUGE DEFICITS ARE A THREAT TO RECOVERY, AND TO SUSTAINING OVER THE LONG TERM THE GAINS WON AT GREAT EFFORT IN RECENT YEARS. I REFER TO THE REDUCTION IN INFLATION FROM DOUBLE DIGITS TO THE 4-5 PERCENT RANGE: THE RESTORED CONFIDENCE IN THE DOLLAR AROUND THE GLOBE; THE RESUMPTION OF GROWTH IN REAL INCOMES OF OUR CITIZENS; GAINS IN PRODUCTIVITY PERFORMANCE; AND LAYING THE GROUNDWORK FOR HIGHER LEVELS OF INVESTMENT THAT MEAN FUTURE JOBS.

BUT IF FAILURE TO REDUCE THE DEFICIT CAN UNDERMINE THOSE ACHIEVEMENTS, SO CAN ASSAULTING THE DEFICIT IN THE WRONG WAY. TO TAKE AN EXTREME EXAMPLE, WE COULD MAKE A REAL DENT IN THE DEFICIT BY PUMPING UP INFLATION. IN MY VIEW, WE HAVE TAKEN A FIRST STEP IN DOING THE RIGHT THING ON THESE DEFICITS.

IN HIS SO-CALLED "ROSE GARDEN" AGREEMENT WITH CONGRESSIONAL REPUBLICANS, THE PRESIDENT ACCEPTED DEFENSE CUTS AND REVENUE INCREASES SO LONG AS THEY ARE COUPLED WITH CUTS IN NON-DEFENSE SPENDING. THIS IS THE BASIS FOR THE \$150 BILLION DEFICIT REDUCTION PLAN NOW BEFORE THE SENATE, INCLUDING \$71 BILLION IN SAVINGS INITIATED BY THE FINANCE COMMITTEE -- ABOUT \$47 BILLION IN REVENUES, THE REMAINDER IN ENTITLEMENT SAVINGS, REDUCED DEBT SERVICE AND \$3.1 BILLION FROM GRACE COMMISSION RECOMMENDATIONS. THIS IS THE FIRST MOVE TO IMPLEMENT SOME OF THE GRACE PROPOSALS, WHICH MAY BECOME INCREASINGLY POPULAR AS MEMBERS CONSIDER THE ALTERNATIVES FOR SAVING MONEY.

THIS IS A MODEST PACKAGE -- \$150 BILLION OUT OF SOME \$550-\$600 BILLION IN CUMULATIVE DEFICITS OVER THE NEXT THREE YEARS. BUT SOME FACTS HAVE TO BE FACED, AND ONE OF THEM IS THAT THE SPEAKER OF THE HOUSE AND THE PRESIDENT HAVE A VETO OVER OUR EFFORTS: TIP O'NEILL WITH HIS 100-VOTE MARGIN, AND PRESIDENT REAGAN WITH HIS CONSTITUTIONAL AUTHORITY. BUT WITHIN THAT REALITY WE ARE TRYING TO DO OUR BEST.

CLOSING THE GAP

TO CLOSE THE DEFICIT GAP, WE USUALLY FOCUS ON THREE BASIC AREAS: DEFENSE SPENDING, ENTITLEMENTS, AND REVENUES. THAT IS NOT SURPRISING. DEFENSE AND ENTITLEMENTS CONSTITUTE MOST OF THE BUDGET. AND JUST ABOUT EVERYONE AGREES THAT REVENUES WILL HAVE TO PLAY A ROLE, AS THEY DID IN THE 1982 TAX REFORM BILL AND AS THEY ARE DOING IN THIS YEAR'S MORE MODEST EFFORT.

