BOB DOLE
KANSAS

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

February 21, 1986

TO: Senator Dole

FROM: George Pieler

SUBJECT: Talk to Southern Governors' Association on International Competitiveness

For your talk to the Southern Governors on Sunday, February 23, at 5:30 at the Hyatt Regency, attached are talking points on trade and the dollar, on the general trade problem and your omnibus bill, and points Len prepared on the industries critical to the South.

Also attached are current materials on the economy and the deficit.

Attachments

February 21, 1986

The Dollar, Exchange Rates, and Trade

- Last September the Reagan Administration reached agreement with the "Group of Five" (the U.S., Japan, West Germany, France, and Britain) on a plan of coordinated action to moderate the value of the dollar. The major shift in U.S. policy that emerged from that agreement was a willingness to resort to coordinated governmental intervention in exchange markets in an effort to ease the dollar down.

- No doubt about it, the new policy has had an effect. Since last September the dollar has declined over 20% against the yen, and over the past year between 20% and 30% against other major currencies. That should improve our trade position by later this year, but there may be further slippage in our trade position before then--partly because some of our foreign competitors may try to cut prices to preserve market share, at least temporarily, to offset the dollar's decline.

- While there appears to be a dispute between Chairman Volcker and Secretary Baker over what to do next--Baker seems to prefer a further decline in the dollar--there may be less here than meets the eye. Our ability to regular the value of the dollar is limited by economic fundamentals in any event. The real risk comes if we try to drive down the dollar without meeting the other commitments we made in September.

- Specifically, we agreed to reduce our budget deficit dramatically and keep our markets open. Attacking the deficit, then, has got to be our top priority if we want to improve our trade position.

February 21, 1986

TRADE

- Historically, free trade has spurred U.S. economic growth, and fair competition from abroad has encouraged our industries to be more efficient. As a Senator from an agricultural state, I appreciate the importance of world markets for U.S. farmers. But, the United States cannot be the world's only free trader any more than we can unilaterally disarm.

$150 BILLION TRADE DEFICIT

- In 1984, as you know we faced a record shattering $123 billion merchandise trade deficit and in 1985 it was $148.5 billion. Our deficit with just four of the places I visited last year--Japan, Korea, Taiwan, and Hong Kong--will amount to $70 billion in 1985.

- This gross imbalance has devastated important sectors of our economy, particularly manufacturing which is costing us millions of jobs, offseting employment gains in the service sector. In the last ten years, it is estimated that the United States has lost over 600,000 jobs in just three industries alone: textiles and apparel, steel and footwear. And this trend has now spread to such high technology areas as telecommunications and semiconductors.

IMPACT ON AGRICULTURE

- The deterioration in the U.S. trade position has been equally pronounced in the agricultural sector. From a record high of $43.5 billion in 1980, farm exports have plummeted $10 billion in the past five years.

- To a large extent, our trade woes are self-inflicted. American business can be faulted for not being more aggressive in pursuing export markets. The U.S. economy also has recovered from the worldwide recession more quickly and vigorously than the economies of our major trading partners. The biggest culprit however is the overvalued dollar, which has made U.S. goods 40% more expensive over the past four years--and at the root of this problem is our inability to control budget deficits.

- To reassert America's leading role in world trade, I have sponsored legislation to enhance the President's hand in negotiating trade agreements, require firmer response to unfair trade practices, and help promote exports (description attached).

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.

Len Santos
February 21, 1986

SOUTHERN GOVERNOR'S ASSOCIATION
TRADE TALKING POINTS

o The international competitiveness of traditional industries in the South (textiles, timber, steel, footwear, petrochemicals and agriculture) is dependent on many factors.

o The enormous U.S. trade deficit of nearly $150 billion in 1985 does not necessarily reflect a lack of competitiveness in these and other industries.

o We have a number of problems facing American industries which have nothing to do with their underlying competitiveness.

o The strong dollar has been the major cause of our trade deficit; we in Congress long ago concluded tha the Administration had to take a more active role in managing the exchange rate of the dollar, and I am pleased that Secretary Baker seems to have come to the same conclusion.

o The fact that major debtor countries which were formerly significant U.S. export markets cannot afford to purchase U.S. exports continues to be a major obstacle to U.S. exports; the Administration has been slow to deal with this problem, and even now the "Baker plan" affords little prospect of improvement.

o But traditional southern industries face particular problems which transcend these macroeconomic factors.

o All labor-intensive American industries, such as apparel and footwear, face the continuing challenge of low wage foreign producers; these industries can remain internationally competitive only by increasing their efficiency through labor-saving devices and otherwise.

