

LEW UHLER

I'M PROUD THAT LEW UHLER AGREED TO INTRODUCE ME TO THIS DISTINGUISHED GROUP. AS YOU KNOW, LEW'S TIRELESS EFFORTS HAVE BROUGHT US TO THE BRINK OF VICTORY ON THE BALANCED BUDGET CONSTITUTIONAL AMENDMENT. NOT ONLY THAT, BUT HE HAS PLAYED A KEY ROLE IN OUR EFFORTS TO SELL CONRAIL -- AGAIN, A FISCAL SUCCESS THAT IS ABOUT TO HAPPEN IN THE SENATE. NO ONE HAS DONE MORE TO ADVANCE THE CAUSE OF LIMITED, RESPONSIBLE GOVERNMENT THEN LEW UHLER.

TAX REFORM

- o The deficit is not the only domestic issue, even if it is the most important one. Last year the President proposed an historic and far-reaching overhaul of the Nation's tax laws. The House of Representatives passed a version of that bill, but it's significantly watered-down compared with the Reagan plan.
- o The Reagan tax plan and the House bill are similar in concept -- they both shift more of the tax burden to corporations and reduce the tax burden on individuals. However, the bills are very different in how they make the change.
- o Each bill substantially reduces 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 The House bill falls short of the President's on grounds of fairness. Fringe benefits and itemized deductions are major causes of differing tax liabilities, and unlike the President's proposal, the House retained the state and local tax deduction, did less to limit interest-paid deductions, and did nothing on fringe benefits.
- o In short, the House refused to take many of the politically popular big-ticket tax loopholes. Unless we are willing to tackle those, as I think we must, the Senate will have limited flexibility in trying to improve the bill to encourage savings and investment.
- o I have favored income tax reform for a long time and, as Chairman of the Senate Finance Committee, led the fight for tax indexing and to plug unjustified tax loopholes. If we can correct the potentially harmful economic effects of the House bill, we can win a major victory.
- o Whatever happens on tax reform this year, the die has been cast: the political momentum remains in the direction of lower tax rates and few special loopholes. There is much economic wisdom in that, as well. If we don't achieve the ideal tax system in 1986, there will be other opportunities too make improvements.

CONCLUSION

The Congress and the President clearly have a tremendous task ahead of them in 1986, just on the domestic front. But the remarkable thing is that it should be so difficult for one national government to control its fiscal habits and tax our citizens in an equitable manner. The difficulty of the task says something about our politics: But that is a topic for another time.

One thing is clear that fundamental reforms -- constitutional restraints on our fiscal decisions and remaking the tax code from top to bottom -- are gaining ground because progress is too often blocked under conventional procedures. That is something the people, especially committed conservatives like ourselves, must take heed of, and participate in, because what we do over the next few years will have far reaching consequences for the rest of this century.

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o I'M DETERMINED THAT WE WILL PROVIDE THE ASSISTANCE THAT UNITA NEEDS AND DESERVES. I'M GOING TO DO EVERYTHING I CAN IN THE SENATE THAT WE MEET OUR RESPONSIBILITY. AND IN THAT EFFORT, I'M LOOKING FORWARD TO THE COUNSEL, THE COOPERATION AND THE HARD WORK OF THE SENATORS HERE TODAY.

o THE MEMBERS OF THIS ORGANIZATION, WHO HAVE TAKEN SUCH A LEAD ROLE IN INSURING THAT OUR COUNTRY DOES WHAT IS RIGHT, ON THIS ISSUE AND SO MANY OTHERS.

January 30, 1986

BALANCED BUDGET AMENDMENT

- o The balanced budget amendment is an appropriate long-term response to our fiscal problem: our inability to eliminate deficit spending. Even with strong public pressure to balance the budget, Congress hasn't been able to do so. We need an institutional restraint--in the Constitution--to help us keep the public interest ahead of special interest pressures.
- o Legislation to require balanced budgets has never succeeded, because it can simply be overridden by a subsequent action of Congress. The Constitution should not lightly be tampered with, but there is no longer any question that our sorry record on deficits and spending is causing great concern throughout the country, and around the world. That is why 32 of the 34 States required to call a constitutional convention on this issue have petitioned Congress for such a convention--that is a message that we in Congress have to heed, and a 33rd State may join the roster this year.
- o The fundamental problem of deficit spending demands a fundamental solution. The balanced budget amendment reported by the Senate Judiciary last July 11 does not embody any particular economic theory, but just requires that Congress be specifically accountable for its decisions on fiscal policy.
- o The amendment I prefer would just require a 3/5 vote to adopt a deficit budget, and an actual majority (51 Senators, 218 Representatives) to raise the level of taxation as a percent of the national income. That is all there is to it: increased accountability, and an appropriate counter to the never-ending pressures for responding to special interests.
- o This is not a partisan issue and it is certainly not a quick-fix: we have to do everything we can right now to reduce spending and deficits. But we also need to reform the basic way we deal with the budget in Congress. The balanced budget amendment would limit our options in a way that is good for us and good for the country.
- o No one claims that a fiscal restraint amendment is a panacea for our immediate deficit dilemma, and it should not be used as an excuse for ignoring our own lack of responsibility in failing to make a real impact on the triple-digit deficits we are facing. For that we need to keep working on substantive legislation to reduce spending, consistent with the Gramm-Rudman targets.

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- o To see what conservatives can achieve once fiscal sanity is restored, look at what we've already done in the Republican Senate:
 - Major tax cuts, tax indexing, and an historic tax reform on the way.
 - The line-item veto, put to the test last year, and raring to go again.
 - Legal Services Corporation nominees confirmed after four years of delay over the conservative philosophy of the President's choices.
 - The McClure-Volkmer gun bill approved at long last by a vote of 79-15, proving that decisive leadership and a willingness to make reasonable compromises is the way to advance our agenda.
 - Privatization efforts, designed to get government out of business where it doesn't belong: the outstanding example being the Conrail sale, now pending in the Senate.
 - Enterprise zones, the President's bold plan for private sector rescue of distressed areas: twice passed by the Senate, and three times out of the Senate Finance Committee under any chairmanship.
 - Outstanding judicial nominees like Alex Kosinski and Jim Buckley, confirmed by the Senate over strong objections to their conservative philosophies.

