October 12, 1984

M E M O R A N D U M

TO: SENATOR DOLE

FROM: GEORGE PIELER

SUBJECT: OCTOBER 16 SPEECH TO TEXAS COMMERCE BANCSHARES BOARD

Lee Strauss of Texas Commerce indicated the group would be interested in anything you have to say about the political campaigns and about possible approaches to the deficit and tax reform next year.

He also expressed a hope that your remarks would be no more partisan than necessary, because the Board of Directors includes important Republicans and Democrats: Gerald Ford, Barbara Jordan, and Charles Duncan (Carter's Deputy Secretary of Defense), all of whom are expected to be in attendence.

Attached are talking points including a new one-page on Mondale indexing, and tax reform.

Attachment
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Tax Reform, Tax Indexing, and Mondale

● Walter Mondale has consistently opposed tax indexing and advocated either repeal, deferral, or drastic cutbacks in this major tax reform that helps working people most of all. In Sunday's debate he said he would repeal indexing as soon as he could--notwithstanding disclaimers to the contrary, that is consistent with everything he has ever said or done on this subject.

● In his so-called deficit reduction plan Mondale promised--or rather threatened--that he would raise taxes on everyone making over $25,000 by indexing only for inflation in excess of 4 percent. That change alone, just one part of a massive tax increase scheme, would increase taxes on some 30 million taxpayers. But even more important, it ignores that principle that lies behind tax indexing: ending the injustice of automatic, unlegislated tax increases caused by inflation, and making Congress fully accountable for its tax decisions.

● A growing bipartisan group in Congress wants to see major tax reform in the interest of fairness and economic efficiency. Tampering with indexing would reverse course and set back the tax reform movement, because indexing puts the pressure on to broaden the tax base, keep rates low, and weed out unjust tax shelters and preferences. Lowering rates is one reason we have such so much luck in enacting base-broadening, loophole-closing measures in the last 3 years.

● Repeal or deferral of indexing means a massive tax increase that would hit low and moderate income working people the hardest. Repeal would increase taxes by $136 billion over the next five years: 78 percent of the increase would fall on taxpayers earning under $50,000 a year. Only 1.2 percent of the increase would come from those earning $200,000 a year or more. Here is the real fairness issue.

● Without indexing taxpayers earning less than $10,000 would face a 9.5 percent increase in their taxes in 1985. For a family of four earning $10,000, repeal or deferral of indexing would result in a tax increase of $655 between 1985 and 1989, a staggering 39.6 percent increase.

● For a median income family of four, the tax increase between 1985 and 1989 would be $1,863, a 10 percent increase.

● The real point is that Walter Mondale does not trust the American people; he puts the government first, and sees nothing wrong in giving the government an inflation revenue bonus while unwary taxpayers foot the bill. President Reagan embraces tax indexing because he has faith in the people and believes in fair, honest government.

REMARKS OF SENATOR DOLE

TEXAS COMMERCE BANCSHARES, INC.

Tuesday, October 16, 1984--12:15 p.m.
Houston Club--Houston, Texas

Our Economic Progress

- Our spectacular recovery remains on track and appears to be moderating to a pace that can be sustained in the years ahead. Real GNP grew 6.1% in 1983, and continued at a 10.1% rate in the first quarter of 1984, and 7.5% in the second quarter. This is the strongest recovery since 1961.

- With national unemployment down to 7.5%, this recovery has created 6.4 million jobs. Factories are operating at the highest capacity levels in 4 years, close to 82%. And the investment needed to sustain future growth is being made: businesses plan to increase spending on plant and equipment by 14.8% this year, the biggest increase in 18 years.

- The best news about this recovery is that inflation is staying low. Producer prices in 1983 showed that smallest increase since 1984. The 1983 CPI increase was just 3.8%, and consumer prices indicate we can sustain strong growth with low inflation. Consumer price increases are running at around 4%.