SIMILARLY, ENTITLEMENTS MUST BE ADDRESSED, AND FEELINGS ARE VERY STRONG ON ALL SIDES. NO ONE HAS FORGOTTEN THE 1982 CAMPAIGN, WHEN THE VERY RECOGNITION OF A FUNDAMENTAL PROBLEM IN THE FINANCING OF SOCIAL SECURITY WAS USED AS A PRETEXT FOR BATTERING REPUBLICAN CANDIDATES WITH THE CHARGE OF INDIFFERENCE OR HOSTILITY TO THE ELDERLY. THE MEMORY OF THAT CAMPAIGN HAS NOT FADED, AND IT IS NO WONDER THAT SOME BITTER FEELINGS REMAIN. THOSE OF US WHO ARE LOOKING FOR A RESPONSIBLE SOLUTION TO THE IMMIMENT PROBLEM OF MEDICARE FUNDING HAVE TO WONDER WHETHER WE WILL BE ALLOWED TO DISCUSS THE ISSUE IN A FREE AND FAIR FASHION.

IT DOES NOT HAVE TO BE THIS WAY. THERE IS RISING BIPARTISAN INTEREST IN THE PROBLEM OF GROWING ENTITLEMENTS, AND IN 1983 WE DID PUT THROUGH A SOCIAL SECURITY REFINANCING PACKAGE THAT, WHILE FAR FROM PERFECT, ADDRESSED SOME VERY MAJOR CONCERNS ON BOTH THE BENEFIT AND TAX SIDE. FOR THE PAST SEVERAL WEEKS THE SENATE HAS GIVEN SERIOUS CONSIDERATION TO ALTERNATIVE BUDGET PLANS THAT MAKE MAJOR CHANGES IN ENTITLEMENT PROGRAMS, SPONSORED FROM BOTH SIDES OF THE AISLE.

REVENUES WILL BE ON THE TABLE FOR ANY LARGE-SCALE DEFICIT REDUCTION EFFORT. AGAIN, PERMANENT TAX REDUCTIONS HAVE BEEN A MAJOR PART OF PRESIDENT REAGAN'S PROGRAM, AND THE RESISTANCE TO THE SCOPE AND NATURE OF THOSE TAX CHANGES HAS BEEN CONSIDERABLE. SO FAR OUR RESPONSE HAS BEEN TO RAISE REVENUES BY CLOSING LOOPHOLES, IMPROVING TAX COMPLIANCE, AND CUTTING BACK ON EXEMPTIONS AND PREFERENCES RATHER THAN BY RAISING TAX RATES. THE HISTORY OF TAX POLICY OVER THE PAST THREE YEARS IS PROBABLY A GOOD INDICATOR OF THE KINDS OF THINGS WE WILL BE LOOKING AT FOR DEFICIT

REDUCTION PURPOSES, AS WE HEAR MORE TALK OF MAJOR REFORMS, LOWER-RATE SYSTEMS, CONSUMPTION TAXES AND THE LIKE.

IMMEDIATE ACTION IN '85

WE WILL HAVE TO GET RIGHT TO THE POINT ON DEFICIT REDUCTION NEXT YEAR ONE WAY OR THE OTHER, AND TIME WILL BE OF THE ESSENCE. WHEN PRESIDENT REAGAN TOOK OFFICE THERE WAS A LOT OF TALK ABOUT HIS DESIRE TO "HIT THE GROUND RUNNING." WHOEVER IS ELECTED IN NOVEMBER, AND I ASSUME IT WILL BE RONALD REAGAN, HAD BETTER BE PREPARED, WITH SPECIFICS, TO BE ON THE GROUND AT FULL SPEED COME JANUARY 1985 ON THE DEFICIT PROBLEM. FAILURE TO ACT ALREADY HAS HAD SIGNIFICANT COSTS: THE PRIME RATE IS UP 1 1/2 POINTS THIS YEAR ALREADY, THE TRADE DEFICIT EXPANDING TO RECORD LEVELS. WITH FUTURE JOBS AND INVESTMENT AT STAKE, FURTHER DELAY WOULD BE INEXCUSABLE.