- Many of these industries face a variety of unfair trade practices; Congress has become more determined to force the Administration to aggressively combat these unfair practices.

- In timber, the flood of Canadian imports which now accounts for over a third of the U.S. softwood market has been generated by Canadian government subsidies; in addition to generating specific retaliatory measures in Congress, the flood of Canadian timber could well derail the Administration's effort to get the Finance Committee to approve a free trade negotiation with Canada.

- In textiles and apparel, the renegotiation of the Multi-Fibre Arrangement, which expires July 31, 1986, will be the focus of congressional pressure; passage by both houses of the Textile and Apparel Trade Enforcement Act of 1985 did put the Administration on notice that we will not tolerate excessive growth of textile and apparel imports.

- The problems we face in steel are partly of our own making, but there is no doubt that the world is awash in over-production of steel and we need to prevent our market from becoming the dumping ground for other countries' excess capacity. The President's steel program, which Congress mandated in 1984, has not been as effective as some had hoped, but it has prevented a surge of steel imports.

- Although unfair trade practices may not account for most of the difficulty faced by these industries, a number of us think that the Administration has been too complacent in dealing with these practices.

- It's pretty hard to stand up for "free trade" if we are the only ones practicing it; combating unfair trade practices is not protectionist; it gives American producers a chance to compete fairly.

February 19, 1986

THE ECONOMY IN 1986

- No one can really predict the course of the economy in 1986, although of course we have to take a stab at it to guide our budget decisions. But it is increasingly clear that the economy began picking up late last year. Leading indicators rose 0.9% in December, the eighth month in a row. Unemployment is down to 6.7%, the lowest since 1979.

- There are forces at work that improve the prospects for strong growth this year. One of these is the drop in oil prices, which acts like a tax cut for energy users and helps moderate inflationary pressures that might build as a result of the dollar's decline. Coupled with the monetary stimulus the Federal Reserve provided in the last six months of 1986, and the prospect for improvement in our balance of trade later in the year (as the effects of the dollar decline are felt), this means we have a good chance for healthy growth in 1986.

- Clearly the number one threat to maintaining a healthy economy remains the U.S. budget deficit. If it's not reduced sharply this year, we won't meet the commitment we made to our trading partners to secure their agreement to ease the dollar down. What's more, we would put an unconscionable burden on the Federal Reserve to keep the recovery going by pumping more money out in order to keep interest rates down. That's a sure recipe for inflation.

- We've created 9 million jobs with a near record economic recovery. We've got inflation down to the lowest levels in two decades. Let's not throw it all a way by punting on the deficit issue. The fact is that <u>all</u> the economic pundits we've been hearing in recent years have been wrong: the economy is more resilient than many believed, but not so strong as to be able to sustain huge deficits this late in the recovery. It's time for everyone to "give" a little in the interest of a deficit-reduction plan that will steer us safely through the potentially treacherous waters ahead.

February 19, 1986

BUDGET FOR FY 1987

- The President's budget for FY 1987 is a blueprint for deficit reduction that Congress will have to take seriously even if we can't agree with it in all particulars. It is important to keep in mind OMB Director Miller's contention that, if we adopt this budget in full, we can meet the Gramm-Rudman targets for the rest of the decade without the need for major additional cuts.

- The 1987 budget plan is designed to get the deficit down to \$143.6 billion: just below the G-R-H target of \$144 billion. Total spending is projected at \$994 billion, and revenues at \$850.4 billion. Total interest expense is \$206.85 billion, and net interest (exclusive of intra-government payments) is \$148 billion.

- The deficit would be reduced by \$38 billion in FY 87, and by \$166 billion over three years. Defense would still grow by 3% in real terms (increase in budget authority adjusted for inflation). Increased funds would be provided for fighting terrorism, for law and drug enforcement, for the space program, aviation safety, and AIDS research.

- Major new deficit-reduction initiatives include privatization of government activities, ranging from Amtrak to power facilities to Ex-Im bank loans; transferring a few programs to the States, such as the Agriculture Cooperative Extension Service and highway; a wide array of user fees on government services; eliminating programs like EDA, UDAG, SBA, maritime subsidies, and the ICC.