IV. SETTING THE FUTURE AGENDA

- o The outstanding achievement of the conservative movement in the 1980's is that we have won the right to set the policy agenda. The American people trust us, and increasingly identify with us. But that means we have an obligation to lead the way.
- o Let's consider some issues where we can and must show leadership in the years ahead: the balanced budget amendment, the fight for freedom in Africa, and tax reform.

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- o Gramm-Rudman can be a very useful deficit-reduction mechanism. But let's face it: it's not what we ought to be doing. The new law is a blunderbuss, deliberately designed to avoid the kinds of policy choices we ought to be making on Federal spending. Our task as conservatives is to do the job in a better way, working for our budget priorities in the process of deficit reduction.
- o Everyone's cherished programs will have to be put to the test of fiscal responsibility. Gramm-Rudman-Hollings is a device for reducing spending -- not for increasing taxes. We have a long, long way to go before we've scraped the bottom of the barrel on spending.

II. DEFICIT AND AVERAGE AMERICAN/INTEREST ON THE DEBT

THE DEFICIT AND THE AVERAGE AMERICAN

We in Congress, and you who care about the fate of this country, have an obligation to see that we do our deficit work this year. Because unless we follow a deficit reduction path like that mandated under Gramm-Rudman-Hollings, 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. That is what the Gramm-Rudman-Hollings initiative is all about.

Most economists believe that enactment of deficit reduction measures that eliminate the deficit by the end of the decade will 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.

- With a 2% drop in interest rates, the monthly payment of a median priced home (\$80,000) would go down by about \$100 a month.
- 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.
- A 2% drop in interest rates would mean an additional \$4,000 in income for the average with a 1,000 acre operation.

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- In 1985, the Federal Government will overspend close to \$1,000 for every man, woman, and child in America.
- 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.

INTEREST ON THE DEBT

The massive increase in the 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 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 equal total Federal outlays in 1966, the entire defense budget in 1980, and twice the level of medicare funding today.

But if we can adhere to the deficit-reduction goals we've set for ourselves, I am very, very optimistic about the course of the economy. We take too much for granted what we have achieved so far: strong growth without inflation. We can keep that going if we reduce the deficit substantially. The way is open to economic performance unprecedented in the postwar period if we have the will to find it.

III. MOVING FORWARD

- o The real challenge we face as conservatives is to deal with deficit -- make the choices we must make -- so that we can move ahead with a positive agenda for America. If you share my belief in limited but responsible government -- in setting individual Americans free to use their talent and initiative to make a better world -- the strongest possible defense for freedom and democracy both here and abroad -- then join with me in the vital campaign to deal with the deficit now, and get on with the business of America.

OUTLINE OF REMARKS

SENATOR BOB DOLE

CPAC CONVENTION

WASHINGTON HILTON

4:00 P.M. -- FRIDAY, JANUARY 31, 1986

THEME: CAN CONGRESS CUT SPENDING

I. DEFICIT CHALLENGE

- o First I think we should rephrase the question. Of course Congress can control spending and reduce the deficit: the issue is whether we will. We have made progress on the job, thanks to President Reagan and the Republican Senate -- just look at the record.
- o We've lead the fight--successfully--for three major deficit reduction bills--1981, 1982, and 1984. The annual growth rate of Federal spending has been cut from 17% to something like 5%. And while the 1985 budget battle produced less than perfect results, the Senate's leadership on the issue brought about the Gramm-Rudman-Hollings deficit control law -- a potent device for reducing spending if we have the will to use it effectively.
- o As you know, Gramm-Rudman is the new fiscal straight-jacket Congress has imposed on itself because of our frustration with the failure of existing procedures for controlling spending. It mandates deficit targets for the next five years, enforced by automatic across-the-board spending cuts ordered by the President. The goal is to get the deficit to zero by 1991.
- o The process is already under way, and it should force Congress and the President to control spending: one way or another. On March 1 \$11.7 billion in spending cuts will take effect by Presidential order. And another \$36 - \$46 billion cuts are due in October based on current deficit projections.

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o AND WHEN WE STAND UP, WE CAN'T BE STANDING THERE
EMPTY-HANDED.

o I KNOW DR. SAVIMBI APPRECIATES OUR WORDS OF SUPPORT. BUT
WORDS DON'T HELP MUCH WHEN YOU'RE BEING BOMBED BY SOVIET PLANES,
STRAFED BY ROCKETS LAUNCHED FROM SOVIET HELICOPTERS AND
OVERWHELMED BY SOVIET TANKS.

o NOW IS THE TIME TO GO BEYOND RHETORIC AND PROVIDE DR.
SAVIMBI AND UNITA WITH WHAT THEY REALLY NEED -- THE WHEREWITHAL
TO DEFEND THEMSELVES FROM SOVIET AND CUBAN AGGRESSION.

o WE ARE SUPPORTING JONAS SAVIMBI BECAUSE IT IS IN OUR
INTEREST TO SUPPORT HIM BY SUPPORTING UNITA WE ENHANCE OUR OWN
SECURITY. THAT'S THE ONLY BASIS ON WHICH OUR SUPPORT CAN BE
SUSTAINED.

o WE HAVE TO SUPPLY SUPPORT OVER THE LONG HAUL. NO MORE
CLARK AMENDMENTS. NO MORE AID CUT OFFS, LIKE WE HAD WITH THE
CONTRAS. LET'S GO INTO THIS WITH OUR EYES OPEN AND A CLEAR SENSE
OF WHY WE'RE DOING WHAT WE'RE DOING. AND LET'S STAY IN AS LONG
AS IT TAKES TO DO THE JOB.

ANGOLA TALKING POINTS

o DR. JONAS SAVIMBI (suh-VIM-bee), IS A TRUE PATRIOT OF ANGOLAN AND A TRUE LEADER OF THE ANGOLAN PEOPLE.

o DR. SAVIMBI'S PRESENCE REMINDS US THAT THE FORCES OF SOVIET COMMUNISM ARE STILL ON THE MARCH, IN AFRICA AND AROUND THE WORLD. UNLESS WE FIGHT BACK AGAINST THOSE FORCES THEY ARE GOING TO OVERWHELM US.

o DR. SAVIMBI'S PRESENCE ALSO REMINDS US THAT PEOPLE AROUND THE WORLD TREASURE THEIR FREEDOM AND ARE WILLING TO RISK THEIR LIVES TO WIN AND DEFEND IT. UNLESS WE STAND WITH THESE PATRIOTS, WITH MEN LIKE JONAS SAVIMBI, WE HAVE LOST FAITH WITH OUR OWN HERITAGE. AND IN SO DOING, WE HAVE PUT OUR OWN FREEDOM AT RISK.

o DR. SAVIMBI'S PRESENCE REMINDS US THAT A FEW YEARS AGO WE AS A NATION MADE A GREAT MISTAKE: THE CLARK AMENDMENT. BUT WE STILL HAVE A CHANCE TO CORRECT THAT MISTAKE.

o THIS COUNTRY MUST STAND UP AND BE COUNTED ON THE SIDE OF JONAS SAVIMBI AND UNITA.

