12/3/85

TAX REFORM

NAM TALKING POINTS

- According to preliminary estimates, the Ways and Means bill would raise corporate taxes by $141 billion over 5 years. The President's proposal would raise corporate taxes by $131 billion over 5 years.

- Both proposals would repeal the investment tax credit, but the Ways and Means bill would be somewhat less generous than the President's proposal.

- This results primarily from the fact that, while both plans would lengthen cost recovery periods substantially, the President's plan would fully index the recovery deductions. The Ways and Means Committee proposal would provide indexing only when inflation exceeded 5 percent. However, Ways and Means provided larger deductions in earlier years (generally using a 200 percent declining balance method compared to 150 percent declining balance under present law).

- The Finance Committee will have to review carefully the effect of changes in our capital investment incentives, combined with lower tax rates, to make as certain as we can that we cause as little disruption as possible. A lower rate, more neutral tax system may be more efficient in the long run, but we also have to be concerned about short term effects.

- The Ways and Means Committee retained many of the politically popular big-ticket items. The Senate flexibility will be limited in the area of enhancing investment and savings incentives.

- I have personally long favored income tax reform and, as Chairman of the Senate Finance Committee, lead the fight over a number of years to plug unjustified tax loopholes.

- Nevertheless, I know that many of my Senate colleagues have no enthusiasm for the President's version of tax reform and even less for the Ways and Means bill, which they view as even more likely to have harmful economic effects. In the Senate, with its more open procedures, it is easier for a determined minority to block or slow down a bill they oppose.

- It is possible that the Senate might be able to fashion its version of a tax reform bill by June, but only with intensive effort by the President to push the bill.

GRAMM/RUDMAN

STATUS: Conference, we are told, is very near completion. Major remaining issue: treatment of medicare and other similar health programs.

LIKELY FINAL AGREEMENT WILL INCLUDE:

- Deficit amount $171.9B for 1986.
- The amount of reductions required by the likely sequester order would be prorated for the months remaining in the fiscal year.
- The minimum sequester order in 1986 would be $12 billion and the maximum sequestration order could not exceed $20 million.
- A 50/50 split between defense and non-defense in terms of the first year.
- A limited number of low income programs would be exempt from the sequester order.
- The revised time table would result in the sequester order coming to the Congress February 1; to take effect, in the absence of Congressional action, March 15.

TALKING POINTS:

- The proposal establishes the kind of guaranteed downward glide path on deficits that virtually all Senate Republicans set as our goal last January.
- The Gramm-Rudman-Hollings proposal does not tie our hands except to force us to meet our targets. We are given the opportunity, as is the President, to propose alternative means of meeting our targets if we choose not to sequester funds across the board.
- Obviously the broader the spectrum of programs dealt with by the proposal, the fairer it is preceived to be. However, having spent a considerable period of time on the subject of social security in our earlier debate on the budget it was clear that this one issue could again derail our efforts to achieve serious long-term deficit reform.

Weaknesses and Negatives

- o Obvious weakness is that what Congress writes into law, it can rewrite and undo.
- o Congress has regularly missed the deadlines under the existing Budget Act.
- o The cuts in the defense budget may be far greater than the Administration is willing to accept. If the Administration does not live up to the letter of the law on defense then it will be harder to make cuts in other domestic programs stick.
- o Not realistic that Congress could come up with an alternative in 10 days. It took 10 days to get the Gramm-Rudman-Hollings proposal off the floor.
- o There is the problem with projections -- what if a recession happens in the middle of the year -- one that OMB or CBO does not project. Benefits are going to be taken away from people when they most need them.
- o With Social Security off the table, a huge chunk of Federal expenditures are off limits. But we lost that battle earlier in the year.
- o There is a particular problem with agencies that have lots of loan guarantees like Agriculture where the fiscal year and loan timings do not coincide.
- o Finally, no legislation can mandate backbone. And ultimately, Congress will have to make policy decisions that are not going to be easy -- either politically or substantively.

Despite these weaknesses, however, the Gramm-Rudman-Hollings plan is an important step in tightening up the budget process -- both for the Administration and Congress. And under the emergency situation we now find ourselves -- where resolving the deficit crisis will determine whether the U.S. economy continues to grow, this action is more than warranted.

We are not in this mess because of Republican policies. The 1981 tax cut helped spark one of the strongest and longest economic rebounds since the end of World War II. Inflation and unemployment remain at low levels, while interest rates have tumbled.

TRADE ENHANCEMENT ACT OF 1985, S. 1860
33 Cosponsors

STATUS:

- Referred to Finance Committee
- Hearings to be scheduled early next year

OVERVIEW

The purpose of the legislation is to:

- Ensure systematic enforcement of existing trade laws against foreign unfair trade practices (Section 301 reform).
- Expand trade through market liberalizations.
- Promote meaningful adjustment of import-impacted industries to new competitive conditions (Section 201 reform).
- Remedy misalignment of the dollar, developing country debt, and disincentives to U.S. exports (includes authorization of $300 million "war chest" to counter foreign export credits).

TRADE ENHANCEMENT ACT OF 1985, S. 1860
33 Cosponsors
Introduced November 20, 1985

BRIEF OVERVIEW OF MAJOR PROVISIONS IN BILL

1. Section 301 Reform

Requires automatic initiation of Section 301 cases by USTR when another country's unfair trade practices burden, distort or restrict a substantial amount of United States exports.

When an unfair trade practice is identified, after a period of time for negotiation, the bill requires that retaliation take place. Other changes made to Section 301 include transferring the initiation authority from the President to USTR and a new definition of "burden" for purposes of determining whether an unfair trade practice has taken place.

2. Section 201 Reform

Amends the law to require that import relief be given to industries the ITC finds to have been injured.

The bill also requires that an injured industry prepare an adjustment plan that would, over time, result in their altering their methods of doing business or producing a product in order to become more competitive.

3. New Round Authority

Provides authority for President to enter a new round of GATT negotiations, and links to this authority a list of specific negotiating objectives.

4. Dollar/Exchange Rates

Requires President to work with G-5 countries to improve functioning of the international monetary system. In addition, creates a strategic exchange reserve to assist in moderating exchange rate fluctuations, and makes funds available to assist LDC debtor nations.

5. Generalized System of Preferences (GSP)

Requires the President to establish criteria for the graduation (within 2 years) from GSP of advanced developing countries, (i.e., Hong Kong, Korea, Taiwan).

6. Non-Market Economy Dumping

Streamlines the procedure for bringing anti-dumping cases against non-market economies.

7. Section 337 Protection (Intellectual Property Rights)

The bill expands protection for process patents and other intellectual property.

8. Export Promotion

The bill includes the President's proposal for the establishment of a war-chest and other steps to promote exports including making technical revisions and clarifications in the Foreign Corrupt Practices Act to help companies operating abroad. We incorporated many of these latter changes as a result of our discussions with the Hong Kong Chamber of Commerce.

The bill does not provide for industry-specific protection such as protection for textiles, shoes, etc., although each of the titles of the bill are likely to contain provisions which are particularly helpful to particular industries.