- There are additional receipts in the budget as well: extending the cigarette tax, higher fees for black lung, repealing the gasohol exemption, increased contributions to civil service retirement and the like.

- The CBO indicates that the President's budget may be some \$14 billion short of its 1987 goal because of low estimates of defense spending already in the pipeline. That is a legitimate matter for review, but if baseline spending is higher, then any cuts will have more of an impact as well.

Gramm-Rudman, the Dollar, and Inflation

- o Gramm-Rudman should help us meet the commitment we made last September to our trading partners: to reduce the deficit as part of our effort to moderate the value of other dollar.

- o By the same token, the risk of inflation should be reduced if we bring down the deficit under Gramm-Rudman, because the pressure to pump up the money supply to keep interest rates down will ease considerably.

Gramm-Rudman: Challenge to the Established Fiscal Order

- o The first actions in response to the new Gramm-Rudman deficit control reform will be taken early in 1986. For those of you who missed it, late last year the Congress imposed a new fiscal straightjacket on itself. The new law sets firm deficit targets for each of the new five years, and mandates automatic across the board spending cuts if the deficit exceeds the target. The first round of automatic cuts under the proposal will take effect March 1 unless Congress comes up with a better way to meet the target.

- o In addition, President Reagan's budget for fiscal year 1987 is due to Congress by February 5. So we will have reconsideration of the 1986 budget proceeding simultaneously with our first shot at the 1987 budget.

That is a tall order, but is one we ought to be able to fill. Difficult as it seems, we should remember that the Gramm-Rudman law contains new procedures designed to make it easier to meet the deficit targets. We explicitly bring loan programs and other 'off-budget' items into the budget process; set a point of order against legislation from committees that have not met their budget savings allocation; and rule out of order legislation inconsistent with the deficit targets.

Possible Problems. We know there will be a rocky road ahead in implementing Gramm-Rudman. Congressmen Synar and others already have won the first round in their suit claiming it is unconstitutional, and the Reagan Administration also has some problems with the role of the Congress' General Accounting Office in mediating the deficit forecasts. The Supreme Court will have to give us a final ruling on all that in a few months. Even more important, what Congress can legislate, Congress can back out of. That's why we need a constitutional mandate for budgetary restraint, as well as a statutory one.

- o So Gramm-Rudman hasn't made our options any easier: but if it works as planned, it will force us--and the President--to make some decisions and choose among the various deficit-reduction options. That means everyone's cherished spending programs will be put to the test of fiscal responsibility.

Spending the Key. Finally, let me emphasize that Gramm-Rudman is a device for reducing Federal spending. It is not a tax increase plan, or a subterfuge for one. If we fail on the spending front, we can look at other options. But the sooner we entertain any revenue options, you can bet the pressure for spending cuts will drop fast.

The Deficit and the Average American

- o Unless we follow a deficit reduction path like that mandated under Gramm-Rudman, 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.

- o 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 on 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 wheat farmer with a 1,000 acre operation.

  - -- 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 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 equals 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. I think 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.

BUDGET TALKING POINTS
NATIONAL GOVERNORS' ASSOCIATION

- The good news is that both the Administration and the Congressional Budget Office have produced deficit analyses that are more positive than any in recent memory. The bad news is that these projections are based on rather optimistic assumptions, both in terms of economic performance; and Congressional compliance with the Gramm-Rudman-Hollings law.

- For instance, the Administration assumes that the economy will grow at 4 percent in 1986, CBO, 3.2 percent; that the CPI will rise by 3.7 percent, CBO says 3.4 percent; that interest rates on 91-day Treasury bills will be 7.3 percent, CBO says 6.7 percent and both assume that unemployment will be 6.7 percent.

- CBO assumes that there will be no real growth in the defense function -- just enough to keep pace with inflation. And CBO says that it will take only $38 billion in cuts to reach the fiscal 1987 Gramm-Rudman-Hollings deficit target of $144 billion.

- Meanwhile, the administration's $311.6 billion defense request, according to its calculations is a 3 percent real growth rate. However, the administration used a higher baseline -- the one approved in the budget resolution, instead of the Gramm-Rudman-Hollings level. If measured against that baseline, its increase is 8 percent. Yet based on the administration's overall budget, OMB states that $38.2 billion must be cut in fiscal 1987 to meet the Gramm-Rudman-Hollings budget targets.

