Joyce

Speak

March 5

Thurs bkfst in D.C.

The New England Council, Inc.

Suite 510 • 1800 Massachusetts Avenue, N.W. • Washington, D.C. 20036 • (202) 659-8860

December 23, 1985

O.K.

at Sheraton Grand

8:00 Speak

8:30 Depart

where

Hon? $2,000

The Honorable Robert Dole
Majority Leader
United State Senate
Washington, DC 20510

Dear Senator Dole:

The New England Council would be honored if you could speak before our presitigious Board of Directors at its annual Washington meeting Thursday, March 5, 1986.

For sixty years The New England Council has been the only voice representing New England business. The Council has built a reputation for being the region's foremost spokesman on issues such as taxes, the economy, trade, the environment, energy and defense. Over the years, The Council has helped strengthen cooperation between the New England business community and its Congressional representatives and government agencies.

Every March, The New England Council's 50-member Board, made up of the presidents and chief executive officers of major New England companies, and their invited guests, gather in Washington to confer with New England's elected officials and administration figures.

We have reserved for you the breakfast slot from 7:45 to 8:30 a.m., Thursday, March 5, but would be pleased to accommodate your schedule that morning. Since the tax issue has been sent to the Senate for consideration next year, our directors are very eager to hear your views as a key player in how tax reform will fare in 1986.

Enclosed is a brochure which should better explain The Council's mission. Leslie Taylor, Director of Washington Programs, will follow up with your staff regarding your participation.

Thank you for your consideration and we do hope you can find the time to join us.

Sincerely,

Eric Swider

Chris Cushing
617/227-7915

Eric Swider
President

1/13 Advised Leslie Taylor we would advise as soon as begin work on march schedule

Headquarters • 120 Boylston Street • Boston, Massachusetts 02116 • (617) 542-2580

JOHN H. CHAFEE
RHODE ISLAND

Speak

March 6

United States Senate
WASHINGTON, DC 20510

January 22, 1986

The Honorable Robert Dole
United States Senate
Washington, D.C. 20510

Dear Bob:

It is with great pleasure that I write to you to endorse the invitation of Mr. Eric Swider, President of the New England Council, asking you to address their Board of Directors at its annual meeting on March 6, 1986.

The New England Council has been an invaluable representative of businesses in the region for 60 years. The organization has gone far to strengthen the cooperation between the New England business community, its Congressional representatives and government agencies.

The gathering will be comprised of the presidents and chief executive officers of major New England companies, and their invited guests. As the Senate focuses on tax reform this year, your views in this area will certainly be of great interest to the businessmen.

I hope you will give their invitation every consideration.

Warm best wishes.

Sincerely,

John

OIL IMPORT FEE

- The future of an oil import fee, at least this year, is in doubt. Although there may be some very good energy policy arguments in favor of an import fee, even domestic producers are not in agreement that it should be imposed at this time.

- In addition to avoiding renewed dependence on imported oil, one major argument that is being used by advocates of an import fee is that it would raise substantial revenues. The Joint Tax staff estimates that a $5-per-barrel fee on imported crude oil and petroleum products, with no exemptions, effective October 1, 1986 would increase net revenues by $7.4 billion in FY 1987. Over 5 years the fee is estimated to raise $37.8 billion.

- However, exemptions could reduce receipts significantly. Mexico and Canada, for example, accounted for 32 percent of petroleum imports in the first six months of 1985. If we exempted these imports, revenues would drop by almost one-third.

- Similarly exemptions for home heating oil and industrial use of petroleum also would substantially reduce revenues.

  About 3 percent of petroleum is used for residential heating oil and 26 percent is used by industry. By contrast, gross imports accounted for 32 percent of U.S. petroleum production in 1985. Therefore, unless refunds were carefully limited to home heating oil and industrial use of products refined from imported oil, much of the revenue from an import fee could be lost.

SENATE FINANCE COMMITTEE
SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION
PUBLIC HEARING ON OIL IMPORT FEES
February 27 and 28, 1986

SUMMARY OF WITNESS' POSITIONS

OPPOSED

The Honorable Danny J. Boggs, Deputy Secretary, Department of Energy: By restricting access to foreign petroleum products, an import fee would raise U.S. energy costs by reducing competition from foreign refineries. A fee would make it more difficult for domestic industries to compete with imported manufactured goods, and for U.S. exports to compete in foreign markets.

Carl Bloch, Jr., President, Racetrack Petroleum; Vice President , Society of Independent Gasoline Marketers of America: Access to competitively priced imports is essential to independent marketers' competitive viability. Government intervention causes market distortions which may, as in the 1970's, culminate in artificial shortages and price explosions by inducing the U.S. to deplete its reserves prematurely.

Robert E. Hall, Senior Fellow, Hoover Institution: To preserve national security the U.S. should take maximum advantage of bargains in the oil market and conserve its own resources. Fee would put upward pressure on the dollar causing U.S. agricultural products and manufactures to be priced out of world markets. It will depress the world oil market and create added problems for Mexico and other friendly nations.