NICARAGUA

- CHALLENGE DOES NOT END IN ANGOLA.
- SOVIET AND ON THEIR SURROGATES SEEK TO LAY SEIGE TO FREEDOM AROUND GLOBE.

NICARAGUA

- CHALLENGE CLOSEST TO HOME: NICARAGUA.
- LINES CLEARLY DRAWN. SANDINISTA REGIME:
 - OPENS COUNTRY TO BASE FOR SOVIETS AND CUBANS.
 - SUPPORTS OUTRIGHT AGGRESSION AND SUBVERSION AGAINST NEIGHBORS:
 - OUR ALLIES AND FRIENDS.
 - SUPPRESSES OWN PEOPLE.
- REPRESENTS DIRECT CHALLENGE TO AMERICAN INTERESTS IN HEMISPHERE.
- THREE THINGS AT STAKE:
 - STABILITY OF CENTRAL AMERICA AND SECURITY OF ALLIES AND FRIENDS.
 - LONG-TERM SECURITY OF OUR COUNTRY.
 - OUR HONOR AS A NATION.

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-- RESPONSE MUST BE CLEAR-CUT: USE OF ALL MEANS AVAILABLE
TO:

- RESIST SOVIET/CUBAN PENETRATION.
- ENHANCE SECURITY OF ALLIES AND FRIENDS IN REGION.
- FOSTER POLITICAL AND HUMAN RIGHTS WITHIN NICARAGUA.

-- SUPPORT FOR DEMOCRATIC RESISTANCE ESSENTIAL ELEMENT OF
STRATEGY.

-- WITHOUT IT, HAVE NO DIPLOATIC OR OTHER LEVERAGE
WHICH MOSCOW/HAVANA/MANAGUA WILL UNDERSTAND.

-- CONGRESS MUST MOVE QUICKLY AND DECISIVELY TO PROVIDE
CONTRAS AID THEY REALLY NEED, IN QUANTITIES THAT WILL BE
EFFECTIVE.

-- PLEDGE TO LEAD EFFORT TO PROVIDE EFFECTIVE AID, THROUGH
BEST MEANS AVAILABLE.

AFGHANISTAN

-- LET ME SAY BRIEF WORD, AS WELL, ABOUT ONE LAST CHALLENGE,
IN MANY WAYS MOST DIRECT OF ALL.

-- CASE OF AFGHANISTAN COULD HARDLY BE MORE CLEARLY DRAWN:

-- SOVIET INVASION OF SOVEREIGN NATION.

-- AND, CALLING SPADE A SPADE, SOVIET CONDUCTED GENOCIDE
OF AFGHAN PEOPLE.

--THE SOVIET CAMPAIGN OF BOMBED OUT VILLAGES AND
ANTI-PERSONNEL DEVICES, ESPECIALLY THOSE USED AGAINST SMALL
CHILDREN, IS BASED ON THE COLD INSIGHT THAT AN INJURED
PERSON IS MORE TROUBLE THAN A DEAD ONE TO A GUERRILLA
ORGANIZATION.

--THE SOVIETS HAVE USED CHEMICAL WARFARE AGAINST THE RURAL
POPULATION IN AFGHANISTAN WITHOUT REMORSE, AND AMNESTY
INTERNATIONAL REPORTS ON THE EFFECTS OF TORTURE BY THE KABUL
GOVERNMENT'S KGB-TRAINED SECRET POLICE.

--OF THE APPROXIMATELY 16 MILLION AFGHANS IN THE COUNTRY IN
1980, AN ESTIMATED ONE MILLION HAVE BEEN KILLED OR WOUNDED
SINCE THE COMING OF THE RED ARMY.

--THE MILITARY OBJECTIVE OF THE SOVIETS IS TERROR RATHER
THAN VICTORY PER SE.

--THE SAME GROUP OF PEOPLE WHO WARN THAT 60 U.S. ADVISORS IN
EL SALVADOR OR ADMINISTRATION CONCERNS OVER SOVIETS WEAPONS

FLOW INTO NICARAGUA PREVIOUS INVASIONS THERE "EXPLAIN" THE
ACCOMPLISHED INVASION AND OCCUPATION OF AFGHANISTAN BY
120,000 TROOPS IS A MATTER OF LEGITIMATE SOVIET STRATEGIC
CONCERNS.

--WE MUST DO ALL THAT IS POSSIBLE TO ASSIST THE MUJAHIDEEN
IN THEIR VALIANT STRUGGLE AGAINST THE SOVIETS AND THE SOVIET
SPONSORED GOVERNMENT IN KABUL.



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Senate

"SDI: HOPE FOR THE FUTURE"

Mr. DOLE. Mr. President, several weeks ago the President, in response to a question at a press conference, told the Nation just how important he believed our continued pursuit of the strategic defense initiative is, not just for our own national security, but for the security of the whole world. What he said was the same message he's been conveying ever since March 1983.

The term SDI has become one of the best known phrases in the world these days. It's also one of the most poorly understood concepts, and the resulting confusion makes it hard for many people to understand why either the United States or the Soviets take it so very seriously.

The arguments put forth against SDI generally fall into two categories—either that it won't work—the "technology" argument—or that it will destabilize rather than stabilize—the arms race argument. Let me try to address those issues.

WHY WE NEED SDI

First of all, why do we need SDI? Why can't we continue to live safely under the protection of the nuclear umbrella? The answer to that question lies in the issue of stability. It's true that we've coexisted with nuclear arms—that is, we've had them and not used them. And one might argue that their presence has inhibited some, though certainly not all, conventional military excursions.

But that record hides a dangerous situation. Without going into details, let me just state that it would be difficult to find many people who doubt that stability—and by that I mean our continued ability to prevent the use of nuclear weapons—has declined over the past 20 years, as offensive weapons have grown in accuracy and numbers. I for one am deeply concerned when I realize the degree to which we rely today on our strategic submarines as an assuredly survivable retaliatory deterrent. A decade ago we had three assuredly reliable deterrents; today, two—bombers and land-based ICBM's—are under a growing burden.