- House and Senate budget committee members will probably get together soon to resolve the issues of economic assumptions, and differences over defense baselines. But already we know that the likelihood is that the cuts in the 1987 that would be necessary to meet the Gramm-Rudman-Hollings target will be closer to $50 billion, than $37 or $38.

- Achieving $50 billion in budget savings, without raising revenues and without gutting defense is doable -- Senate Republicans put together a package that did just that last year when it approved a budget that would have saved $56 billion in the first year, and more than $300 billion over three years.

OTHER SPEECHES TO GOVERNORS ASSOCIATION:

• Domenici told the Governors that Gramm-Rudman-Hollings was a "planned train wreck." He said there was a "far better than 50-50 chance" that the deficit target for this year $144 billion -- would be reached. But he added there was little chance that states would be spared from cuts.

• Domenici also said that members of Congress have accepted President Reagan's judgement that the problems of agriculture, mining, timber and heavy manufacturing "can't be solved " simply by restoring some budget cuts. "No one has a blueprint for government expenditures that will substantially relieve these problems."

When asked if Congress would consider raising taxes for deficit reduction, Domenici said, "I could, but no, I don't believe it will be done. Noting that Reagan has indicated he would support a new energy tax to make tax reform revenue neutral, Domenici added, "Nobody is moving in the direction of using §higher† taxes fir deficit reduction."

• Bill Bradley said he was "fairly sure" that state property and income taxes would continue to be deductible under tax reform. But he was less sure that sales and personal property taxes would be.

• Bradley said he thought the Senate would lift "a rather arbitrary" House cap on state and local tax-exempt bonds, and that the Senate would probably expand the list of permissible uses for these bonds.

• Bradley urged that the governors lobby Packwood and Rostenkowski for a joint statement on effective dates.

• Education Secretary William Bennett told the governors that the administration's education voucher proposal was not "anti-public school, it's anti bad school."

THE ECONOMY IN 1986

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- There are forces at work that improve the prospects for strong growth this year. One of these is the drop in oil prices, which acts like a tax cut for energy users and helps moderate inflationary pressures that might build as a result of the dollar's decline. Coupled with the monetary stimulus the Federal Reserve provided in the last six months of 1986, and the prospect for improvement in our balance of trade later in the year (as the effects of the dollar decline are felt), this means we have a good chance for healthy growth in 1986.

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- We've created 9 million jobs with a near record economic recovery. We've got inflation down to the lowest levels in two decades. Let's not throw it all a way by punting on the deficit issue. The fact is that all the economic pundits we've been hearing in recent years have been wrong: the economy is more resilient than many believed, but not so strong as to be able to sustain huge deficits this late in the recovery. It's time for everyone to "give" a little in the interest of a deficit-reduction plan that will steer us safely through the potentially treacherous waters ahead.

State and Local Tax Deduction

- I know a number of you are concerned about the possible loss of the state and local tax deduction. And you probably are also concerned that I have been reported as saying we should not take the state and local deduction "off the table" as the Senate considers tax reform.

- I want to assure you that I have no interest in singling out this deduction. Nor do I have a "hidden agenda" to reduce government activity at the state and local level.

- However I am a realist. If we are going to accommodate the President and reduce tax rates, we must find revenue sources which will make rate reduction possible. We cannot do it solely by raising corporate taxes. The President originally proposed raising corporate taxes by $131 billion over 5 years, but he still needed to repeal the state and local tax deduction to reach his goals for individual rate reduction.

- In contrast, the House did not repeal or modify the deduction, but they had to add a 38 percent bracket and they had to compress the tax rate brackets substantially so that individuals would reach higher brackets sooner. In addition, they had to put interest in tax exempt bonds in the minimum tax. They also would raise corporate taxes by $141 billion over five years. These changes certainly are not without controversy either.

- If we are going to try to act on the President's request to improve on the rate structure designed by the House, we will have to address the items that reduce taxable income for individuals. That list is short--itemized deductions and fringe benefits. The only significant itemized deductions from a revenue standpoint are interest paid, charitable contributions and state and local taxes. Similarly, the only significant fringe benefits are group health insurance and group term life insurance.

- I don't think that home mortgage interest is a likely revenue source given the President's and House's position against any change. And I doubt that there would be much support for limitation on the charitable deduction. (The opposition even to putting appreciation on donated property in the minimum tax base should give us some sense of that.) However, I would not be opposed to reviewing the deduction for consumer interest paid, as well as the deduction for state and local taxes.

