Remarks of Senator Dole

4/16/85----National Conference of Building and Construction Trades

Why the Deficit Matters

- o Sustained deficits in the $200 billion+ range are a direct threat of the economy, because they will lead to either higher inflation or stagnation with rising unemployment. Cutting the deficit is the key to creating lasting jobs and restoring our position in international trade.

- o The worst risk is that endless deficits will compound themselves: 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 debt makes controlling spending that much more difficult.

- o Endless deficits means higher interest rates--make it more difficult for people to own a home, borrow for their children's education, and plan for the future.

White House-Senate Budget Plan

- o This is a very tough, very serious budget--no one underestimates the difficulty of getting it passed. But it also is a balanced, reasonable package that calls on everyone--and every sector with a stake in the Federal budget--to give a little, to do with less Federal largesse than they would otherwise get.

- o To demonstrate how serious this budget is: 17 programs would be eliminated. Defense would be held to a 3% increase in <u>each</u> of the next three years: half what the President wanted. And permanent savings would be achieved in all inflation-adjusted, non-means tested entitlement programs by guaranteeing a minimum 2% COLA for the next three years but using a CPI-2 formula if inflation is over 4%.

- o In addition, to help lower-income Americans, SSI recipients would get both a full COLA and a $10 per individual/$15 per couple increase.

- o All Federal pay, civilian and military, would be frozen for one year.

- o The plan meets our goal of reducing the deficit to 2% of GNP by 1988, with reductions totalling about $296 billion over three years.

- o This program goes beyond a freeze simply because a freeze is not enough to do the job. A freeze would not address the problem of long-term growth in spending and deficits, which is the key to eliminating fears about the stability of our recovery. In addition, a freeze just postpones making the policy decisions--in terms of priorities among spending program--that have to be made if we are serious about the deficit problem.

- Over the past three years deficits have totalled $606 billion: an average of 5.7% of GNP. That is just not sustainable if we want to continue a strong economic recovery.

- If we do nothing, the situation gets much worse, even under optimistic projections: $716 in additional deficits over the next three years.

- Under the compromise Deficit Reduction Plan, Federal borrowing as a percent of private savings would decline from an estimated 78% this year to 30% by 1988. That will dramatically reduce pressure on credit markets due to Treasury borrowing--free available capital for private investment and job creation--reduce interest rates, and help our trade position.

- Even with this budget plan, we will still be spending an enormous amount to meet the basic needs of our citizens. Nondefense spending still will increase each year, from $520 billion in 1984 to $583 billion in 1988. Similarly, combined Medicare and Social Security spending will continue to rise--from $232 billion in 1984 to $293 billion in 1988: nearly 7 times the amount that was spent on those programs in 1970.

- Means-tested safety net programs are kept intact and will continue to grow as scheduled under present law. The only significant changes are holding Medicaid growth to about 6% a year on a State-by-State basis, and eliminating the 12 cent cash lunch subsidy for families above $20,000. By 1988, safety net spending will still exceed the 1980 level by 72%.

- Agricultural programs will undergo major reforms, but by 1988 we will still be spending over $10 billion a year--much higher than any year before 1980. And don't forget that over the past three years we spent a record $53 billion on farm programs, while largely doing the agricultural economy more harm than good.

Taxes

- The President and the American people have sworn off tax increases as a deficit solution, and no one in Congress seems to want to suggest otherwise. So as far as taxes are concerned, the focus will be on tax reform and ways to improve the distribution of the tax burden.

- There have been a lot of reports and analyses of inequities in the tax code, including one by Joe Pechman on who pays taxes, and one by Ralph Nader's Public Citizen group on corporate loopholes. Despite all the headlines, the bottom line conclusion is one we have known for a long time--payroll taxes and bracket creep raised the tax burden on working people, while the proliferation of tax loopholes cut taxes for the upper incomes and corporations. There, in nutshell, is the source of most of the momentum for tax reform.

- Working people have legitimate concerns in the tax debate; protection of the tax free status of fringe benefits that workers have bargained for, including health insurance--greater equity for the average taxpayer through lower rates and larger personal exemptions. Businesses and workers who don't benefit from rich fringe benefits have legitimate concerns, too, which is why we expect a long and lively debate.

- Clearly tax reform is important, because we must have a tax system that our people believe in and will support without coercion. But unless we deal with the deficit, initiatives such as tax reform will fall by the wayside--because our fiscal crisis will demand all our energy if it gets worse.

- Republicans led the effort to reduce and index tax rates, close corporate loopholes, shut off some upper-income benefits, and improve tax compliance over the past four years. Taken together these changes are the best improvements in tax policy for working people in many years. And without them, scheduled increases in the payroll tax would be pinching workers much more severely than they are. And President Reagan's Treasury Department wants to go further--their reform plan would reduce individual rates, while increasing business taxes by 37 percent.

- The latest report by the Joint Committee on Taxation shows that tax loopholes and preferences will amount to about $424 billion in 1986. Tax loopholes are on a rapid growth path--which is why people are troubled by the unfairness of a "swiss cheese" tax base.

BOB DOLE
KANSAS

United States Senate
OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

April 15, 1985

TO: Senator Dole

FROM: George Pieler

SUBJECT: Speech to Building and Construction Trades Department

TIME AND PLACE: 10:45 a.m. on Tuesday, April 16,
Washington Hilton

The Building and Construction Trades group is interested in the "big picture"--legislative agenda for this Congress, political predictions, and the like.