In a very direct way the President's proposal to begin to develop technical options for strategic defense resulted from the increasing difficulty of maintaining survivable nuclear deterrents. Because if the time comes when we can't do that—whether in 5 years or 20 years—then the free world, like the emperor, is left naked and vulnerable.

It wasn't supposed to be this way. Fifteen years ago, the last time we were engaged in national debate about ballistic missile defense, the existing and foreseeable technologies effectively limited us to using last-minute interceptor missiles to defend against incoming warheads. The defenses we could have built then had one glaring fault—they could be overwhelmed by enough incoming weapons. It's a situation that can encourage proliferation.

FAILINGS OF ABM TREATY

In 1972, we recognized that situation and signed the ABM Treaty. We assumed that the ABM Treaty would be the catalyst for mutual reductions in offensive arms, and we expected to see some progress within 5 years. After all, if nuclear forces were to be only used as retaliatory threats, they wouldn't have to be very large.

It never happened. Instead of getting the reductions we hoped the treaty would bring, we got the proliferation we feared the missiles would bring. The situation that confronted President Reagan in 1981 was one in which Soviet forces were far larger than ours. And—especially important to this point—the Soviets had proliferated their land-based ICBM's to an alarming degree.

Let's separate two factors that led to that situation. One is that the Soviets never accepted the premise of mutual vulnerability. While we continued to balance our strategic triad, they were busy building civil defenses and developing terminal defense technologies, air defenses, and even the advanced technologies that SDI is only now trying to develop in the West. The ultra-fast ICBM, which can deliver thousands of highly accurate warheads nearly simultaneously, is the centerpiece of that first-strike strategy. The Soviets have built an enormous force of ICBM's, with half a dozen different kinds being continually modernized and upgraded with a highly accurate capability. In the face of this kind of unrelenting growth in Soviet offensive weapons, weapons in the quantities and with the necessary accuracy to pose a credible first-strike threat against the West, we reluctantly concluded that we had to respond to the growing imbalance—hence, the modernization of Western strategic forces and the INF and cruise missile deployments in Europe.

So SDI is really a response to the failure of expectations for arms control. But SDI is more than just an attempt to counter the growing menace of preemptive forces. SDI is also a po-

tential means to do what we've failed to do any other way—to bring about meaningful reductions in offensive nuclear arms.

NEW TECHNOLOGICAL TOOLS

When we looked at the question again in 1983, we began to look at defensive alternatives and realized we had a good chance of developing a workable technology for SDI. Since then there's been remarkable—and in some cases truly astounding—technical progress. Two years ago the opponents of SDI made a great to-do about what they insisted were technical impossibilities. Today they've shifted their technical criticism to the infeasibility of achieving perfect defenses. The President's ultimate goal of making nuclear weapons, obsolescent isn't based on the need for such perfection. Rather, it requires only that there is no incentive to use these awesome weapons. And that's both a reasonable and a realistic pursuit.

The rate of progress over the past 2 years in developing and refining technologies essential for SDI is demonstrating that we have the scientific and technical tools to make SDI very promising.

EFFECT ON NUCLEAR STABILITY

As the arguments about technical feasibility fade, the focus of debate shifts to the effects SDI might have on stability. SDI's opponents raise three primary arguments. First, they claim that introduction of SDI defenses will stimulate proliferation of offensive arms by the Soviets—a new offensive arms race. Second, they claim that introduction of SDI will so threaten the Soviets to a point where they may be provoked into a preemptive nuclear strike to prevent the West from getting an upper hand. And third, they assert that the United States is starting what's referred to as an arms race in space.

Paul Nitze has approached these questions from a different angle. Nitze proposed two tests that must be

passed by any proposed strategic defense system. First, it must be cost-effective at the margin, and by that he means that the cost of adding additional units of offense must be higher than the cost of adding the defense to counter it. We can look on that as an antiproliferation requirement.

As I'm sure you've heard, one of the arguments frequently used against SDI is that the Soviets can overcome it easily by simple proliferation of offensive arms. But believe me, that's not the case. First of all, boost phased defenses give us the potential for tremendous leverage, because it would enable us to destroy missiles, not re-entry vehicles. In fact, it would take away the offensive advantages of MIRV'ing, of decoys, and of penetration aids. The prospect of boost phase defenses could so overwhelm the offensive forces that countering them by proliferation would be out of the question.

Nitze's second test is that a strategic defense system be survivable. That means it has to be able to function in spite of attempts to disable or destroy it. Again, we're highly confident that we'll be able to produce systems that meet that strict criterion. We think survivability will rest primarily on the redundancy of the defenses. In effect, at each stage of a Soviet missile's flight—boost phase, midcourse, and re-entry—SDI can attack it with two or three radically different kinds of defensive weapons, some nearby and some at great distance, some in space, and some on the ground. We can set up a devastating gauntlet to stop both the nuclear missiles and the weapons trying to attack our defenses.

So if and when we do propose to deploy a defense, it will be defense that would stabilize the nuclear balance by removing any incentive for preemption and by providing a new incentive for negotiating truly meaningful reductions in these offensive ICBM's.

OTHER EFFECTS

But over and above those requirements which we set for ourselves, we

have to remember two other things about the effects of introducing an SDI system. First, any strategic defense system will be developed and phased in over an extended period of many years; nothing will occur suddenly to threaten stability. And remember, during that time we in the West will still maintain strong retaliatory deterrents. There's no suggestion of letting down our guard during any transition.

Second, these arguments that the United States SDI is rocking an otherwise stable boat fail—and fail blatantly—to recognize the ongoing Soviet efforts in strategic defense. And I'm not talking about their ABM system around Moscow, nor even about their highly sophisticated air defenses or the infamous radar at Krasnoyarsk. I'm talking about their well-established research and development program, underway for more than a decade, to develop the very same kinds of technology that we've just begun to investigate in our own SID program.

And as a point of calibration, the Soviet SDI program last year was larger than the program that President Reagan has proposed for the United States next year. At the same time that the Soviets are waging a fierce propaganda and diplomatic campaign to discredit our SDI program, they won't even admit the existence of their own. What are we to make of this duplicity—except that we can be reasonably sure that the Soviets will be phasing in their own version of SDI in the same time frame we could be. Certainly their previous performance in the 1970's with respect to offensive forces suggests that they'll do it whether or not we in the West go ahead. Indeed, if their unrelenting attack on our SDI efforts is successful, they'll have the field all to themselves.