Robert L. Bradley, Research Scholar, Citizens for a Sound Economy: A $5 per barrel tax on imported oil will raise the price of gasoline, home heating oil and heavy oil for industrial use by as much as 12 cents a gallon, a cost which must also be absorbed by lower income people who spend a higher fraction of their income on energy and own less energy efficient cars and homes. Tariff cannot be justified on grounds of national security because almost two thirds of U.S. crude oil imports come from Europe, the western hemisphere and the Far East.

G. Henry M. Schuler, Holder of Dewey F. Bartlett Chair in Energy Security Studies, Center for Strategic and International Studies, Georgetown University: The current Saudi oil policy of encouraging an OPEC price war without fulfilling the Kingdom's own revenue requirements is exacerbating political threats at home and in the region. Given the present Saudi political and economic climate, an oil import fee would prompt Saudis to relinquish leadership of OPEC to Iran which would have enormous political/strategic repercussions as well as economic/commercial consequences.

Leonard P. Steuart, II, President, Steuart Petroleum Company: Oil import fee would discriminate against oil consuming sectors and regions of the country, particularly the Northeast and will hamper U.S. competitiveness. Fees will deplete American resources needed for a future emergency.

James C. Phelps, Indepenent Petroleum Association of America: All proposed forms of import taxes would cause significant market distortions, resulting in artificial entitlement and allocation programs which only compound, not solve, market distortions. Government should not attempt to reduce budget deficits by taxing energy.

J. Roger Mentz: Acting Assistant Secretary for Tax Policy, Department of the Treasury: Administration is strongly opposed to any new or increased taxes on petroleum or other sources of energy for any purpose other than as a component of a fundamental tax reform bill that is revenue neutral in total. The deficit can and should be eliminated through substantial reductions in nonessential domestic spending, not by a tax increase in any form.

Ronald S. Wishart, Chemical Manufacturers Association: Fees will cost the government more than the revenues they bring in, impair economic growth, devastate the international competitiveness of the chemical, fibers and plastics industries, export American jobs and mark a return to government intervention into U.S. energy markets.

Senator Claiborne Pell: Damaging to national economy, reduces GNP and employment levels, discriminatory to Northeast states.

Senator John Heinz: Taxing imported oil would place an unfair and discriminatory cost on residences and businesses in the Northeast and Midwest and provide a windfall for oil producers in the Southwest.

Senator Daniel P. Moynihan: Tax will have disastrous effect on American firms attempting to compete here and abroad and hinder overall economic growth, is geographically inequitable and will pose a serious threat to our long-term energy security by encouraging rapid depletion of domestic reserves.

Representative Silvio O. Conte (Massachusetts): Fee would increase inflation and unemployment, increase costs to the consumer, invite trade retaliation in other areas, and allow domestic oil producers to raise their prices. Primary effects of fee would be felt in the Northeast and the Midwest where 80% of home heating oil is imported.

E. Allan Wendt, Deputy Assistant Secretary of State for International Energy and Resources Policy: Fee will raise costs and damage the international competitiveness of energy-intensive U.S. industries, violate various trade agreements and adversely affects relations with our neighbors and close allies.

Emma Brossard, Director of Policy Analysis, Center for Energy Studies, Louisiana State University: It is important to maintain good relations with our oil producing neighbors and allies who would suffer if the U.S. imposed an oil import fee. Heavy taxes eat into the cash flow of oil companies and deny them the necessary funds for the large investments needed to develop U.S. petroleum reserves.

Thomas J. Donohue, American Trucking Association: Tax would be inequitable in their effects on different regions, on transportation relative to other industries and among firms within the transportation sector, and consumer prices would go up.

SUPPORT

James W. Hunt, Texas Independent Producers and Royalty Owners Association: U.S. is overdependent on imports and must increase domestic exploration and production and counter the "dumping" of cheap foreign oil on the world market by countries who control the surplus supply and are participating in a strategy to increase production in an effort to discipline other oil exporting nations. Fee will require foreign producers to pay part of the hidden costs of imported oil used to support the synthetic fuels program and the Strategic Petroleum Reserve which is presently absorbed by American taxpayers.

George S. Slocum, Transco Energy Company: Danger of over reliance on foreign supplies, precipitous price cuts threaten a roll-back of progress toward energy independence and crippling of domestic production will preclude recovery. Import fees will not unfairly burden certain regions of the country, only prevent precipitous price drops.

Lawrence Goldmuntz, The American Jewish Committee: Oil import tax will minimize the possibility of another oil shock before the end of the next decade, will maintain U.S. conservation and fuel switching efforts and, thereby, diminish our need for imports.

S. Fred Singer, George Mason University: The fee is not in conflict with free trade and can be viewed as a countervailing tariff permitted by anti-dumping legislation; its main purpose is conservation, not the raising of revenues; the economically correct value for the reference price is currently close to $22 a barrel.

