

TALKING POINTS OF SENATOR BOB DOLE
NATIONAL COUNCIL FOR RESOURCE DEVELOPMENT

December 6, 1985

STATUS OF HIGHER EDUCATION ACT REAUTHORIZATION

- o THE OUTLOOK FOR HIGHER EDUCATION IN THE CONGRESS IS VERY POSITIVE. HEARINGS HAVE BEEN HELD THIS FALL IN PREPARATION FOR THE REAUTHORIZATION OF THE HIGHER EDUCATION ACT. NEXT WEEK, THE SUBCOMMITTEE ON EDUCATION OF THE LABOR AND HUMAN RESOURCES COMMITTEE WILL BEGIN MARK-UP OF THE HIGHER EDUCATION BILL. UNDER THE LEADERSHIP OF SENATOR STAFFORD, THESE PROGRAMS ARE LIKELY TO FARE VERY WELL. THE SENATOR FROM VERMONT HAS ALWAYS BEEN A STRONG DEFENDER OF EDUCATION PROGRAMS, AT THE SAME TIME HE HAS DEMONSTRATED A WILLINGNESS TO ACHIEVE SPENDING REDUCTIONS THAT WOULD NOT IMPACT LOW-INCOME STUDENTS.

- o DETAILS OF THE PROPOSED COMMITTEE BILL WILL BE RELEASED TODAY. IT IS MY UNDERSTANDING THAT FUNDING LEVELS WILL BE BASED ON FY 1986 APPROPRIATIONS LEVELS -- NOT THE USUAL AUTHORIZATION CEILINGS. THIS IS SOMEWHAT OF A NOVEL APPROACH. I BELIEVE IT IS THE COMMITTEE'S INTENT TO PROVIDE A 5 PER CENT INCREASE OVER THE FY 1986 FUNDING LEVELS FOR THE OUTYEARS, BEGINNING IN FY 1987. PROGRAMS THAT HAVE NEVER BEEN FUNDED WILL NOT BE REAUTHORIZED. PRIMARILY THIS LEGISLATION WILL FOCUS ON STUDENT FINANCIAL AID PROGRAMS, AND CHANGES IN EXISTING PROGRAMS WILL BE VERY MODEST.

RECONCILIATION PROPOSALS FOR STUDENT AID PROGRAMS

- AS THIS AUDIENCE IS AWARE, EARLIER THIS YEAR, THE SENATE AND HOUSE PASSED SEPARATE VERSIONS OF A BUDGET RECONCILIATION MEASURE. THE CONFERENCE ON THE RECONCILIATION BILL IS STILL IN PROGRESS, BUT MOST OF THE PROPOSALS FOR HIGHER EDUCATION AND STUDENT FINANCIAL AID PROGRAMS RELATE TO THE GUARANTEED STUDENT LOAN PROGRAM AND ARE QUITE REASONABLE. SPENDING REDUCTIONS OF ABOUT \$200 MILLION A YEAR HAVE BEEN INCLUDED. HOWEVER, THERE ARE NO MODIFICATIONS IN ELIGIBILITY CRITERIA, OR IN THE LEVEL OF AVAILABLE GRANTS AND LOANS.
- IN FACT, I AND MY STAFF WORKED CLOSELY WITH A STUDENT LEADER TASK FORCE FROM VARIOUS UNIVERSITIES IN KANSAS TO DEVELOP OPTIONS THAT WOULD TIGHTEN THE STUDENT AID PROGRAMS WITHOUT CAUSING REAL HARDSHIP FOR THOSE YOUNG PEOPLE WHO DEPEND ON THESE PROGRAMS SO THAT THEY CAN BE FINANCIALLY ABLE TO OBTAIN A COLLEGE EDUCATION.
- THE SENATE RECONCILIATION BILL LARGELY REFLECTS MOST OF THE RECOMMENDATIONS SUBMITTED TO ME BY THIS KANSAS STUDENT TASK FORCE. FOR ONCE, WE APPEAR TO HAVE DONE SOMETHING RIGHT.