Consider an analogy to the hydrogen bomb. Now we can all agree that the world would have been far better off if no one had hydrogen bombs or the knowledge of how to make them. But that was never our option. The real lesson of that story is that within 6

months of the American success, the Soviets exploded their own H-bomb, which they had begun working on while we debated. If you think our condition today is perilous, imagine what kind of world we would have been living in if the Soviets had won a monopoly on hydrogen bombs. Then imagine what kind of world we could be living in if the Soviets alone develop strategic defense. Would they, as President Reagan does, view a stable world as one where both sides have defensive capabilities? Would they, as he proposed, share that technology if it appeared that deployment by one side only would be destabilizing? Not likely.

ALLIED APPROACH

My reference to President Reagan's expectation that stability comes when both sides have strategic defenses—a conviction that he expressed, as you'll

remember, during the second Reagan-Mondale debate—reminds us that SDI has always been intended as a broad defense. In the speech more than 2 years ago when he first proposed SDI, the President specifically noted that our allies' "vital interests and ours are inextricably linked." He said: "Their safety and ours are one. And no change in technology can or will alter that reality." So let me emphasize a point that has been subject to confusion. SDI's goal is to protect people, not weapons. The intention is to do that by developing effective boost-phase defenses that stop missiles while they're still rising over Soviet territory, without regard to what their targets are—whether they're SS-20's targeted at London or SS-18's heading for Washington.

Certainly one of the reasons we're trying to establish an allied approach to strategic defense is because this is an issue for the Western Alliance, not just for the United States. SDI is not a 1980's version of "Fortress America." Maybe I can convey what I mean by asking you to replace the image you may have in your mind of the United States with a shield over it to prevent warheads from getting in. Think in-

stead of what those boost-phase strategic defenses really create—a shield over the Soviet Union that prevents ballistic missiles from getting out.

In any case, we're still going to have to rely on strategic nuclear weapons as deterrents during a transition period. SDI in no way lessens the importance of continued modernization and deployment of strategic systems for the foreseeable future.

This dual emphasis on both SDI and continued deployment of modernized offensive weapons makes perfect sense when we remember that we are talking about this extended transition. I would point out, for example, that the Congress has voted to fund both the MX missile and research on SDI. There's no inconsistency there, because during the coming period of transition from offense to mixed offense and defense, our security will continue to rest to a significant degree on the potency of our retaliatory deterrents.

EFFECT ON CONVENTIONAL FORCES

Finally, let me touch briefly on the fundamental issue of the consequences for conventional forces of reduced reliance on nuclear weapons. The SDI does propose to elevate the role of conventional, nonnuclear deterrents. And that objective is both overdue and practical. The gradual reduction in the nuclear threshold has been like a cancerous tumor, eroding our strength and our will. The fact is that the same kinds of technologies available to the West to make SDI possible can also make it possible to strengthen our conventional deterrents.

Not too many years ago we maintained a very large "force multiplier" over the East, a multiplier based on superior technology that enabled us to more than offset the much larger numbers of men and machines that the East had in place. If anything, there's been a widening gap between the industrial technology of the West and East in the past decade. Ironically, there's been a narrowing of the gap in defense technology. But there's no reason why we can't rebuild that con-

ventional superiority during the same time we're working on SDI. By taking advantage of the technical advances in computer vision, materials, and other areas that thrive in the modern competitive environment of free enterprise, we can erect and, more important, we can afford highly intimidating defenses against any temptation by the East to advance on the West.

NEW OPPORTUNITY FOR PEACE

The absence of thoughtful debate on those issues as they confront us today has short-changed the public. The truth is that the most prevalent arguments against SDI seem to come down to a fundamental objection—that SDI disturbs the status quo. And I would roughly translate status quo to mean an unspoken willingness to continue to live under mutual assured destruction, combined with a continuing, blind faith that arms control alone can eventually bring about the reduction of arms. And I use the word faith in connection with arms control for good reason. Perhaps because the potency of offensive weapons has dominated our thoughts about security until now, we've had to place virtually all our hope for the future on the arms control process. So SDI, because it directly raises the question of whether one of the few existing arms control agreements will continue to be in our best interest 20 years after it was signed, is seen automatically as a threat rather than as an opportunity.

I've been talking today about that opportunity, not about an arms race in space nor about an attempt to gain an offensive advantage by introducing dangerous instabilities into the strategic balance. SDI is hope based on the reality of attainable technology. In the meantime, SDI as a concept ought to be provoking serious discussion of our fundamental assumptions about the nuclear era and about the real options we have for controlling it rather than being controlled by it.

STATEMENT OF SENATOR BOB DOLE
CONTINUING TRADE CRISIS WITH JAPAN

MR. PRESIDENT: EARLIER THIS MONTH THIS SENATOR COMMENTED ON THE CONTINUING TRADE CRISIS WITH JAPAN, NOTING THE EXTRAORDINARY ESCALATION IN OUR TRADE IMBALANCE AND THE FAILURE OF THE JAPANESE TO SERIOUSLY ADDRESS THE ISSUE.

THE FACT IS, THE TRADE DEFICIT HAS CONTINUED TO WIDEN AND MOST OF THE UNFAIR BARRIERS TO FAIR TRADE WITH JAPAN REMAIN IN PLACE. TODAY WE HAVE LEARNED THAT IN DECEMBER WE SET A NEW RECORD FOR A SINGLE MONTH TRADE DEFICIT WITH JAPAN OF \$5.5 BILLION. IN FACT, IN THE TRADE REPORT ISSUED TODAY, JAPAN ACCOUNTED FOR ROUGHLY ONE-THIRD OF THE OVERALL TRADE DEFICIT. IMPORTS FROM JAPAN EXCEEDED EXPORTS BY \$49.7 BILLION IN 1985, UP FROM \$37 BILLION THE YEAR BEFORE.

IN DECEMBER WE EXPERIENCED THE SINGLE LARGEST MONTHLY TRADE DEFICIT IN OUR HISTORY -- \$17.4 BILLION -- A WHOPPING 27 PERCENT INCREASE OVER SEPTEMBER, WHICH HAD HELD THE DUBIOUS DISTINCTION OF BEING THE HIGHEST IN HISTORY.