Charles K. Ebinger, Director, Energy and Strategic Resources, Center for Strategic and International Studies, Georgetown: OPEC has orchestrated the current drop in oil prices to regain control of the world oil market. If prices continue to drop, U.S. and allied dependence on OAPEC will threaten national security. Low oil prices threaten investments in alternative domestic energy; failure to establish a price differential between imported crude oil and petroleum products could lead to further U.S. refinery closings, another problem for national security.

Senator Gary Hart: As an issue of national security, we must become less reliant on foreign oil imports, especially from the Persian Gulf. Continued supply and low price of oil cannot be guaranteed.

Dr. Edwin L. Weinstein, Center for Enterprising, Edwin L. Cox School of Business: Fee will appropriately deal with current set of dislocations resulting from rapidly falling oil prices and will slow long-term decline in crude oil prices. Fee based on sliding scale will help cushion the severe blow currently being felt by thousands of small drilling companies and oil-field service companies as a result of drop in crude oil prices.

Mack Wallace, Commissioner, Railroad Commission of Texas: U.S. cannot compete with the reserves of Saudi Arabia, and we must reverse current conditions or lose one-third of our producing capacity and rely on foreign oil. Without national energy plan U.S. reserves will be depleted.

NO POSITION

George Jandacek and James Lopeman, American Independent Refiners Association: Assuming that fee is levied, failure to provide higher differential between refined product imports and crude oil will result in loss of more U.S. refining capacity which will threaten national security. Opposed to any exemptions from the fee for specific foreign oil producers or for specific refined product imports because this creates market distortions and hurts domestic refiners by increasing imports of the exempt refined products. Petroleum and petroleum product exports from the U.S. should not carry any of the economic costs of an import fee.

Dr. Daniel Yergin, Cambridge Energy Research Associates: Committee should be looking at three things: 1) What effects the lower oil prices are likely to have on the U.S. oil and gas industry. 2) The effects on the banking system and 3) To assess what would be the appropriate trigger level for a variable tariff.

Alan Greenspan: Doubts that an import fee could be imposed before prices to the consumer have dropped and, therefore, it could be difficult to enact. Also, an import fee could make some U.S. exporters of products less competitive unless other countries enact similar fees.

TAX REFORM EFFECTIVE DATES

- Last December the Senate passed my resolution urging that the effective date for most provisions of tax reform legislation should be January 1, 1987. The reason for making tax reform "prospective only" is to eliminate the cloud of uncertainty that pending tax reform legislation leaves over many economic decisions that are influenced by tax policy.

- The House also passed an "effective date" resolution, urging the chairman of the tax-writing committees to agree on some determination of effective dates other than the January 1, 1986 date in the House-passed bill.

- Unfortunately, since last December little progress has been made in clarifying the effective date issue. Chairman Rostenkowski has made it fairly clear that he thinks the House bill effective dates are appropriate, although he is willing to remain open to selective changes in those dates.

- Last week eleven members of the Finance Committee sent a letter to Senator Packwood urging that markup of tax reform legislation be delayed until the effective date issue is resolved. I am not sure that is the best strategy, but it is another indication of how much members are concerned about the effective date problem.

- There is still some hope that Rostenkowski, Packwood, et al. can agree on a statement to resolve some of the uncertainty on effective dates. The closer we get to Senate action on the tax bill, the more likely it becomes that Senate's decision on effective dates will be the most important signal we give to the business community of our intentions on the issue.

February 25, 1986

Tax Reform Talking Points

- The President's 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. But the bills are very different in how they make the change.

- 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.

- Neither plan gets an A+ for the major objectives of tax reform--simplification and fairness, but the President's plan repealed many more of the overly complicated provisions of the tax code than the Ways and Means Committee effort. The House bill just modifies, but leaves in place, many complex tax rules.

- The House bill falls far short of the President's on fairness grounds. 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. This means that taxpayers with equal incomes can still have substantially different tax liabilities.

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

- The Senate Finance Committee now is expected to begin action on tax reform in the second or third week of March. A lot of difficult decisions await the Committee if it is to make significant progress towards the goals the President has outlined: lower tax rates, a $2,000 personal exemption for everyone, and more incentive for saving and capital investment.

- I strongly believe that whatever we do on tax reform should be confined to trade-off between broadening the income tax base and lowering income tax rates for business and individuals. We should not resort to the gimmick of new taxes or add on taxes just to avoid tough decision on tax reform.

- Above all, we should not lose sight of the basic goals of tax reform: lower rates and a more equitable, level playing field that will be more productive for the economy and fairer to the average taxpayer. This is the latest step in the direction we set when we indexed the tax code in 1981 and began major tax reforms in 1982.

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.

Gramm-Rudman, the Dollar, and Inflation

- 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.

- 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

- 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.

- 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.

- 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

- 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.

- 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 <u>if</u> 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 <u>without</u> 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.