OUR GOAL MUST BE TO MOVE A MAJOR BIPARTISAN DEFICIT REDUCTION PACKAGE AS EARLY AS POSSIBLE IN 1985, ADDRESSING ENTITLEMENTS, DEFENSE, AND REVENUES. TO ACCOMPLISH THAT TASK WILL REQUIRE STRONG POLITICAL LEADERSHIP.

I MUST ADD THAT, AS USUAL, THE AMERICAN PEOPLE ARE FAR AHEAD OF THE POLICYMAKERS AND POLITICIANS ON THE DEFICIT ISSUE. WE CAN MOVE ON THE DEFICIT, WITHIN THE PARAMETERS I HAVE OUTLINED, BECAUSE THE PUBLIC UNDERSTANDS THE STAKES AND WILL NOT BE DISTRACTED BY A REHASH OF YESTERDAY'S DEBATES. BETWEEN NOW AND NOVEMBER VOTERS WILL DEMAND SPECIFICS ON HOW WE WILL DEAL WITH THE PROBLEM. THEY HAVE HEARD ENOUGH OF "ELECT ME AND I'LL FIX IT." THE FACT IS THAT WE ARE NOT GOING TO RETURN TO A HIGH TAX RATE POLICY, OR TO A LOOSE MONETARY POLICY, OR TO BANKROLLING NEW PROGRAMS FOR EVERY PROBLEM THAT COMES TO OUR ATTENTION.

BUDGET CHOICES

BECAUSE WE CANNOT TURN BACK, AS SOME WOULD HAVE US DO, WE NEED TO FACE OUR PROBLEMS WITH IMAGINATION AND CREATIVITY. THIS INCLUDES THE DEFICIT PROBLEM, BOTH THE IMMEDIATE PROBLEM AND THE LONG-TERM PROBLEM. CONSIDER A FEW EXAMPLES.

o TAX REFORM. THE TAX RATE CUTS OF 1981, COMBINED WITH THE BASE-BROADENING MEASURES OF 1982 AND THIS YEAR, HAVE

PAVED THE WAY FOR SERIOUS CONSIDERATIONS OF A LOWER-RATE, BROADER-BASED TAX SYSTEM. THE FOCUS IS NOW ON HOW TO RAISE REVENUES MORE SIMPLY AND FAIRLY. THE SENATE FINANCE COMMITTEE WILL HOLD HEARINGS THIS SUMMER ON TAX REFORM, WITH ALL OPTIONS OPEN. THE TREASURY WILL HOLD SIMILAR FIELD HEARINGS, AND THE ADMINISTRATION IS DUE TO REPORT ON MAJOR TAX OPTIONS BY DECEMBER. THIS IS ALL TO THE GOOD, BECAUSE THE DEFICIT DILEMMA HAS STIMULATED NEW THINKING ABOUT WHAT OUR TAX SYSTEM IS SUPPOSED TO DO. NO ONE EXPECTS REFORM OVERNIGHT, BUT WORKING FOR AGREEMENT ON THE BEST OPTIONS SHOULD ENABLE US TO STRUCTURE ANY DEFICIT-REDUCING TAX MEASURES WITH LONG TERM REFORM IN MIND.

o RESTRAINTS ON FISCAL DECISIONS. THE MOUNTING IMPATIENCE WITH OUR SEEMING IMPOTENCE ON THE BUDGET PROBLEM MEANS RENEWED ATTENTION ON WAYS TO REFORM OUR FISCAL PROCEDURES IN THE INTEREST OF CONSTRAINING SPENDING AND DEFICITS. THIRTY-TWO STATES HAVE CALLED FOR A CONSTITUTIONAL CONVENTION TO DRAFT A BALANCED BUDGET AMENDMENT, AND THE CONSTITUTIONAL ROUTE LOOKS INCREASINGLY ATTRACTIVE AS STATUTORY BUDGET CONTROLS HAVE NOT DONE THE

JOB. BELIEVE ME, CONGRESS NEEDS A STIFF DOSE OF DISCIPLINE: FOR TOO LONG, SPENDING HAS BEEN ON AUTOMATIC PILOT. YOU KNOW IT AND CONGRESS KNOWS IT, TOO. IT MUST STOP.