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OUR TOTAL TRADE DEFICIT FOR 1985 IS NOW ESTIMATED AT \$148.5 BILLION, A SUBSTANTIAL INCREASE OVER THE 1984 TRADE DEFICIT OF \$123 BILLION.

MR. PRESIDENT, ALTHOUGH NO ONE TRADING PARTNER IS TO BLAME FOR THIS ENORMOUS INCREASE IN THE TRADE DEFICIT, ONCE AGAIN, JAPAN ACCOUNTS FOR A SIGNIFICANT PART OF THE PROBLEM. IN 1985, THE U.S. TRADE DEFICIT WITH JAPAN WILL TOTAL \$49.7 BILLION. IT IS A FIGURE, I BELIEVE CANNOT BE SUSTAINED.

BEFORE WE ADJOURNED IN DECEMBER, I ADDRESSED THE SENATE WITH MY CONCERNS ABOUT THE CONTINUING TRADE CRISIS WITH JAPAN. TODAY'S DISMAL NUMBERS ONLY SERVE TO BUTTRESS MY DISAPPOINTMENT WITH THE TIMID PROGRESS THAT IS BEING MADE TOWARD CLOSING THE TRADE GAP BETWEEN OUR TWO COUNTRIES.

LAST SUMMER, AFTER I VISITED JAPAN WITH SEVERAL OF MY COLLEAGUES, AND AFTER THE JAPANESE HAD ANNOUNCED ITS SO-CALLED "ACTION PROGRAM" I HAD A SENSE OF OPTIMISM. I THOUGHT THAT PERHAPS WE WERE BEGINNING, ALBEIT SLOWLY, TO TURN THE CORNER...THAT THE JAPANESE FINALLY UNDERSTOOD THE SEVERITY OF THE SITUATION AND WERE WILLING TO MOVE FORCEFULLY TO RECTIFY IT.

BUT THE FACT IS, DESPITE SOME RECENT INDICATIONS FROM PRIME MINISTER NAKASONE THAT HE AND HIS GOVERNMENT RECOGNIZE THE PROBLEM HAS NOT EASED, AND DESPITE ACTIONS TO LOWER THE VALUE OF THE DOLLAR IN TERMS OF THE YEN, THE TRADE DEFICIT CONTINUES TO WORSEN.

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JAPAN, HOWEVER, IS NOT THE ONLY COUNTRY WHERE WE HAVE INCREASING TRADE DIFFICULTIES. THE TRADE DEFICIT WITH WESTERN EUROPE WAS \$27.4 BILLION IN 1985; \$22.2 BILLION WITH CANADA, \$13.1 BILLION WITH TAIWAN, AND \$11.6 BILLION WITH THE MEMBERS OF OPEC. IN EACH CASE, THOSE LEVELS ARE MUCH TOO HIGH.

THESE HORRENDOUS FIGURES, WHICH THREATEN OUR ECONOMIC WELL-BEING AND CAUSE INDIVIDUAL HARDSHIP TO THE MEN AND WOMEN WHO HAVE LOST AND CONTINUE TO LOSE THEIR JOBS, ARE FURTHER MOTIVATION FOR ACTION IN CONGRESS.

IN NOVEMBER, A BIPARTISAN GROUP OF SENATORS INTRODUCED LEGISLATION THAT ADDRESSED A BROAD RANGE OF TRADE ISSUES AND ATTEMPTED TO BEEF-UP THE MEANS TO STRIKE DOWN BARRIERS TO U.S. EXPORTS BY ENHANCING RETALIATORY AUTHORITY AND ESTABLISHING TIME LIMITS FOR ACTION BY THE FEDERAL GOVERNMENT.

I INTEND TO ASK SENATE FINANCE COMMITTEE CHAIRMAN PACKWOOD, AND SEN. DANFORTH, CHAIRMAN OF THE TRADE SUBCOMMITTEE, TO SCHEDULE HEARINGS ON S. 1860 AT THE EARLIEST POSSIBLE TIME.

ALREADY ON THE SENATE'S CALENDAR, HOWEVER, ARE TWO BILLS DEALING WITH JAPAN AND TRADE. THE JAPANESE UNFAIR TRADE PRACTICE BILL, WOULD REQUIRE THE PRESIDENT TO TAKE ALL ACTION NECESSARY TO ELIMINATE JAPANESE TRADE BARRIERS TO U.S. GOOD OR TO OFFSET THE EFFECTS OF TRADE BARRIERS BETWEEN THE U.S. AND JAPAN.

ANOTHER BILL, S. 942, TO "TELECOMMUNICATIONS BILL" WOULD REQUIRE NEGOTIATING AGREEMENTS TO GAIN OPPORTUNITIES IN FOREIGN MARKETS THAT ARE ALMOST EQUIVALENT TO OPPORTUNITIES AVAILABLE IN U.S. MARKETS FOR TELECOMMUNICATIONS PRODUCTS AND SERVICES.

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MR. PRESIDENT, THE TRADE DEFICIT CRISIS HAS REACHED PROPORTIONS THAT COMPEL US TO ACT. WE CAN NO LONGER IGNORE THE DAMAGE THAT THE BURGEONING DISPARITY BETWEEN WHAT WE IMPORT AND WHAT WE EXPORT HAS ON OUR COUNTRY AND THE LIVES OF OUR PEOPLE. I AM PREPARED TO CALL UP THESE BILLS AS SOON AS THE CALENDAR ALLOWS.

APPROVAL OF THESE BILLS IS NO CURE ALL. OUR ULTIMATE GOAL IS FREE TRADE AND LEGISLATION ALONE CAN NOT CREATE THAT. BUT WE CAN TAKE STEPS TO CREATE MORE OPEN, AND ACCESSIBLE MARKETS, THROUGH LEGISLATIVE MEANS AND CONTINUING DIALOGUE WITH THE JAPANESE AND OUR OTHER TRADING PARTNERS.

FRIDAY, JANUARY 31, 1986

TO: SENATOR

FM: WALT

RE: CPAC SPEECH

o YOU'RE STILL ON AT 4 PM TODAY. INTERNATIONAL BALLROOM WEST AT THE WASHINGTON HILTON.

o LEW UHLER, PRESIDENT OF THE NATIONAL TAX LIMITATION COMMITTEE, WILL INTRODUCE YOU.

o SPEAKERS CONTROL THE FORMAT AS FAR AS HOW LONG THEY GO WITH PREPARED REMARKS AND THEN Q&A.

o APPEARANCES SO FAR HAVE AVERAGED APPROXIMATELY 20-30 MINUTES.

