Speak

June 12 ~~[illegible]~~
TUES ~~[illegible]~~
till 1:00
DC

Tues. June 12
SPEAK (prior to lunch)
12:00

COUNCIL FOR RURAL HOUSING AND DEVELOPMENT

May 18, 1984

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

Dear Senator Dole:

On behalf of the Council for Rural Housing and Development, I would like to invite you to be the keynote speaker at our Fourth Annual Meeting which will take place at the Mayflower Hotel in Washington, D.C. on Tuesday, June 12 and Wednesday, June 13.

By way of background, the Council for Rural Housing and Development consists of 120 member organizations who either develop, finance or manage rental housing under the Section 515 program. Section 515 has proven to be one of the most successful federal housing programs by meeting the needs of rural America, which has a far higher proportion of substandard housing than other parts of the country. At this time, more than 280,000 rural families are living in Section 515 projects and our members take great pride in helping to bring about this result.

Although just over three years old, the Council has played a major role in shaping rural rental housing policy, both through our activities on the Hill and through our close working relationship with the Farmers Home Administration. We now have members in 38 states -- including Kansas -- who are actively participating in our group.

Finance, tax issue + rural housing programs

If you can be with us, we can accommodate you any time on Tuesday, or on Wednesday morning. The best time for us would be a luncheon speech on Tuesday, or an address at 9:00 a.m. on either Tuesday or Wednesday. Another possibility would be a breakfast speech on either day. We know you have an extremely busy schedule now and thus are willing to meet your timing needs in any way possible.

We are pleased to offer an honorarium in the amount of $2,000.

Charity

We would appreciate hearing as soon as possible whether you can be with us so that we can adequately publicize your appearance. Please have your staff contact me at 617-227-7915 or our Washington counsel, Charles L. Edson, at 955-9779.

Chuck Edson
955-9779

Sincerely,

Herbert F. Collins

Herbert F. Collins,
President

HFC/srl

2300 M Street, Northwest, Fourth Floor, Washington, D.C. 20037 (202) 955-9715

Hon - #2AA

Speak

✓ June 12 (TUES)

Republican
National
Committee

Frederick K. Biebel
White House Liaison

Kay Ford Trafton
Director
Speakers Bureau

May 14, 1984

Ms. Betty Meyers
Senator Bob Dole's Office
Room 171
Senate Hart Office Building
Washington, D.C. 20010

Dear Betty:

The Speakers Bureau of the Republican National Committee requests the availability of Senator Bob Dole for a speaking engagement in Washington, D.C. on June 12, 1984.

The following information is provided for your consideration.

EVENT: Luncheon

SPONSOR: Council for Rural Housing and Development

SITE: Mayflower Hotel

ATTENDANCE: 100 +

TIME: 12:00 noon

EXPENSES: $2,000 Honorarium

This request has been given to us by Herb Collins, a Republican "Eagle" and a major fundraiser for the Party. He is one of five Eagles who is a member of this council. This council is a group that is primarily interested in Farmers Home Administration housing programs. This council will be meeting in Washington for a three day conference - June 11 to June 13 with the luncheon scheduled on the 12th.

Betty, please let me know when a decsion has been reached. I look forward to hearing from you and I thank you for your time and consideration. My direct office number at the Speaker's Bureau is 662-1314.

Sincerely,

Lisa

Lisa M. DeGrandi
Event Coordinator

Hon #2M

TALKING POINTS ON TAX TREATMENT OF FMHA SECTION 515 RURAL HOUSING SUBSIDIES

The Program

- The Farmers Home Administration administers a low income rental housing program for small towns (the "Section 515" program) that is the rural counterpart of HUD's Section 236 program for subsidized urban low income rental housing.
- The FmHA rural housing program provides loans to participating developers at a market rate of interest.
- However, at the same time the market rate loan is negotiated, FmHA and the borrower enter into an "Interest Credit and Rental Assistance Agreement", under which the borrower is provided a level monthly subsidy.
- The subsidy is determined by the difference between the "market" rent and the "basic" rent. The "market rent" is the rent that would have to be charged to assure an adequate rate of return assuming market interest rates. The "basic rent" is the rent that could be charged assuming a loan at a one percent rate of interest.
- The subsidy is reduced to the extent that the borrower receives rents in excess of the "basic" rent amount.

The Problem

- The IRS has asserted in News Release IR 83-115 that the FmHA monthly subsidy amounts to an interest rate subsidy, so that the borrower should be permitted to deduct only one percent of the mortgage interest paid.
- The supporters of this program believe the IRS is in error and that the payments should be viewed as a rent subsidy that is income to the borrower when received.
- At first blush it would seem to make no difference whether the subsidy payment is viewed as a reduction in the interest rate or rental income. Nevertheless, if the IRS treats this subsidy as a reduction in the interest payment, it has a substantial effect on the amount of accrued interest that would be deductible under normal compounding principles.

- The IRS position results in a lower overall interest deduction and may threaten the continued economic viability of the FmHA rural housing program.
- This result is directly contrary to the published position of the IRS with respect to similar HUD subsidy payments under the Section 236 program.

Proposed Solution

- It is proposed that we insert language in the statement of managers that rejects the reasoning of IR 83-115 and expressing the intent that the borrower can treat the FmHA Section 515 subsidy payments as compensation for lower rents charged and deduct the full stated market rate of the loans.

REMARKS OF SENATOR DOLE

COUNCIL FOR RURAL HOUSING AND DEVELOPMENT

Tuesday, June 12, 1984--12:00 p.m.--Mayflower Hotel

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--and there are signs of that, with the prime rate up to 12-1/2--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.

- Assuming an extremely strong recovery (4% real growth of GNP) is sustained over the next few years and all of the Administration's 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 begin dealing 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 very possible.

- If we postpone any 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.

- Rising 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: some of that has already occurred. 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 But if we do nothing, 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.

Deficit downpayment in 1984

- 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. Then he 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 suggested, we are working 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 <u>can</u> face up to the deficit problem even in an election year.

- The Senate has adopted the President's plan, including the Finance Committee's proposals on spending and revenue options that achieve about $7 billion of the "downpayment" goal. To do that we drew 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

  -Grace Commission recommendations ($3.1 billion in the Finance package)

- <u>Feasibility</u>. We have made progress by following the President's suggestion and concentrating 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.

- <u>Time of the essence</u>. The House has pased a deficit plan that makes deeper cuts in defense spending, and we are now coferring on the differences. Unless we finish action soon, election year politics may make it difficult to get this job done.

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. And the economy grew at 8.8% in the first quarter of 1984.

- Housing starts are running at a rate of about 1.96% million units a year, and jumped 19% in February.

- Industrial output in 1983 rose 6.5%, and factory utilization is now up to 81.9%--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. And the 12% increase expected this year is the highest in 18 years.

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 7.5% in May. Overall, this means unemployment has dropped 3.2 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 5.5 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.