THE LEADING CANDIDATE OF ACTION IS THE BALANCED BUDGET-TAX LIMITATION AMENDMENT PENDING IN THE JUDICIARY COMMITTEE, AND IT TAKES THE RIGHT GENERAL APPROACH OF REFORMING PROCEDURES RATHER THAN MANDATING SPECIFIC OUTCOMES. THIS, OR ANOTHER ALTERNATIVE, IS LIKELY TO RECEIVE SERIOUS CONSIDERATION THIS YEAR OR NEXT, PARTICULARLY IF WE GET CLOSER TO THE THIRTY-FOUR STATES NEEDED TO PETITION FOR A CONSTITUTIONAL CONVENTION.

o BUDGET ROLES OF PRESIDENT AND CONGRESS. THE PRESIDENT ASKED FOR A LINE-ITEM VETO POWER, AND WHILE SOME OF MY COLLEAGUES DISAGREE, I BELIEVE THIS WOULD ADDRESS A SERIOUS PROBLEM IN THE LIMITED ABILITY OF THE PRESIDENT TO BARGAIN WITH CONGRESS OVER BUDGETS AND SPENDING. WHILE THE SENATE HAS REJECTED A STATUTORY APPROACH TO THIS ISSUE FOR NOW, THE CONSTITUTIONAL ROUTE REMAINS OPEN. THERE IS CONSIDERABLE INTEREST IN FINDING A BETTER WAY TO MANAGE THE

RELATIVE DUTIES AND POWERS OF CONGRESS AND THE PRESIDENT
WHEN IT COMES TO BUDGETING.

THE REAL STORY

THE NEXT PRESIDENT AND THE NEXT CONGRESS WILL NEED YOUR
HELP. THE MAN OR WOMAN WHO PICKS UP A NEWSPAPER BETWEEN NOW
AND NEXT JANUARY WILL WANT TO KNOW WHAT'S IN STORE FOR THEM
-- HOW WILL ACTIONS IN WASHINGTON MAKE LIFE BETTER OR WORSE
FOR THEM, AND WHAT WOULD HAPPEN IF WASHINGTON DOES NOTHING?

MANY PEOPLE PREFER IT WHEN WASHINGTON DOES NOTHING, AND
WASHINGTON HAS BEEN DOING A LOT OF THAT LATELY. BUT IF OUR
GOVERNMENT IS NOT ALWAYS A CREATIVE INSTITUTION, AT LEAST IT
SHOULD BE A RESPONSIVE ONE.

IT'S A FACT THAT TREMENDOUS ECONOMIC PROGRESS HAS BEEN
MADE, AND THAT MORE IS IN STORE IF WE HAVE THE GUTS TO PULL
TOGETHER AND TACKLE THE DEFICIT DILEMMA; AND WE HAVE THE
POWER TO SEE THAT IT HAS A HAPPY ENDING. THE IMPORTANT
THING IS TO DO AS MUCH AS POSSIBLE AND FOLLOW THROUGH NEXT
YEAR.

OUR CITIZENS KNOW WHAT THE STAKES ARE IN THE BUDGET GAME. IN MY VIEW, WE RISK LOSING THE BEST CHANCE IN MANY YEARS TO PRESERVE AND SUSTAIN A NONINFLATIONARY RECOVERY. BUT WE STAND TO GAIN THE OPPORTUNITY TO PARTICIPATE IN A GROWING, VITAL, STABLE ECONOMY THAT WILL BE THE GREATEST ENGINE OF JOB-CREATION IN THE WORLD. LET US SPREAD THE WORD THAT WE TRULY HAVE A COMMON INTEREST IN RESTORING FISCAL SANITY TO OUR GOVERNMENT, AND THAT PAROCHIALISM IS THE WAY OF THE PAST. THAT IS THE MESSAGE WE ALL OUGHT TO CARRY.

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