CONTACT: CPAC DESK AT 483-3000.

Kay Luther

OUTLINE OF REMARKS

SENATOR BOB DOLE

CPAC CONVENTION

WASHINGTON HILTON

4:00 P.M. -- FRIDAY, JANUARY 31, 1986

THEME: CAN CONGRESS CUT SPENDING

I. DEFICIT CHALLENGE

- o First I think we should rephrase the question. Of course Congress can control spending and reduce the deficit: the issue is whether we will. We have made progress on the job, thanks to President Reagan and the Republican Senate -- just look at the record.
- o We've lead the fight--successfully--for three major deficit reduction bills--1981, 1982, and 1984. The annual growth rate of Federal spending has been cut from 17% to something like 5%. And while the 1985 budget battle produced less than perfect results, the Senate's leadership on the issue brought about the Gramm-Rudman-Hollings deficit control law -- a potent device for reducing spending if we have the will to use it effectively.
- o As you know, Gramm-Rudman is the new fiscal straight-jacket Congress has imposed on itself because of our frustration with the failure of existing procedures for controlling spending. It mandates deficit targets for the next five years, enforced by automatic across-the-board spending cuts ordered by the President. The goal is to get the deficit to zero by 1991.
- o The process is already under way, and it should force Congress and the President to control spending: one way or another. On March 1 \$11.7 billion in spending cuts will take effect by Presidential order. And another \$36 - \$46 billion cuts are due in October based on current deficit projections.

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- o Gramm-Rudman can be a very useful deficit-reduction mechanism. But let's face it: it's not what we ought to be doing. The new law is a blunderbuss, deliberately designed to avoid the kinds of policy choices we ought to be making on Federal spending. Our task as conservatives is to do the job in a better way, working for our budget priorities in the process of deficit reduction.

- o Everyone's cherished programs will have to be put to the test of fiscal responsibility. Gramm-Rudman-Hollings is a device for reducing spending -- not for increasing taxes. We have a long, long way to go before we've scraped the bottom of the barrel on spending.

II. DEFICIT AND AVERAGE AMERICAN/INTEREST ON THE DEBT

THE DEFICIT AND THE AVERAGE AMERICAN

We in Congress, and you who care about the fate of this country, have an obligation to see that we do our deficit work this year. Because unless we follow a deficit reduction path like that mandated under Gramm-Rudman-Hollings, 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. That is what the Gramm-Rudman-Hollings initiative is all about.

Most economists believe that enactment of deficit reduction measures that eliminate the deficit by the end of the decade will 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.

- With a 2% drop in interest rates, the monthly payment of a median priced home (\$80,000) would go down by about \$100 a month.

- 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.

- A 2% drop in interest rates would mean an additional \$4,000 in income for the average with a 1,000 acre operation.

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- In 1985, the Federal Government will overspend close to \$1,000 for every man, woman, and child in America.
- 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.

INTEREST ON THE DEBT

The massive increase in the 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 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 equal total Federal outlays in 1966, the entire defense budget in 1980, and twice the level of medicare funding today.

But if we can adhere to the deficit-reduction goals we've set for ourselves, I am very, very optimistic about the course of the economy. We take too much for granted what we have achieved so far: strong growth without inflation. We can keep that going if we reduce the deficit substantially. The way is open to economic performance unprecedented in the postwar period if we have the will to find it.

III. MOVING FORWARD

- o The real challenge we face as conservatives is to deal with deficit -- make the choices we must make -- so that we can move ahead with a positive agenda for America. If you share my belief in limited but responsible government -- in setting individual Americans free to use their talent and initiative to make a better world -- the strongest possible defense for freedom and democracy both here and abroad -- then join with me in the vital campaign to deal with the deficit now, and get on with the business of America.

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- o To see what conservatives can achieve once fiscal sanity is restored, look at what we've already done in the Republican Senate:
 - Major tax cuts, tax indexing, and an historic tax reform on the way.
 - The line-item veto, put to the test last year, and raring to go again.
 - Legal Services Corporation nominees confirmed after four years of delay over the conservative philosophy of the President's choices.
 - The McClure-Volkmer gun bill approved at long last by a vote of 79-15, proving that decisive leadership and a willingness to make reasonable compromises is the way to advance our agenda.
 - Privatization efforts, designed to get government out of business where it doesn't belong: the outstanding example being the Conrail sale, now pending in the Senate.
 - Enterprise zones, the President's bold plan for private sector rescue of distressed areas: twice passed by the Senate, and three times out of the Senate Finance Committee under any chairmanship.
 - Outstanding judicial nominees like Alex Kosinski and Jim Buckley, confirmed by the Senate over strong objections to their conservative philosophies.

IV. SETTING THE FUTURE AGENDA

- o The outstanding achievement of the conservative movement in the 1980's is that we have won the right to set the policy agenda. The American people trust us, and increasingly identify with us. But that means we have an obligation to lead the way.
- o Let's consider some issues where we can and must show leadership in the years ahead: the balanced budget amendment, the fight for freedom in Africa, and tax reform.

January 30, 1986

BALANCED BUDGET AMENDMENT

- o The balanced budget amendment is an appropriate long-term response to our fiscal problem: our inability to eliminate deficit spending. Even with strong public pressure to balance the budget, Congress hasn't been able to do so. We need an institutional restraint--in the Constitution--to help us keep the public interest ahead of special interest pressures.
- o Legislation to require balanced budgets has never succeeded, because it can simply be overridden by a subsequent action of Congress. The Constitution should not lightly be tampered with, but there is no longer any question that our sorry record on deficits and spending is causing great concern throughout the country, and around the world. That is why 32 of the 34 States required to call a constitutional convention on this issue have petitioned Congress for such a convention--that is a message that we in Congress have to heed, and a 33rd State may join the roster this year.
- o The fundamental problem of deficit spending demands a fundamental solution. The balanced budget amendment reported by the Senate Judiciary last July 11 does not embody any particular economic theory, but just requires that Congress be specifically accountable for its decisions on fiscal policy.
- o The amendment I prefer would just require a 3/5 vote to adopt a deficit budget, and an actual majority (51 Senators, 218 Representatives) to raise the level of taxation as a percent of the national income. That is all there is to it: increased accountability, and an appropriate counter to the never-ending pressures for responding to special interests.
- o This is not a partisan issue and it is certainly not a quick-fix: we have to do everything we can right now to reduce spending and deficits. But we also need to reform the basic way we deal with the budget in Congress. The balanced budget amendment would limit our options in a way that is good for us and good for the country.
- o No one claims that a fiscal restraint amendment is a panacea for our immediate deficit dilemma, and it should not be used as an excuse for ignoring our own lack of responsibility in failing to make a real impact on the triple-digit deficits we are facing. For that we need to keep working on substantive legislation to reduce spending, consistent with the Gramm-Rudman targets.

