

REMARKS OF SENATOR DOLE

NATURAL GAS SUPPLY ASSOCIATION'S ANNUAL MEETING

Friday, November 16, 1984--9:00 a.m.--Ft. Lauderdale, Florida

1. Our Economic Progress

o 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. Even with the slower growth in the 3rd quarter, this is one of our strongest recoveries.

o With national unemployment down to 7.4%, 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.

o 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 increased by 4.1% in fiscal 1984, and producer prices have declined in each of the last two months.

o 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.

o 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 12%. The misery index, which peaked at 24.5% in March of 1980, is around 11%. Auto sales and housing starts are up.

2. The Budget And The Deficit

Nature Of The Deficit Problem

o After several years of running budget deficits that approach the \$200 billion mark, some people seem to be getting complacent about the problem. Since the economy has continued to do well, with low inflation and strong growth, why worry about the deficit?

o The answer is that everything we have achieved for the economy in the last several years is put at risk unless we deal with the deficit. And part of the problem is that the public can't get very excited about the deficit dilemma. It seems we need to have a crisis on our hands, or some kind of visible faltering in the economy, to convince people of the urgency of reducing the budget deficit.

The Real Point

o We have heard a lot of campaign rhetoric about who or what caused the deficit. That is beside the point: everyone is to blame, because all of us together have put more demands on the government than we are willing to finance through taxes. Unless we lower some of our expectations for government involvement--meaning reduced Federal spending--deficits will persist.

o Sustained deficits in the \$200 billion range are a real threat to continued recovery. Unless deficits decline we will either have to absorb Federal borrowing with higher inflation, or accept slow growth and rising unemployment as the Federal government absorbs the bulk of available credit. Without assurance that inflation will remain under control and credit available at acceptable rates of interest, business will not expand through new investment, and jobs will not be available for our sons and daughters when they are ready to enter the workforce.

Risks Ahead

o Time is of the essence, because we are at the point where economic expansion will either continue, competing against heavy Treasury borrowing, or the recovery will slow and possibly slip into recession. In either event the deficit problem will compound itself: each year that we add \$200 billion in new Federal debt adds about \$15 billion to the next year's interest costs. The exploding cost of servicing the Federal debt will make controlling spending that much more difficult each year.

What Needs To Be Done

o We have to move swiftly to set realistic goals for dealing with the deficit, and we have to agree at the outset that the sacred cow is a thing of the past: everything in the budget has to be on the table, and everything has to be scrutinized for possible cost-savings. It is not acceptable to say that we have done all we can to reduce Federal spending when the budget represents 25% of the gross national product.

Freeze Option

o A lot of people think that 1985 may be the year of the budget freeze, and there is a lot of interest in Congress in the possibility of an across-the-board freeze on spending for a year or two, until we get our fiscal house in order. For example, a 1-year spending freeze, allowing for 5% real growth in defense, could save \$150 billion over 3 years. That would be a major step toward establishing a clear downward trend in the size of the deficit.

Attack Spending First

o Spending must remain our first line of attack in reducing the deficit. Spending must be financed by either taxes or borrowing, and either method of finance takes resources away from the private sector and limits our economic potential. At the same time, the revenue option may have to play a role, as President Reagan puts it, as "a last resort". The deficit problem is so large that no option can realistically be ruled out.

All Aboard

o Whatever approach we choose, everyone is going to have to share in the effort to close the deficit gap. We want a strong economy with stable prices, rising productivity, more jobs and more challenging, future-oriented jobs. We are on the verge of achieving that goal, thanks to President Reagan, and we will achieve it if we build public support for deficit reduction. People will accept a limited, short-term sacrifice for the cause of fiscal restraint if they understand that it is the best investment they can possibly make for their own, and their families', economic future. That is what is at stake in the deficit debate, and that is why I am confident we will join together in a bipartisan effort to do the job.

Procedural Changes

o There is a lot to criticize in the way we prepare a budget, and it may be necessary to impose some external controls on Congress. The President has asked for a line-item veto, which I support and which could be effective. There is still strong support for some kind of balanced budget or fiscal restraint amendment in the constitution that would help restore a more balanced fiscal posture in the years ahead.

o Still, nothing will work unless Congress and the President have the will to make it work. Unless we forge a consensus in favor of deficit reduction, no budget procedure will do the job.