Attached are talking points on the budget plan, the economy, and tax reform. Obviously the construction industry is highly sensitive to interest rates, and you might to mention that your budget plan will bring interest rates down. We are surveying some leading Wall Street analysts, and preliminary responses (expressed with some qualifications) are that this budget, if enacted, should lead to a decline of between 1 and 3 percent in interest rates.

Attachment

White House-Senate Budget Plan

o This is a very tough, very serious budget--no one underestimates the difficulty of getting it passed. But it also is a balanced, reasonable package that calls on everyone--and every sector with a stake in the Federal budget--to give a little, to do with less Federal largesse than they would otherwise get.

o To demonstrate how serious this budget is: 17 programs would be eliminated. Defense would be held to a 3% increase in each of the next three years: half what the President wanted. And permanent savings would be achieved in all inflation-adjusted, non-means tested entitlement programs by guaranteeing a minimum 2% COLA for the next three years but using a CPI-2 formula if inflation is over 4%.

o In addition, to help lower-income Americans, SSI recipients would get both a full COLA and a $10 per individual/$15 per couple increase.

o All Federal pay, civilian and military, would be frozen for one year.

o The plan meets our goal of reducing the deficit to 2% of GNP by 1988, with reductions totalling about $296 billion over three years.

o This program goes beyond a freeze simply because a freeze is not enough to do the job. A freeze would not address the problem of long-term growth in spending and deficits, which is the key to eliminating fears about the stability of our recovery. In addition, a freeze just postpones making the policy decisions--in terms of priorities among spending program--that have to be made if we are serious about the deficit problem.

Why the Deficit Matters

o Sustained deficits in the $200 billion+ range are a direct threat to the economy, because they will lead to either higher inflation or stagnation with rising unemployment. Cutting the deficit is the key to creating lasting jobs and restoring our position in international trade.

o The worst risk is that endless deficits will compound themselves: 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 debt makes controlling spending that much more difficult.

o Endless deficits mean higher interest rates--make it more difficult for people to own a home, borrow for their children's education, and plan for the future.

Taxes

- The President and the American people have sworn off tax increases as a deficit solution, and no one in Congress seems to want to suggest otherwise. So now the focus will be on tax reform and ways to improve the distribution of the tax burden.

- There have been a lot of reports and analyses of inequities in the tax code, including one by Joe Pechman on who pays taxes, and one by Ralph Nader's Public Citizen group on corporate loopholes. Despite all the headlines, the bottom line conclusion is one we have known for a long time--payroll taxes and bracket creep raised the tax burden on working people, while the proliferation of tax loopholes cut taxes for the upper incomes and corporations. There, in nutshell, is the source of most of the momentum for tax reform.

- Labor has legitimate concerns in the tax debate: protection of the tax free status of fringe benefits that workers have bargained for, including health insurance--greater equity for the average taxpayer. Businesses and workers who don't benefit from rich fringe benefits have legitimate concerns, too, which is why we expect a long and lively debate.

- Clearly tax reform is important, because we have to have a tax system that our people believe in and will support without coercion. But unless we deal with the deficit, initiatives such as rax reform will fall by the wayside--because our fiscal crisis will demand all our energy if it gets worse.

- Republicans led the effort to reduce and index tax rates, close corporate loopholes, shut off some upper-income benefits, and improve tax compliance over the past four years. Taken together these changes are the best improvements in tax policy for working people in many years. And without them, scheduled increases in the payroll tax would be pinching workers much more severely than they are. And President Reagan's Treasury Deparment wants to go further--their reform plan would reduce individual rates and increase business taxes bu 37%.

	1986	1987	1988
TOTAL SPENDING REDUCTION	-52.2	-99.9	-144.8
Defense Savings	-18.5	-32.0	-47.1
Nondefense Savings	-31.2	-58.2	-78.5
Interest Savings	-2.5	-9.7	-19.2

Major Provisions:

Defense: The administration's proposed increase in real defense growth is cut in half -- from 5.9 percent to 3 percent real growth in fiscal 1986, and would remain at 3 percent annually in fiscal 1987 and 1988.

COLAs: Cost-of-living-adjustments for Social Security, Federal and Military pensions and veterans pensions would increase at least 2 percent per year in fiscal 1986 through fiscal 1988. But no additional COLA would be paid above the 2 percent increase unless the Consumer Price Index exceeds 4 peprcent. To protect the low income, elderly, and disabled, the plan allows a full COLA in the Supplemental Security Income program and increases monthly benefits by $10 and $15 per month for individuals and couples respectively.

Programs Terminated: Revenue Sharing, AMTRAK, Small Business Administration, Job Corps, Farmers Home Administration Rural Housing Program.

Programs Reformed: College Student Aid, Civil Service Pensions, Medicare.

THIS IS A COMPASSIONATE BUDGET. Even with major spending reductions, the budget will still offer huge resources and benefits to the needy. This budget provides full cost-of-living increases for all means-tested entitlement programs.

Under the plan, some $474 billion, or nearly half the budget, will be spent on human resource programs including Social Security, food stamps, unemployment compensation, Aid to Families with Dependent Children, education benefits, and veterans' benefits.

A BUDGET FREEZE WILL NOT DO THE JOB. A freeze will leave us with deficits of at least $150 billion in FY 1988. Moreover, the simple freeze does not change the long term growth in federal spending. Congress would simply be bucking the problem for another day and the last real opportunity to reform government spending will be lost.