SUMMARY OF RECONCILIATION PROVISIONS

- o CHANGES IN EXISTING PROGRAMS WOULD MOSTLY AFFECT LENDERS AND TIGHTEN CURRENT ADMINISTRATION OF THE GUARANTEED STUDENT LOAN PROGRAM -- THE RECONCILIATION PROPOSALS IN NO WAY REDUCE THE AMOUNT OF FINANCIAL AID AVAILABLE TO NEEDY STUDENTS. CHANGES IN THESE PROGRAMS INCLUDE:
 - CUTTING THE SPECIAL ALLOWANCE FOR LENDERS BY .25%, FROM THE CURRENT $T + 3.5\%$ TO $T + 3.25\%$. BANK PROFITS WOULD BE REDUCED SOMEWHAT.
 - RECALLING STATE AGENCY ADVANCES.
 - ALLOWING LOAN CONSOLIDATION AND INCREASING THE INTEREST RATE TO 10% FOR 15 YEAR LOANS -- AGAIN CUTTING THE BANKS' PROFITS.
 - REQUIRING MULTIPLE DISBURSEMENT OF LOANS AND PAYMENT OF THE ORIGINATION FEE UP FRONT.
 - INCREASING THE PENALTIES AND STRENGTHENING THE SYSTEM FOR COLLECTING ON DEFAULTS, ADOPTED FROM A QUAYLE DEFAULT BILL.
 - ALLOWING FOR THIRD-PARTY PRE-CLAIMS EFFORTS.

FEDERAL ROLE IN EDUCATION

- WHILE I AM A FIRM BELIEVER IN THE CONCEPT OF FEDERAL AID TO EDUCATION, I BELIEVE EVEN MORE DEEPLY THAT QUALITY OF EDUCATION DEPENDS ON THE QUALITY OF LOCAL INVOLVEMENT.
- PROVIDING FEDERAL FUNDS TO HELP EDUCATE OUR YOUNG PEOPLE REPRESENTS ONE OF THE BEST INVESTMENTS WE CAN MAKE WITH OUR TAX DOLLARS. HOWEVER, THE SOURCE IS NOT WITHOUT ITS LIMITATIONS.
- THE PRIMARY FEDERAL RESPONSIBILITY IN EDUCATION IS TO GUARANTEE EQUAL OPPORTUNITY AND ACCESS TO EDUCATION FOR ALL AMERICAN CHILDREN.
- EQUAL EDUCATIONAL OPPORTUNITY AND ACCESS MEAN EXACTLY THAT -- POOR CHILDREN OF FARM FAMILIES IN IMPOVERISHED RURAL AREAS SHOULD HAVE THE SAME OPPORTUNITY TO GET A GOOD EDUCATION AS THE CHILDREN OF RICH PARENTS IN A WEALTHY SUBURBAN OR METROPOLITAN AREA.
- YOUNG PEOPLE DISADVANTAGED BY PHYSICAL OR MENTAL HANDICAPS SHOULD HAVE AS MUCH OPPORTUNITY TO DEVELOP THEIR LEARNING POTENTIAL AS IS PROVIDED TO THEIR MORE FORTUNATE SCHOOLMATES. BLACK CHILDREN AND BROWN CHILDREN SHOULD HAVE THE SAME EDUCATIONAL OPPORTUNITIES AS WHITE CHILDREN, WHETHER THEY LIVE IN KANSAS OR IN MISSISSIPPI OR IN TEXAS OR CALIFORNIA.

- o ONE OF THE MAJOR REASONS THE FEDERAL GOVERNMENT BECAME SO DEEPLY INVOLVED IN ELEMENTARY AND SECONDARY EDUCATION WAS THE FAILURE OF SOME STATES AND OF TOO MANY COMMUNITIES TO PROVIDE EQUAL OPPORTUNITIES TO CHILDREN DISADVANTAGED BY POVERTY, RACE, OR BY PHYSICAL OR MENTAL DISABILITIES.