- I also would not be against finding some limitation on the exclusion for fringe benefits. However, the opposition to any change in the fringe benefit areas will also be very strong.

- All in all, our options will be limited if we are going to reduce tax rates. I don't know precisely what will happen on tax reform, but, if we are going to be serious about it, we will have to be prepared to compromise on some difficult issues.

MAJOR INDIVIDUAL TAX EXPENDITURE ITEMS

(from the President's 1987 Budget)

	($ billions)		
	1985	1986	1987
Deduction of interest on consumer debt	15.5	17.6	18.7
Deduction of mortgage interest on owner-occupied homes	24.8	26.9	29.6
Deduction of property tax on owner-occupied homes	9.3	10.1	10.9
Deduction of other non-business state and local taxes	21.5	23.2	25.0
Deduction for charitable contributions (education)	.9	1.1	1.1
Deduction for charitable contributions (health)	1.4	1.7	1.6
Deduction for other charitable contributions	9.7	11.7	11.5
Exclusion of employer contributions for medical premiums and medical care	21.1	23.5	26.3
Exclusion for group term life insurance	2.1	2.2	2.4

FEDERALISM: SORTING OUT RESPONSIBILITIES

- While it is bound to be controversial, the new report on federalism issued by Governor Alexander makes some striking proposals for adjusting the relative responsibilities of the States and the Federal government: proposals designed to help each participant in the Federal system take on the responsibilities each is best equipped to handle.

- Key proposals in the new report are ending the 9-cent Federal gas tax and leaving responsibility for all highway programs to the States (other than the interstate system); Federal assumption of the entire Medicaid program; and greater State responsibility for regulating the environment and administering employment, unemployment, and job-training programs.

- The NGA Executive Committee on Transportation supports the gas tax (highway proposal).

- The threat of these proposals is consistent with the President's approach to federalism, including his 'swap' proposal which disappeared without a trace a few years ago. In 1980, I proposed a 'swap' of restricted grant programs for revenue sharing funds, to take some of the strings off--but there weren't any takers.

- The lesson of this may be that we have to keep feeling our way, step by step, in sorting out State, local, and national responsibilities. That means more attempts to consolidate programs, move toward more block-grant funding, and more serious attempts to sit down together and agree on where States can best take the lead, and where only a national commitment will serve. And that means not just Federal budget issues: we have to look at regulatory issues and relations among Federal and State judicial systems, as well.

BUDGET FOR FY 1987

- The President's budget for FY 1987 is a blueprint for deficit reduction that Congress will have to take seriously even if we can't agree with it in all particulars. It is important to keep in mind OMB Director Miller's contention that, if we adopt this budget in full, we can meet the Gramm-Rudman targets for the rest of the decade without the need for major additional cuts.

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THE DEFICIT AND THE AVERAGE AMERICAN

- Unless we enact a large deficit reduction package in each of the next three years, 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.

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- 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 wheat farmer with a 1,000 acre operation.

- This year alone, 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.

- I don't believe we can let our deficit reduction efforts falter. If we don't act now 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.

- 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. I think 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.

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 25 out of 26 years.

- In 1986, the gross Federal debt will top $2 trillion, eight times more than in 1960, nearly four times greater than in 1975, more than twice what it was in 1980. The total debt in 1986 will approach 50% of GNP.

- With no changes in Federal spending policy, Federal outlays would 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

The 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:

- o 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.
- o 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.
- o $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.

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Speak

Betty Meyer

February 25

Tues - 11:00 A M.

National Governors' Association

Lamar Alexander
Governor of Tennessee
Chairman

Raymond C. Scheppach
Executive Director

Joyce

January 21, 1986 Hyatt Reg.

The Honorable Robert J. Dole
Majority Leader
United States Senate
SH-141 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Dole:

On behalf of the nation's Governors, I would like to invite you to address us in plenary session during our 1986 winter meeting. We welcome your comments on the major budget and tax issues before the Senate but would also welcome your thoughts on forthcoming changes in federal-state relations.

Specifically, we would like for you to address our Second Plenary Session at 11:00 a.m. Tuesday morning, February 25, at the Hyatt Regency Hotel on Capitol Hill in Washington, D.C.

Grand Ballroom

I hope you can accept our invitation, and I look forward to a mutually productive year together in 1986.

Sincerely,

Lamar Alexander

Governor Lamar Alexander

cc: Betty Meyer
Roderick DeArment

Jim Martin

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