WILLIAM L. ARMSTRONG
COLORADO

United States Senate
WASHINGTON, D.C. 20510

PRESIDENT REAGAN/SENATE REPUBLICAN LEADERSHIP DEFICIT REDUCTION PLAN

— Analysis and Supporting Arguments —

Congress is on the verge of enacting a tough, no-nonsense deficit reduction package that will abolish several extravagant or outdated federal programs, reform a number of others, and balance the budget by the end of the decade.

Cynics may say this is an "impossible dream." Special interest groups will shoot down any plan that cuts subsidies or reduces programs, they argue. But for the sake of our national economic future, we ought to make it happen. And the prospects for reform and deficit reduction got an enormous boost this week when the President and the Senate Republican leadership joined forces to present a plan which:

* **Rejects higher taxes as a means of balancing the budget.**

* **Reduces deficits by $296.9 billion** over the next three years without raising taxes. Deficits are cut by $52.2 billion in FY86, $99.9 billion in FY87, and $144.8 billion in FY88.

* **Limits the increase in spending** in FY86 to 2.1% over the FY85 level. For the FY86 to FY88 period, spending will grow at an average annual rate of 3.7 percent, a rate of increase two-thirds less than in previous years.

* **Reduces the deficit as a percentage of the Gross National Product** (GNP). If fully implemented, this plan will reduce budget deficits to just two percent of GNP by 1988. By the end of this decade, this plan virtually eliminates budget deficits.

MAJOR PROVISIONS OF THE REAGAN/GOP LEADERSHIP DEFICIT REDUCTION PLAN

* **Defense**. The Administration's proposed increase in real defense growth is cut in half - from 5.9% to 3% real growth in FY86. In FY87 and FY88, real growth in defense spending is limited to 3% annually. This saves $18.5 billion in outlays in FY86 and $97.6 billion over the next three years.

* **COLAs**: Cost-of-living adjustments for Social Security, Civil Service and Military Retirement, and Veterans pensions will increase at least 2% per year through FY88. But no additional COLA will be paid, above the 2%, unless the Consumer Price Index exceeds 4%. To protect the low income, elderly and disabled, the proposal allows a full COLA in the Supplemental Security Income (SSI) Program.

* **Federal Pay**: Civilian and military salaries are frozen in FY86 at their FY85 levels.

* **Major Reforms/Terminations:** Major non-defense program reforms and terminations in the plan will save $31.2 billion in FY86 and $167.9 billion by FY88. Programs terminated by the plan include: General Revenue Sharing, Amtrak Subsidies, Small Business Administration, Urban Development Action Grants, the Job Corps, the Economic Development Administration, Exim Bank direct loans, and FmHA rural housing. Major program reforms are proposed in several programs including: Medicare, federal and military pensions, college student loans, and agricultural credit and price support programs.

TOTAL DEFICIT REDUCTION
($ billions)

	1985	1986	1987	1988
	-.4	**-52.2**	**- 99.9**	**-144.8**
Defense Savings		-18.5	-32.0	-47.1
Nondefense Savings	-.4	-31.2	-58.2	-78.5
Interest Savings		-2.5	-9.7	-19.2

PROPOSED FEDERAL BUDGET: 1985-1988
($ billions)

Outlays	949.1	969.0	1,011.4	1,055.0
Revenues	736.2	793.8	866.6	956.2
Deficit	212.9	175.2	144.8	98.8

AS PERCENT OF GROSS NATIONAL PRODUCT (GNP)

Outlays	24.5%	23.1	22.2	21.4
Revenues	19.0%	18.9	19.0	19.4
Deficit	5.5%	4.1	3.1	2.0

This bold deficit reduction plan is urgently needed. If fully implemented, this plan will set the stage for lower interest rates and permit continued economic expansion.

Congress must act now to restrain spending and cut budget deficits. Since 1960, federal spending has increased nearly 1,000 percent. This spending has produced a national debt of $1.8 trillion -- and rising. In December 1984, the deficit accumulated for that month alone was $14.5 billion. This monthly deficit was greater than the total debt the nation accumulated between 1789 and 1928. Without decisive corrective action of the type proposed by President Reagan and the Senate Republican Leadership, budget deficits could exceed $300 billion annually. And the national debt could rise to nearly $3 trillion in four short years.

A COMPASSIONATE BUDGET

This deficit reduction plan is truly historic. Never before has Congress considered a plan which would so dramatically curtail government spending. But even though this budget seeks major spending reductions, the federal budget will still offer huge resources and benefits to the needy. This budget provides full cost of living increases for all means-tested entitlement programs. In addition to full cost-of-living increases, the Supplemental Security Income program -- which assists elderly poor and disabled -- will increase monthly benefits $10 and $15 for individuals and couples respectively.

Under the Reagan/Senate GOP plan, in 1986 some $474 billion or nearly a half of the budget will be spent on Social Security, food stamps, unemployment compensation, Aid to Families with Dependent Children, eductaion benefits, Veterans payments and other social programs. This budget still provides income security for millions of beneficiaries:

* 36 million will receive Social Security benefits.
* 30 million will receive Medicare.
* 4 million will receive SSI.
* 30 million will receive food stamps.
* 17 million will live in federally subsidized housing.
* 1 million will receive Aid to Families with Dependent Children.