PRESIDENT'S LEADERSHIP IN EDUCATION

- o NOW ECONOMIC FORCES AND POLITICAL TIDES ARE CAUSING OUR NATION TO REEXAMINE THE PROPER ROLE OF THE FEDERAL GOVERNMENT IN THE EDUCATION OF YOUNG AMERICANS.
- o THE PRESIDENT HAS INITIATED A GREAT REEVALUATION OF THE SHAPE AND COURSE OF THE FEDERAL GOVERNMENT. THERE IS PERHAPS NO ISSUE MORE IMPORTANT TO OUR COUNTRY'S FUTURE THAN THE EDUCATION OF OUR CHILDREN, AND YET PERHAPS THERE IS MUCH THAT CAN BE DONE TO PROMOTE DEREGULATION OF THOSE AREAS OF FEDERAL EDUCATION POLICY WHICH HAVE BECOME OVERLY INTRUSIVE IN STATE AND LOCAL AUTONOMY.
- o BY NOW WE ARE ALL FAMILIAR WITH THE REPORT "A NATION AT RISK" THAT MOBILIZED THIS COUNTRY TO TAKE ACTION TO IMPROVE ITS PUBLIC EDUCATION SYSTEM. IT WAS UNDER PRESIDENT REAGAN'S AND TED BELL'S LEADERSHIP THAT THIS REPORT WAS CONDUCTED. THE REPORT MADE OFFICIAL WHAT WE HAD KNOWN FOR ALONG TIME --THAT THE QUALITY OF OUR PUBLIC EDUCATION SYSTEM HAD SERIOUSLY DETERIORATED. INTERESTINGLY ENOUGH, WHAT THE REPORT DID NOT RECOMMEND WAS A MASSIVE INFUSION OF FEDERAL FUNDS.

- AS A RESULT OF THIS REPORT, STATES AND LOCAL COMMUNITIES HAVE GEARED UP TO IMPLEMENT IMPROVEMENTS IN THEIR SCHOOLS. WE HAVE THE PRESIDENT TO THANK FOR GENERATING AN AWARENESS OF THE SERIOUSNESS OF THE PROBLEM AND FOR EXHORTING THOSE CONCERNED TO TAKE ACTION TO CORRECT THE PROBLEMS.
- LEADERSHIP AT THE STATE LEVEL IS DIRECTED AT CREATING THE LARGER FRAMEWORK OF EDUCATIONAL ACTIVITY AT THE LOCAL LEVEL, WITH THE ADDITIONAL IMPORTANT RESPONSIBILITY OF ENFORCING EQUITY WITHIN THE STATE.
- SENATOR ROBERT A TAFT, SR., ONCE DESCRIBED THE FEDERAL ROLE THIS WAY: "EDUCATION IS PRIMARILY A STATE FUNCTION, BUT IN THE FIELD OF EDUCATION, AS IN THE FIELDS OF HEALTH, RELIEF AND MEDICAL CARE, THE FEDERAL GOVERNMENT HAS A SECONDARY OBLIGATION TO SEE THAT THERE IS A BASIC FLOOR UNDER THOSE ESSENTIAL SERVICES FOR ALL ADULTS AND CHILDREN IN THE UNITED STATES."

GRAMM-RUDMAN

How The Senate Bill Works

- o For each fiscal year from 1987-1991, the President must submit a budget that meets the deficits mandated in the Gramm-Rudman-Hollings plan.
- o Starting this year, if estimates by the CBO and OMB project a deficit that exceeds the deficit target contained in the legislation -- the President must issue a "sequestering" order. The President has 14 days after receipt of the report to issue the order if there is positive GNP growth, 30 days if negative real growth is projected. (The same procedure will follow each year.) For fiscal 1986, the maximum deficit is \$180 billion; fiscal 1987, \$144 billion; fiscal 1988, \$108 billion; fiscal 1989, \$72 billion; fiscal 1990, \$36 billion and fiscal 1991, \$0 billion.).
- o The President must eliminate the excess expenditures by reducing automatic spending increases (e.g. entitlement COLAs) across-the-board, and by reducing other (controllable) spending. Each category would have to contribute one-half to the reduction plan. The actual sequestering, if it were to take place, would take effect 30 days after the Presidential order was issued. However, within 10 days of the Presidential report, the Congressional budget committees could propose an alternative plan for achieving the same deficit reduction.
- o The President could suspend the deficit limitation of Gramm-Rudman-Hollings in the case of a recession.
- o Social Security is not eligible for reduction.

Major Conference Issues

- o Whether the sequester order, if it occurs, should fall equally (50/50) on defense and domestic spending.
- o Whether certain low income programs (AFDC, Food Stamps, SSI, child nutrition) will be exempt from the sequester order.
- o What the deficit targets will be each year.

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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.

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Talking Points

- o The proposal establishes the kind of guaranteed downward glide path on deficits that virtually all Senate Republicans set as our goal last January.
- o 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.
- o 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.

