TO: THE MAJORITY LEADER

FROM: SHEILA BAIR/GEORGE PIELER

RE: LEAGUE OF WOMEN VOTERS/REMARKS TO STATE DELEGATES

DATE: APRIL 29, 1985

Attached are materials for your remarks to the state leaders of the League of Women Voters, scheduled for tomorrow, at 9:00 a.m. in 345 CHOB. They are expecting you to speak for 10-15 minutes. (Sen. Simpson is scheduled to begin at 9:15.)

The topics they suggested are:

-Grove City (All the State delegates have been briefed on this issue and are lobbying this week for Kennedy's Civil Rights Restoration Act.)

-Tax Reform: (The League recently came out with a tax policy which favors lower individual rates, base broadening, and greater progressivity. They are also not opposed to revenue raising.)

-Budget

It will be a group of about 115. Either Dot Ridings, the President, or Julia Holmes, the Vice-President in charge of legislation, will introduce you.

Grove City

- On January 24, with the strong support of the President, I introduced S. 272, the "Civil Rights Amendments Act of 1985" which is designed to overturn a part of last year's controversial Grove City ruling.

- In Grove City, the Supreme Court held that Title IX -- which prohibits sex discrimination in Federally funded education programs -- applies only to the specific department of a school or college that receives Federal aid, as opposed to the entire institution.

- S. 272 would amend Title IX, as well as the 3 parallel civil rights laws which prohibit race, handicap, and age discrimination, to clarify that where any part of an education institution receives Federal money, the entire institution is covered by these laws.

- The bill also adds a "grandfather clause" to each law to ensure that civil rights coverage in noneducation areas is not restricted as a result of the Grove City ruling.

- As you know, Senator Kennedy has introduced a competing proposal called the "Civil Rights Restoration Act of 1985." His bill seeks to spell out broad principles of coverage of all the various entities which receive Federal aid. Thus under his bill, any public or private entity, be it a school system, multi-state corporation, religious organization, etc., would be covered, in its entirety, if any component part received Federal funds.

- The Senate refused to pass a bill as expansive as the Kennedy bill in the last Congress. It is my hope, however, that we will see a successful resolution of this sensitive issue this year.

- Extensive negotiations in the last Congress revealed broad support for restoring the "status quo ante" Grove City, but significant disagreement over what pre-Grove City law was in noneducation areas. S. 272's "grandfathering" approach is designed to avoid this controversy and pave the way for the development of consensus.

STATUS OF THE BILLS:

Senate - Both bills pending in the Education Subcommittee of the Senate Labor Committee. Hearings tentatively scheduled for late May.

House - Both bills pending jointly in the House Judiciary and Education Committees. (Lungren introduced our bill a few weeks ago.) Hearings completed. Markup could occur this week.

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.

Key Points on Budget Compromise

• Through spending cuts alone, the plan would reduce the deficit by $52 billion in FY 1986, $99 billion in FY 1987, and $146 billion in FY 1988.

• Cuts of this magnitude--totaling $296 billion over 3 years--would leave remaining deficits of $175 billion in FY 1986, $146 billion in FY 1987, and $98 billion in FY 1988.

• This plan reaches the goal we set of getting the deficit down to 2% of GNP by 1988, without tax increases.

• Every area of the budget is hit hard: the President's defense request is cut in half, 17 programs are terminated and still others are phased out, and permanent entitlement savings are achieved by modifying the calculation of all non-means tested COLAs (a 2% guarantee with a CPI-2 formula if inflation is higher than 4%).

• These are real, meaningful cuts and should have a significant impact on financial markets. Preliminary results from a survey of leading Wall Street financial advisers indicates that we should expect interest rates to drop by 1 or 2 percentage points in the near term and by as much as 3 points in 1988.

• If that happens and keeps the recovery on track, we can expect:

- almost 7 million new jobs by 1988
- housing starts back up to the 2 million units/year level
- inflation staying down at 4% or less
- national personal income up by $800 billion by 1988
- potential increase of 18-26% in net income for small business (due to lower interest rates)
- a potential increase of $2-4 billion in net farm income (due to lower interest rates)

ESCALATING DEFICIT

The main threat to continued economic expansion is run-away Federal spending.

- 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 FY 85 to $300 billion in 1990 and the National debt will increase to $2,786.

INTEREST ON THE DEBT

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.

Spending Abuses Corrected by the Budget Compromise

• Student aid: We now spend about 1/3 more for high income students at an expensive school than for a lower-income student at an inexpensive school. Reforms in this package would ensure that more aid goes to students from families with the least discretionary income.

• Conrail would be sold as under Secretary Dole's plan--it has been profitable since 1983, meaning that continued government involvement is unjustified.

• The Economic Development Administration would be ended, since it just subsidizes competition for investment and jobs that would occur anyway--55% of its direct loans are delinquent, and it's added $9.4 billion to the deficit over the past 8 years with little national benefit to show.

• The SBA would be abolished: it helps only 1% of small businesses, and 60% of its credit resources go to types of firms that don't need special aid--bars, restaurants, liquor stores (16%), doctors, lawyers, other professional (8%), car dealers (8%), etc.

• Amtrak subsidies would be terminated, savings projected costs of another $8 billion over the next decade. Amtrak was supposed to be a 2-year trial, but has cost $9 billion since 1971. Two-thirds of Amtrak stations board less than 25 passengers a day. 41% of Amtrak riders in the Northeast Corridor have incomes over $40,000.

• Export-Import Bank direct loans would be ended: they now total $3.9 billion a year. Instead we would have a $100 million interest-rate buy-down program to promote exports in conjunction with insurance and guarantee programs. Ex-Im has only financed a small share of exports--1.5% in 1983 and 1984. And Ex-Im loans have not changed the U.S. share of merchandise exports. From 1980 to 1984 nearly half of Ex-Im direct loan financing went to just 5 major corporations (Boeing, McDonnel Douglas, General Electric, Westinghouse, Lockheed).

• The Job Corps would be terminated under this budget plan because it has proven not to be cost-effective. In FY 1985, each Job Corps slot will cost taxpayers over $15,000. That cost exceeds the cost of sending a student to Harvard or Stanford, and more than 3 times the cost of education at the typical 4-year public university. Cost per placement is about 4 times that under the Job Training Partnership Act--and nearly half of the people who leave Job Corps drop out or resign anyway. Only one-third of them are reported employed 6 months after they leave Job Corps.