America has a rich heritage of generosity and compassion. Some 96 million Americans volunteer their time and money to aid the less fortunate. Consistent with this tradition, this budget offers substantial aid to the elderly, ill-housed and the poor.

A BUDGET FREEZE ALONE WON'T DO THE JOB

As the Senate considers the budget resolution, some will urge rejection of many, if not all, of the cuts proposed in the Reagan/GOP Leadership plan and that Congress simply enact a freeze on federal spending. This course of action would leave deficits of **at least** $150 billion in FY88 and $130 billion in FY89. Obviously, this leaves the job of reducing the deficit unfinished.

Moreover, a simple freeze does not change the long term growth in federal spending. A freeze in discretionary spending and entitlement COLAs puts off indefinitely the day of reckoning for dozens of federal programs. It avoids the essential reforms and, in some cases, terminations that are necessary and justified in many federal programs.

It is no wonder that so many interest groups are touting the freeze. It has become for many the way to appear fiscally responsible while in fact keeping in place the spending machine that has brought us to our current crisis. But let's make no mistake about it: if many of these programs remain in the present form, **Congress would be bucking the problem for another day and the last real opportunity to reform government spending will be lost.**

That is why the Reagan/GOP plan goes well beyond a freeze. Those who prefer that Congress reject all of these cuts must answer two questions:

(1) Should Congress abandon a plan to eliminate deficits and plan instead to live with deficits forever?

(2) Or should Congress make up the difference with massive tax increases and trust that this does not stifle economic expansion?

The answer to both questions is a resounding no. Eliminating deficits through spending reduction must remain our principal goal. The enduring economic vitality of this nation for generations to come rests on whether we resolve to stop the massive growth in debt.

MOUNTING FEDERAL DEBT THREATENS ECONOMIC GROWTH

Persistently large deficits have caused real interest rates to rise to historically high levels. Most economists agree large deficits will keep these real interest rates high. Huge federal borrowing demands have pre-empted private sector borrowers seeking funds for investment; net domestic savings available for investment has dropped from 6.2% of GNP annually through the 1970s to 3.4% of GNP on average from 1980 to 1984.

Furthermore, with the current economic expansion, demand for private credit has grown and will continue to grow. These private credit demands together with huge government borrowing, may force real interest rates even higher.

Deficits also lead to higher inflation. To the extent that the Federal Reserve chooses to ease the pressure deficits place on interest rates by purchasing more federal debt, the money supply will grow and inflation will be exacerbated.

But it doesn't have to be this way. If Congress will lower deficits, real interest rates will fall and the economy will boom. It is probably impossible to exaggerate the importance of economic recovery. Economic opportunity -- having a job and the money to do what you need and want -- is the hope and aspiration of virtually every American. Job opportunity and job security, home ownership, education, quality health care, cultural growth and opportunity for the future all are dependent on a sound economy.

For the past two and a half years, this nation has experienced an unprecedented economic recovery. In 1984, the economy saw its best economic performance of the last 34 years. Real investment in new plant and equipment has grown 15.4% annually since 1982...faster than in any other post-war recovery. Inflation was only 3.8% last year, the smallest rise in 17 years and the prime rate is 11 percent, just half the level of four years ago. More Americans are working today than ever before. Civilian employment has grown 7.2 million over the past 25 months and the number of unemployed has fallen by 3.7 million.

For the typical American, this record of economic progress has made a real difference in their lives. Housing once again is affordable. Food prices are stable. The once huge increases in energy costs have slowed. Congress should do all it can to sustain this economic expansion.

The main threat to continued economic expansion is run-away federal spending. Consider these facts:

* Since 1940, the federal government has run **deficits in 37 out of the last 45 years.** Since 1960, we've run deficits in 24 out of 25 years.

* In 1985, the **gross federal debt** will total $1,841 trillion, an **increase of 533% over 1960, 238% over 1975, and 101% over 1980.** The total debt in 1985 now stands at 48% of our GNP.

* With no changes in federal spending policy, CBO projects that federal **outlays will rise from $950 billion in 1985 to $1,378 trillion in 1990 - an increase of $428 billion in five years.**

* If no changes are made, the budget deficit will increase from $214 billion in FY85 to $300 billion in 1990 and the national debt will increase to $2,786 trillion.

This massive increase in debt has itself created one of the largest and fastest growing components of federal spending - **interest on the debt.** Constant deficits have put fiscal policy on an endless treadmill of paying for the irresponsibility of previous decades:

* In 1965, interest on the national debt cost $9 billion and consumed 1.4% of GNP. By 1980, annual interest costs rose to $52 billion — 2% of GNP. But the worst was yet to come.

* In 1985, **interest on the national debt** will cost taxpayers **$130 billion** - almost **three times the level of five years ago.** This represents 3.8% of GNP, 13.5% of the entire 1985 budget, and a **1,450% increase** in costs over 1965.

* $130 billion is **equal to the sum total of all federal spending from 1789 - the founding of the Republic - to 1936!** It also equals total federal outlays in 1966, the entire defense budget in 1980, and twice the level of Medicare funding today.

* To put it in even simpler terms, about **40% of all revenue collected by** the federal government from personal **income taxes** ($330 billion in 1985) will go to pay interest costs and no federal services at all.

* Under current fiscal policies, if no action is taken to curb deficits, interest on the debt will rise to $230 billion in 1990, about 15% of the budget. This will equal almost half of all personal income tax revenue.