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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:

- o Deficit amount \$171.9B for 1986.
- o The amount of reductions required by the likely sequester order would be prorated for the months remaining in the fiscal year.
- o The minimum sequester order in 1986 would be \$12 billion and the maximum sequestration order could not exceed \$20 million.
- o A 50/50 split between defense and non-defense in terms of the first year.
- o A limited number of low income programs would be exempt from the sequester order.
- o 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.

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Attacking the Deficit

- o The deficit remains our number one economic problem: our number one domestic problem, because until we prove we're serious about the deficit, we will have no credibility on any other major issue, either.
- o In the Senate, we have been working hard for deficit reduction: not just in supporting the Senate-White House budget, but in working for institutional reforms aimed at reducing deficits over the long term. Those reforms include the Gramm-Rudman-Hollings budget control measure and the balanced budget constitutional amendment.
- o We cannot give up now, just because we haven't won all the battles we had hoped to win. Each of the initiatives we have worked for is becoming more and more urgent as time goes on. Unfortunately, the need to reform our fiscal policy may become apparent only when we approach a crisis point.

What is at Stake

- o We have made tremendous strides towards putting the economy on a stable growth path without rekindling inflation. The deficit threat is the main threat to a sound economic future.
- o The longer we postpone action on the deficit, the greater we increase the risk of either recession, or renewed inflation. The growing debt burden, already near two trillion dollars, simply cannot be financed without increasing costs--and growing risks--to both the American economy and the world economy.
- o No one can be sure what the consequences will be if we fail to act on the deficit: and I, for one, don't want to find out. But some things are clear. One is that the deficit problem compounds itself. Each year that we add \$200 billion in new Federal debt adds another \$15 billion to the next year's interest costs. The exploding cost of servicing the Federal debt makes controlling spending that much more difficult each year. Already interest expense for FY 1986 is expected to reach \$140 billion.

THE DEFICIT AND THE AVERAGE AMERICAN

- o Unless we enact a massive deficit reduction measure, American families will face either higher interest rates or higher inflation: not to mention the risk of a disastrous new recession throwing millions of breadwinners out of work.
- o Most economists believe that enactment of a deficit reduction package as large as this year's Senate budget would produce a drop of at least 1 percent in interest rates over the short run and 2 to 3 percentage points over the long term: relative to what they otherwise would be. Implementing the Gramm-Rudman deficit control plan could have a comparable impact.
- o With a 2% drop in interest rates, the monthly payment on a median priced home (\$80,000) will go down by about \$100 a month.
- o Conversely, if we don't reduce the deficit to keep rates as low as they are now, homeowners could face that large an increase-or-more in monthly payments.
- o A 2% drop in interest rates would mean an additional \$4,000 in income for the average wheat farmer with a 1,000 acre operation.
- o This year alone, the Federal Government will overspend close to \$1,000 for every man, woman, and child in America.
- o This \$1,000 per head of additional Federal debt will be one more burden for our children to repay in higher taxes or higher inflation in the future.
- o If we don't act soon on major deficit reduction, the American people will pay the price. By 1989, interest on the debt alone would take up half of all individual income tax payments. The interest cost would be \$250 billion or \$1,100 for each American.

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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.

Tax Reform Talking Points

- o Conceptually, the President's proposal and the Ways and Means Committee bill are quite similar--they both shift more of the tax burden to corporations and reduce the tax burden on individuals.
- o Both substantially reduce tax rates for individuals (the President to a maximum of 35%; Ways and Means to 38%) and for corporations (President 33%; Ways and Means 36%). But the Ways and Means rates take effect at much lower income levels: the 35% rate clicks in at \$43,000 for married couples, as opposed to \$70,000 under the Reagan plan.
- o Neither plan gets an A+ for the major objectives of tax reform--simplification and fairness.
- o The President's plan repealed many of the complicated provisions of current law and thus did a better job of simplification than the Ways and Means Committee effort, which modified, but left in place, many of the complex incentives.
- o If fairness means having taxpayers with equal incomes pay similar amounts of tax, the Ways and Means Committee did worse than the President. Fringe benefits and itemized deductions are the major causes of differing tax liabilities. Unlike the President's proposal, Ways and Means retained the State and local tax deduction, limited interest paid deductions less, and did nothing on fringe benefits.
- o The Ways and Means Committee retained many of the politically popular big-ticket items. Unless we want to tackle those, the Senate will have limited flexibility in trying to enhance investment and savings incentives.
- o 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.
- o 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.

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