3. Major Tax Reform

o There is a lot of interest in major reforms to make the tax system simpler, fairer, and economically more efficient. The Treasury Department will report its options in December, and the Finance Committee held 4 days of hearings to hear from the public about possible alternatives.

o 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, identifying areas of agreement as we go along.

o 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?

o 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.

o Contrary to the uninformed assertions of the Mondale campaign, the Reagan Administration is not planning to propose a national sales tax or a so-called Value Added Tax. Treasury Secretary Don Regan has said repeatedly that those are among the least-favored tax options. Besides, do not

forget that the President wants tax reform--not tax
increases, which he continues to oppose.

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Energy Tax

- Because the President ruled out tax increases in his election campaign, and no one seems eager to propose them, it is unlikely Congress will consider new or add-on taxes such as taxes on consumption--including energy taxes. It is more likely that any revenue changes that develop over the next few years will involve more reform efforts, loophole-closings, and compliance measures.

- Should that approach prove unworkable for any reason, there are a number of revenue options that have been considered in the past that might get renewed attention. In 1983 the Senate Finance Committee seriously examined several forms of an energy consumption tax, including one based on units of energy produced (e.g. a BTU tax). An across-the-board energy tax has the theoretical advantage of being neutral with regard to different energy sources, but as a practical matter it would be difficult to structure a truly neutral tax. In addition, there might be considerable reluctance to open up such a comprehensive new revenue source: Congress might find it too easy to hike the tax rate in the future.

- More specific energy taxes have been proposed on a narrower based: especially those aimed at oil and gasoline. Some think a major increase in the gasoline tax would be appropriate in this day of falling oil prices. Others, for similar reasons, favor an oil import fee or a fee on both domestic and imported petroleum. As an example, a \$5 per barrel oil import fee could raise some \$10 billion per year.

- Alternatively, a fee could be set by fixing the domestic per-barrel price of oil (with appropriate minimum and maximum boundaries) with the tax equal to the difference between the set price and the cost per barrel of imports. This would not guarantee a specific revenue pickup each year, but it would establish a level, stable price that would increase certainty for business planning and conservation efforts.

- All in all, prospects for an energy tax depend not just on Congress' success in tackling the deficit through other means, but in the climate for significant changes in our energy policy in the years just ahead. Right now it looks as though most people are content with the status quo.

TALKING POINTS
NATURAL GAS SUPPLY ASSOCIATION
NOVEMBER 16, 1984

- o The last four years represented the best, and possibly last, chance for complete natural gas decontrol. Unfortunately for the members of NGSA the divisions within Congress were as deep as those within the industry and were we never even close to achieving the kind of consensus necessary to modify the Natural Gas Policy Act.
- o It's kind of a good news, bad news situation. The good news is there were only 26 votes in the Senate to recontrol the gas market. The bad news is there were only 28 votes for total decontrol. Despite all the dissatisfaction with the NGPA, there was an overwhelming consensus that it was better than those alternatives.
- o Some good ideas nevertheless emerged during the debate. There seems to be general agreement that the Fuel Use Act restrictions and Incremental Pricing are no longer necessary and should be done away with. Contract carriage, in a variety of forms, proved to be an attractive concept to many in the Congress. It is possible in those areas that Congress may be willing to act next year.
- o Wellhead pricing is a tougher issue. Certainly the pressure to recontrol the market has subsided and it now appears that the highly touted price flyup this January will not materialize. The Department of Energy estimates an eight cent increase at most. In fact, in my state, the consumer price of gas has declined for the second straight year. All of which just goes to show that the market will work despite federal regulation.
- o On the other hand, I don't sense much enthusiasm for removing the remaining price controls. Much will undoubtedly depend upon the consumer reaction to partial decontrol on January 1. If prices remain moderate and a consensus can be reached between producers, pipelines and users, I think we could reach a bipartisan solution in the next Congress. But that is a tall order.
- o It is important that we not allow government price regulation to result in underdevelopment of those resources. Today's supply "bubble" will not last forever. Yet, it may never be possible to fully remove price controls from old gas. So I encourage the membership here to look for legislative alternatives that will maximize production in that event. Providing financial incentives to produce gas that would otherwise not be produced may be the most that can be done.

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November 13, 1984

TO: Senator Dole

FROM: George Pieler

SUBJECT: Natural Gas Supply Association Talk

Attached is material for your Friday talk to the Natural Gas Supply Association, including talking points on the possibility of an energy tax. Ed is doing material on natural gas issues.

Attachment