But even these staggering deficits and interest projections could be optimistic. These deficits are based on economic assumptions that real economic growth will remain steady at 3.4 percent, unemployment falls to 6.2 percent, and interest rates on 3-month T-bills hold steady at 8.2 percent. Needless to say, if Congress does nothing about the deficit, these assumptions will indeed be optimistic, and the deficit projected for 1990 - $300 billion - could be as high as $400 billion.

These budget deficits did not just happen overnight. These deficits occurred because in the last 25 years Congress opened the floodgates of federal spending. These statistics defy comprehension:

* Over the past 25 years, **total federal spending** has grown from $92 billion in 1960 to $949.1 billion projected for this year, FY85. That's an increase of 932%, or an average annual increase of nearly 37%.

* Not all of this increase is due to inflation. Measured in constant 1972 dollars, spending from 1960 to 1985 went up 177%.

* During this same period, **total tax revenue** has gone from $92 billion in 1960 to $737 billion - an increase of 701% in 25 years for an average annual increase of 28%.

All areas of the budget have grown rapidly over the last two decades:

* **Defense spending** has increased from $51 billion in 1965 to $254 billion in 1985 - a nominal increase of 398% and a constant dollar increase of 31%.

* Total **payments to individuals** have increased 1,194% from 1965 to 1985 (from $33 billion to $427 billion).

* In constant 1972 dollars, **total payments to individuals** increased 340% from 1965 to 1985.

* **Social Security and railroad retirement** outlays increased 987% during this period.

* Other Entitlements: **Medical assistance** increased by 5,666%, **student aid** by 15,900%, **food and nutrition assistance** by 6,100%, **housing assistance** by 5,200%, and **federal retirement** by 878%.

Recent Trends: In the last five to ten years, federal spending has skyrocketed:

* From 1975 to 1980, federal spending nearly doubled, rising from $332 billion to $591 billion. **For the FY77 to FY81 period under the Carter Administration, spending rose at an average annual rate of 16.4%.**

* From 1980 to 1985, federal outlays actually went up another $368 billion or 62%. From FY82 through FY85, the average annual rate of increase will be 9.5%. This year (FY85) federal spending will rise by 12.6 percent over last year (FY84).

* Since 1980, defense has increased $120 billion or about 90% in nominal dollars and 38% in constant dollars. Total payments to individuals increased $150 billion during this same period, an increase of 54% or 19% in constant dollars. Social Security outlays have increased $73 billion in the last five years, federal retirement by $15 billion, and medical care assistance by $48 billion.

TAX INCREASES WILL NOT REDUCE THE BUDGET

Some argue that substantially increasing tax revenue is the way to solve the deficit problem. They argue that the nation's revenue base needs to be "restored" for the "losses" resulting from the 1981 Reagan tax cut. This view is emphatically rejected by the President and the Senate Republican Leadership. And for good reason, too.

Today, federal tax revenues stand near their historically high level - about 19% of GNP. Indeed, tax rates paid by the typical working man and woman are very near their historical highs. These tax rates would have been even higher had it not been for the 1981 tax cut. Let us recall where we were then. Tax revenues had climbed to a record 21% of GNP in 1981. If no changes were made in the tax policies then in place, taxes would have risen to 22% of GNP by 1985 and 23.5% of GNP by 1990.

This level of tax consumption by the government was clearly intolerable. It reduced savings, eroded productivity and contributed greatly to the stagnation this country faced in the late 1970s. Higher taxes discouraged work, savings, investment, and productivity.

And so Americans demanded tax relief. This sentiment was reflected in the Congressional elections of 1978 and the Presidential and Congressional elections of 1980.

In 1981, Congress finally responded to popular will, and the 1981 tax cut reversed this trend to higher and higher taxes. And in the 1984 elections, Americans decisively rejected tax increases as a means of balancing the budget.

Opponents of the 1981 tax cut argue that it benefitted only the rich. The Treasury Department recently reported that **after the Reagan tax cuts, the total share of taxes paid by those earning under $20,000 fell by 10% while the share of the overall tax burden paid by those earning over $50,000 increased by 8%.** The tax burden of those earning less than $10,000 fell from 3.8% in 1981 to 3.0% in 1983. But those earning $50,000 to $100,000 saw their share of total taxes increase from 15.9 percent in 1981 to 19.4 percent in 1983.

This is anything but inequitable. **Nor is there anything inequitable with tax indexing**, also enacted in 1981 and implemented in 1985. Some would eliminate this protection against inflation and thereby erode a worker's daily wage to lower the deficit. **Indexing protects the poorest among wage earners.** If indexing were repealed, those earning less than $10,000 would face a 12.2% tax increase. In contrast, those earning more than $200,000 would feel an additional tax burden of just 1.2%. **Those who advocate repealing or suspending indexing in order to pay for some more Amtrak, revenue sharing, postal subsidies or foreign aid make a mockery of the so-called "fairness" issue.**

WHERE FEDERAL SPENDING REFORM IS URGENTLY NEEDED

The deficit reduction plan endorsed by President Reagan and the Senate Republican leadership is a tough, no-nonsense deficit reduction package that will curtail spending in nearly every federal spending program. It also proposes to abolish several extravagant or outdated programs, reform a number of others, and balance the budget by the end of the decade.