- Growth, lower inflation, and major tax relief have translated into real income gains for all Americans. Real personal income has risen by $116 billion since the low point of the recession (August 1982). For the first time since 1978, real income is growing.

- All the trends in the economy look good. Most observers believe the recent drop in the economic indicators just show a moderating pace of recovery. Meanwhile the prime rate--which rose from 6.5% to 21.5% under Carter-Mondale--stands at 13%. The misery index, which peaked at 24.5% in March of 1980, is around 11%. Auto sales and housing starts are up.

The Deficit Problem and Sustaining Recovery

- Just about everyone agrees that the deficit remains the number one obstacle to sustaining the strong recovery we have enjoyed to date. If we don't cut the deficit Federal debt will nearly double over the next five years to over $10,000 for every man, women, and child in America.

- By 1989 it would take half of all individual income tax payments just to pay the interest on the debt; the interest cost would be $250 billion, or about $1,100 for every American.

- Record deficits cannot be sustained, and they have very real costs. They drive up the cost of home mortgages, they threaten to rekindle inflation or crowd out private investment and lead to a new recession. And they hurt our businessman trying to compete overseas by keeping the dollar high, thus raising the price of goods we try to export.

- We have made a good start on the deficit problem with this year's Deficit Reduction Act. The President took the lead by calling for bipartisan negotiations on a down-payment deficit package. The so-called Rose Garden plan that emerged helped us pass the Deficit Reduction Act, which makes real spending cuts of $13 billion and raises about $50 billion in revenue, largely by reforms to close off tax shelters, plug loopholes, and defer some tax breaks scheduled to come on stream.

- The immediate goal now is to fulfill the entire Rose Garden plan--aimed at saving over $140 billion over three years--by keeping the appropriations bill in line with that budget blueprint. That will ensure that the primary emphasis in deficit reduction remains on spending restraint, where it belongs.

Mondale Deficit Plan

- The Mondale plan to cut the deficit just is not credible and not very specific on the spending side. Where President Reagan puts spending reduction and economic growth first in the deficit battle, Walter Mondale reaches right for the tax increase option as a first resort. By tampering with tax indexing, the Mondale plan would hit between 30% and 40% of taxpayers: those with income over $25,000. The Mondale surtaxes and rate changes for upper incomes are just more of the same kind of backward fiddling with the tax structure that has made our tax code so inefficient. By contrast, with his rate cuts and tax indexing, President Reagan set us on the path toward a lower-rate, broader-based and fairer tax system. Mondale would set tax policy back at least four years.

- On spending, the Mondale plan has very little that is real. $51 billion is saved from hoped-for interest savings, and while $54 billion in spending cuts are proposed, so are $30 billion in new spending. That means $24 billion in real spending cuts by 1989, mostly unspecified (like 'management initiatives'). Of the claimed $176 billion in deficit reduction in this plan, $153 billion comes from tax hikes, interest savings, and economic growth assumptions.

Major Tax Reform

- There is still a lot of interest in major reforms to make tha tax system simpler, fairer, and economically more efficient. The Treasury Department will report its options in December, and the Finance Committee is holding four days of hearings to hear from the public about possible alternatives.

- Everyone wants to improve the tax code, but it is important to build a consensus for any far-reaching changes, or else the new system begins to unravel again right away. So it may not be possible to jump into a new system in one step: we may have to proceed gradually, indentifying areas of agreement as we go along.

- We need to know how people really feel about the trade-offs they would face under a lower-rate, broader-base, or modified 'flat' tax. Would they really give up their favorite deductions and credits in return for lower rates? Or do they really care most about the bottom line--the size of their tax payment?

- We may be able to agree on some basic principles of tax reform, set a goal, and take initial steps toward that goal. That is why we are examining in some detail the more popular flat or 'quasi-flat' proposals, plus consumption taxes and the like. The important thing is to be sure that we are making an improvement: otherwise it is not worth the effort.