ANGOLA TALKING POINTS

o DR. JONAS SAVIMBI (suh-VIM-bee), IS A TRUE PATRIOT OF ANGOLAN AND A TRUE LEADER OF THE ANGOLAN PEOPLE.

o DR. SAVIMBI'S PRESENCE REMINDS US THAT THE FORCES OF SOVIET COMMUNISM ARE STILL ON THE MARCH, IN AFRICA AND AROUND THE WORLD. UNLESS WE FIGHT BACK AGAINST THOSE FORCES THEY ARE GOING TO OVERWHELM US.

o DR. SAVIMBI'S PRESENCE ALSO REMINDS US THAT PEOPLE AROUND THE WORLD TREASURE THEIR FREEDOM AND ARE WILLING TO RISK THEIR LIVES TO WIN AND DEFEND IT. UNLESS WE STAND WITH THESE PATRIOTS, WITH MEN LIKE JONAS SAVIMBI, WE HAVE LOST FAITH WITH OUR OWN HERITAGE. AND IN SO DOING, WE HAVE PUT OUR OWN FREEDOM AT RISK.

o DR. SAVIMBI'S PRESENCE REMINDS US THAT A FEW YEARS AGO WE AS A NATION MADE A GREAT MISTAKE: THE CLARK AMENDMENT. BUT WE STILL HAVE A CHANCE TO CORRECT THAT MISTAKE.

o THIS COUNTRY MUST STAND UP AND BE COUNTED ON THE SIDE OF JONAS SAVIMBI AND UNITA.

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o AND WHEN WE STAND UP, WE CAN'T BE STANDING THERE
EMPTY-HANDED.

o I KNOW DR. SAVIMBI APPRECIATES OUR WORDS OF SUPPORT. BUT
WORDS DON'T HELP MUCH WHEN YOU'RE BEING BOMBED BY SOVIET PLANES,
STRAFED BY ROCKETS LAUNCHED FROM SOVIET HELICOPTERS AND
OVERWHELMED BY SOVIET TANKS.

o NOW IS THE TIME TO GO BEYOND RHETORIC AND PROVIDE DR.
SAVIMBI AND UNITA WITH WHAT THEY REALLY NEED -- THE WHEREWITHAL
TO DEFEND THEMSELVES FROM SOVIET AND CUBAN AGGRESSION.

o WE ARE SUPPORTING JONAS SAVIMBI BECAUSE IT IS IN OUR
INTEREST TO SUPPORT HIM BY SUPPORTING UNITA WE ENHANCE OUR OWN
SECURITY. THAT'S THE ONLY BASIS ON WHICH OUR SUPPORT CAN BE
SUSTAINED.

o WE HAVE TO SUPPLY SUPPORT OVER THE LONG HAUL. NO MORE
CLARK AMENDMENTS. NO MORE AID CUT OFFS, LIKE WE HAD WITH THE
CONTRAS. LET'S GO INTO THIS WITH OUR EYES OPEN AND A CLEAR SENSE
OF WHY WE'RE DOING WHAT WE'RE DOING. AND LET'S STAY IN AS LONG
AS IT TAKES TO DO THE JOB.

- 3 -

o I'M DETERMINED THAT WE WILL PROVIDE THE ASSISTANCE THAT UNITA NEEDS AND DESERVES. I'M GOING TO DO EVERYTHING I CAN IN THE SENATE THAT WE MEET OUR RESPONSIBILITY. AND IN THAT EFFORT, I'M LOOKING FORWARD TO THE COUNSEL, THE COOPERATION AND THE HARD WORK OF THE SENATORS HERE TODAY.

o THE MEMBERS OF THIS ORGANIZATION, WHO HAVE TAKEN SUCH A LEAD ROLE IN INSURING THAT OUR COUNTRY DOES WHAT IS RIGHT, ON THIS ISSUE AND SO MANY OTHERS.

TAX REFORM

- o The deficit is not the only domestic issue, even if it is the most important one. Last year the President proposed an historic and far-reaching overhaul of the Nation's tax laws. The House of Representatives passed a version of that bill, but it's significantly watered-down compared with the Reagan plan.
- o The Reagan tax plan and the House bill are similar in concept -- they both shift more of the tax burden to corporations and reduce the tax burden on individuals. However, the bills are very different in how they make the change.
- o Each bill substantially reduces 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 The House bill falls short of the President's on grounds of fairness. Fringe benefits and itemized deductions are major causes of differing tax liabilities, and unlike the President's proposal, the House retained the state and local tax deduction, did less to limit interest-paid deductions, and did nothing on fringe benefits.
- o In short, the House refused to take many of the politically popular big-ticket tax loopholes. Unless we are willing to tackle those, as I think we must, the Senate will have limited flexibility in trying to improve the bill to encourage savings and investment.
- o I have favored income tax reform for a long time and, as Chairman of the Senate Finance Committee, led the fight for tax indexing and to plug unjustified tax loopholes. If we can correct the potentially harmful economic effects of the House bill, we can win a major victory.
- o Whatever happens on tax reform this year, the die has been cast: the political momentum remains in the direction of lower tax rates and few special loopholes. There is much economic wisdom in that, as well. If we don't achieve the ideal tax system in 1986, there will be other opportunities too make improvements.

CONCLUSION

The Congress and the President clearly have a tremendous task ahead of them in 1986, just on the domestic front. But the remarkable thing is that it should be so difficult for one national government to control its fiscal habits and tax our citizens in an equitable manner. The difficulty of the task says something about our politics: But that is a topic for another time.

One thing is clear that fundamental reforms -- constitutional restraints on our fiscal decisions and remaking the tax code from top to bottom -- are gaining ground because progress is too often blocked under conventional procedures. That is something the people, especially committed conservatives like ourselves, must take heed of, and participate in, because what we do over the next few years will have far reaching consequences for the rest of this century.