The following is a brief function-by-function review of some of the major spending reforms included in this leadership deficit reduction plan. This section also summarizes recent rates of spending increases in each of the major components of the budget. After reviewing this section, it should be clear how federal spending can and should indeed be cut. (Note: the budget savings from the Reagan/GOP Leadership Plan are subject to technical adjustments which are being made now.)

(050) Defense: President Reagan's proposed increase in real defense growth is cut in half -- from 5.9% to 3% real growth in FY86. In FY87 and FY88, real growth in defense spending is limited to 3% annually. This saves $18.5 billion in FY86 and $97.6 billion by FY88.

Cuts in defense spending are a significant part of the deficit reduction plan. Some will argue the defense cuts are excessive; others will say they do not go far enough. The projected $200 billion in deficits is a clear and present danger to our economic and national security. Congress must cut the budgets, and defense spending must be included in any deficit reduction plan. Indeed, a $97.6 billion cut in defense will lead to greater efforts to cut waste in the armed services, particularly in weapons contracting, overhead, operations, etc.

Defense spending has increased from $51 billion in 1965 to $254 billion in 1985 -- an increase of 398 percent.

(150) International Affairs: The Reagan/GOP plan proposes to terminate the **Export/Import Bank** direct loan program in favor of loan guarantees and a temporary interest rate subsidy. This would save $4.0 billion in outlays by FY88 and eliminate **a subsidy that has benefitted on average only 2.1% of total merchandise exporters over the past four years.**

Spending under function 150 has increased from $5 billion in 1965 to $20 billion in 1985, an increase of 300%. Since 1980, spending under function 150 has increased by $7 billion, or 54%.

(270) Energy: The Reagan/GOP plan proposes to postpone further filling of the **Strategic Petroleum Reserve.** As of January 1, 1985, the SPR contained 450 million barrels of oil - the equivalent of about **900 days of Persian Gulf Imports.** After FY85, the reserve will have 489 million barrels of oil. America is now less dependent on foreign oil and it simply makes no sense to continue spending $2 billion a year (FY86 current services outlays) to pour oil into the ground.

The plan also proposes phasing out **rural electric and telephone** direct loans and loan guarantees, saving $110 million in outlays in FY86 and almost $1 billion by FY88. **The REA currently provides loans at 5% interest rates and sometimes as low as 2%.** Many of the loans are made to utilities and telephone systems that are already receiving tax exemptions. Many of these borrowers already have the capability to borrow funds privately. These utilities have received $41 billion in interest subsidies alone over a ten year period. On average, **REA consumers enjoy 12% lower electric rates than residential customers from non-REA facilities.**

Spending under function 270 has increased from $700 million in 1965 to $8 billion by 1985 - an increase of 1,043%.

(300) Natural Resources: The Reagan/GOP plan proposes **user fees for recreation** facilities and reduces soil and water conservation subsidies by 23%. The plan would also reduce funding for National Park service programs by 15%. Congress has provided $1 billion for park restoration and improvements over the past four years.

Spending under function 300 has increased from $2 billion in 1965 to $13 billion in 1985 - an increase of 550%.

(350) Agriculture: The plan proposes savings through market reforms for agricultural prices and commodities. The Administration's original budget would have saved over $2 billion in outlays in FY86 and $16 billion over three years with its price support reforms. The new plan saves $8.0 billion over three years.

Farm price supports have increased by 745% since 1975 - leaping from $7.4 billion in 1980 to over $18 billion in 1983. The largest farms receive the greatest farm subsidies. For example, some 9% of wheat farmers with 1,000 or more acres received 42% of wheat subsidies.

(370) Commerce and Housing: The new plan proposes to terminate the **Small Business Administration. Just two-tenths of one percent - that's 0.2% - of all U.S. small businesses received SBA subsidized credit. Of all new small business in 1983, less than 2% received any SBA aid.** Most SBA assistance goes to mainstream business - like resturants, bars, and car dealerships, where ample private credit is available.

The plan also proposes to reform **postal subsidies**, saving $2.1 billion by FY88, by discontinuing subsidies for commercial enterprises and political committees, by accelerating a planned rate increase for subsidized mailers, and by requiring the Postal Service to pay for the remaining subsidy out of its revenues. Subsidies would continue for nonprofit and charitable organizations, as well as for the blind and handicapped.

The plan also proposes to fold the **Farmer's Home Administration** into the Department of Housing and Urban Development and curtail additional federal subsidies for rural housing. This proposal will save $8.7 billion in outlays by FY88. **FmHA is but a small contributor to the rural housing supply**, according to OMB. Through 1979, only 5 percent of all housing in FmHA service areas was provided by FmHA. Since 1980, HUD has already provided some 24% of its assistance to rural areas.

Spending under function 370 was $1 billion in 1965 and increased to $10 billion by 1975. In 1985, spending under function 370 is projected to be $6 billion - 500% above the 1965 level.

(400) Transportation: The new plan accepts the Administration's proposal to terminate **Amtrak** subsidies instead of the Senate Budget Committee's proposal to gradually reduce the subsidy. **Amtrak was originally authorized on a two-year trial basis as a for-profit corporation. But since 1971, Amtrak has cost taxpayers $9 billion and will cost them another $8 billion over the next decade. The average system-wide subsidy per passenger in 1984 was $35.** On some routes, the loss per passenger is greater than the cost of bus fare or a plane ticket. Moreover, the Amtrak subsidy benefits many well off individuals. 55% of northeast corridor passengers in 1983 had incomes above $30,000, according to OMB statistics.

Also in transportation spending, the plan proposes to phase out **federal mass transit operating assistance.** Mass transit assistance, which ought to be an entirely local function of government, **has increased by 481% from 1975 to 1985. Some systems constructed with federal grants have cost between $50 and $100 million per mile. In contrast, a light rail system built in San Diego without federal money cost $6 million per mile.**

The Reagan/GOP plan also proposes to increase **coast guard user fees** for non-emergency related services, saving of $800 million over three years.

Spending under function 400 stood at $6 billion in 1965. In 1985, transportation spending will be $27 billion - an increase of 350%. Spending under function 400 has increased $6 billion since 1980 alone.

(450) Community and Regional Development: The plan terminates **Urban Development Action Grants** to local governments. These grants are not distributed equitably to those cities most in need. Moreover, **UDAGs have been the cause of competition for federal funds between cities - causing an allocation of capital and jobs based not on market conditions but a government distortion of market resources.** In other words, thanks to UDAG, the federal government helps somebody win big while his neighbor loses big. This is not a proper role for the government.

The plan also proposes to terminate two wasteful and unnecessary programs - the **Economic Development Administration and the Appalachian Regional Commission.** Almost **55% of EDA direct loans are delinquent.** The one time EDA offered to sell some of its loans, it was offered ten cents on the dollar - evidence of the defaults expected. ARC was intended to be a temporary program when it was started in 1965. Some 20 years and $5 billion later, it is still with us to promote economic development in the region. 16% of ARC's economic development funds support bureaucracies whose sole purpose is to get more federal money. Many ARC projects, such as recreational resorts, subsidize upper income groups, according to OMB.

Spending under function 450 increased from $1 billion in 1965 to $11 billion in 1980 - an increase of 1,000%. In 1985, spending under function 450 will be $9 billion - 800% above the 1965 level.

(500) Education: The Reagan/GOP budget plan makes savings of $320 million in Guaranteed Student Loans in FY86. **Federal outlays for student aid have risen almost 1,900 percent since 1969. Spending grew from $1.2 billion in 1969 to $13.3 billion in 1985.** The main purpose of the proposals is to re-target more student aid to those in need. **Under current law, families with incomes as high as $100,000 have received aid.** Even with the reforms assumed in this budget, student aid packages will be available for needy students that will cover the total average cost of attending a public institution and 90% of the cost of a private institution.

The plan also terminates funding for the **Job Corps**, saving $2.5 billion in outlays by FY88. **The Job Corps is the most expensive training program in the federal budget, costing taxpayers $15,200 per slot - about equal to the cost of sending a student to Harvard**, or three times the annual cost at the average four year public university. Only one-third of Job Corps trainees are being employed within the year after they leave Job Corps. The job placement rate is only marginally better than the earlier CETA program, which was abolished as a costly failure.

(550) Health: The Reagan/GOP plan proposes a cap on Medicaid expenditures at the level of the Medical Care Consumer Price Index, saving $4.8 billion by FY88. **Medicaid outlays grew at an average annual rate of 14.2% between 1972 and 1982.**

The plan terminates **health professions and training subsidies** as proposed by the Administration because the objective of this program has been met. When started, these subsidies were intended to eliminate a shortage in the 1960s of qualified health professionals. Today, however, **the supply of trained health care personnel has outstripped the need as active health professionals have increased by 97% over the past twenty years while the general population has increased 64%.**

Spending under function 550 has increased from $2 billion in 1965 to $34 billion in 1985 - an increase of 3,298%. Since 1980, spending under function 550 has increased $11 billion.

(570) Medicare: The Reagan/GOP plan proposes to freeze Medicare physician and hospital reimbursement in FY86 at FY85 levels. The freeze is justified; the growth in hospital Medicare payments per admission exceeds the growth in costs of medical equipment, supplies and labor by more than 7 percent. The plan also proposes that **Medicare part B premiums** be increased to cover 35% of the program costs by 1990. Part B premiums **were supposed to fund 50% of this program when it was originally enacted.** In addition, the budget plan would reduce indirect subsidies to teaching hospitals. **Medicare is the largest and fastest growing program in the federal budget with current outlays of $66 billion. Medicare spending is expected to burst the $100 billion barrier by 1989.**

(600) Income Security: The Reagan/GOP plan proposes savings in the **Federal Civil Service Retirement System** by providing a COLA of 2% in FY86-88. But no additional COLA will be paid, above the 2%, unless the Consumer Price Index exceeds 4%. This plan also proposes raising employee contributions from 7 to 9% and aligning survivor, student, and minimum benefits to conform with current Social Security law.

Since 1975, spending on federal pensions has increased by nearly $25 billion - or 200%. Federal employees, meanwhile, pay only 20% of the total cost of the retirement program. Between 1960 and 1984, government contributions grew 2,703%, outpacing employee contribution growth of 474%. **Federal pension benefits are significantly more generous than private sector benefits.** According to the Office of Personnel Management, a federal retiree with a final salary of $25,000 retiring at age 65 will receive $435,980 in lifetime benefits from the Civil Service Retirement System. His private sector counterpart receiving a private pension plus Social Security will receive $256,900. Federal employees may retire as early as 55 while Social Security benefits are not available until age 62.

The plan also proposes savings in **child nutrition** of $400 million in FY86 by targeting nutrition assistance to those in need - that is - to familes with incomes of 185% of the poverty level, which equals $19,600 per family. Under current law children from families with incomes above this level receive a 24 cent per meal subsidy under the school lunch program. This deficit reduction plan cuts this subsidy in half.

The plan does assume, however, that Women, Infants, and Children (WIC) and Aid to Families with Dependent Children (AFDC) benefits would not be frozen, and that Supplemental Security Income program (federal payments to the elderly and disabled) benefits would be increased $10 and $15 per month for individuals and couples respectively - on top of their 1986 COLA.

Spending for income security programs has increased from $9 billion in 1965 to $127 billion in 1985 - an increase of 1,311%. Since 1980 alone, spending under this function has jumped $40 billion.

(650) Social Security: The plan proposes that cost of living adjustments for Social Security will increase at least 2% per year through 1988. But no additional COLA will be paid, above the 2%, unless the Consumer Price Index exceeds 4%. To protect the poor elderly, the proposal allows a full COLA in the Supplemental Security Income (SSI) benefits and increases monthly SSI benefits by $10 and $15 for individuals and couples respectively.

Social Security retirement and disability benefits have increased from $18 billion in 1965 to $191 billion in 1985 — an increase of 1,024 percent.

(700) Veterans: The plan proposes reforms in **Veterans Medical Care** programs. **The policy of providing virtually free health care for veterans has resulted in massive increases in VA health care costs. Outlays for VA health care have increased 5 times since 1970 at an average annual rate of 12%.** Despite virtually no growth in the veteran population and the availability of Medicare for most veterans over age 65, the number of patients in VA hospitals has increased 63% since 1970, nursing home beds have increased 169%, outpatient visits have tripled, and the VA health care staff has ballooned to 194,000. The Reagan/GOP budget proposes revising eligibility for VA health care to target more aid for those veterans who lack the financial resources to pay health care costs. **Those with service connnected disabilities would still be covered at no cost.** Veterans pensions will be increased each year, exactly like Social Security and other federal pensions programs.

Spending for Veterans programs under function 700 has increased from $6 billion in 1965 to $27 billion in 1980 - an increase of 350%.

(750) Justice: Neither the original Senate Budget Committee proposal nor the revised plan put forward by the Senate GOP leadership and the President propose to terminate the **Legal Services Corporation**, a move which would save another $900 million over the next three years. The political abuses of the LSC during the late 1970s are familiar to all. Due to the controversy surrounding the confirmation of Reagan appointees to the LSC Board, the future agenda of this agency remains in doubt.

800 General Government: The Reagan/GOP plan proposes to levy a **user fee** on government-sponsored credit agencies that borrow from the Treasury (Fannie Mae, Freddie Mac, Sallie Mae.) **These agencies enjoy a privileged status in obtaining credit from the Treasury.** The proposed fees will bring the debts and securities issued by these entities closer to what borrowers in other sectors of the economy must pay and reduce the degree to which they crowd out private borrowers and raise interest rates overall.

The plan also proposes a 10% cut in **legislative branch operations.** Since 1971, appropriations for the legislative branch have increased 245% while the number of staff has increased 36%. In real terms, legislative branch appropriations are up 3.6% in FY85 over FY81 and 43% over 1971.

The plan also proposes new **Customs Service** user fees of $1.5 billion over three years.

(850) Revenue Sharing: The plan also proposes to eliminate **General Revenue Sharing** at the end of FY86 when its authorization expires. It is simply inappropriate for the federal government to borrow money it does not have to return to local governments to pay for services that benefit only that local community and not all federal taxpayers. **Local governments have the capability to decide what services to offer and what revenues to raise to pay for them. Federal revenue sharing money simply allows states to avoid the hard choices between services and taxes.**

Spending under this function has increased from $500 million in 1970 to $9 billion in 1980 - an increase of 1,700%. In 1985, spending under function 850 will be $6 billion - 1,100% higher than the 1965 level.

(920) Allowances: The Reagan/GOP plan would freeze federal civilian and Coast Guard military pay in FY86. The plan would also cut agency administrative expenses by 10% and institute other management reforms. A total of $2.3 billion would be saved in FY86 through these options.

CONCLUSION

The deficit reduction plan put forward by President Reagan and the Senate Republican Leadership is an excellent first step in the effort to eliminate massive federal deficits and thereby continue economic prosperity. The plan reduces deficits by $297 billion over the next three years without raising taxes. Further, it meets the goal of eliminating deficits by the end of the decade.

The nation has benefitted from a booming economic expansion over the past two years. But it would be unfortunate indeed if our current era of good times blinded us to the challenges that lie ahead and sapped our willingness to make the tough choices that are absolutely essential if economic prosperity is to be maintained and indeed extended to all Americans.

We tempt economic chaos if we fail to attack the massive deficit crisis before us. Our days of prosperity will be short-lived if we fail to act. The Congress has before it a simple choice: we can bank on the hope that somehow our economy can sustain the massive debt imposed on it by the federal government, or we can come to our senses and understand the danger we court by doing nothing - or not enough.

The President and the Senate Republican leadership have developed an excellent plan from which to proceed. What this country needs now is for the Congress to move forward boldly and enact this plan. Nothing less than boldness and courage will stave off the naysayers and interest groups who prefer that Congress put off the day of reckoning. Indeed if we do so, that day of reckoning will be here all too soon - and our choices will be so much more limited.

Congress may never have a better opportunity to make meaningful and lasting changes in federal spending. Let's hope that this Congress faces up to this challenge.