

TO: SENATOR DOLE
FR: WALT
RE: LOS ANGELES TIMES BREAKFAST
THURSDAY, MARCH 20, 8-9:30 A.M.
1875 EYE STREET, SUITE 1100

3/19/86

Attendees:

Jack Nelson, Bureau Chief
Rudy Abramson, General Assignment
Richard Cooper, Asst. Bureau Chief/News Editor
Betty Cuniberti, View
Sara Fritz, Congress
Phil Hager, Supreme Court
Joel Havemann, Projects Editor
Paul Houston, Agriculture/General Assignment
Robert Jackson, Labor/Investigations
Oswald Johnston, IMF/International Economics
Kay Kirby, Acting Assignment Editor/Night News Editor
Lee May, General Assignment
Doyle McManus, National Security/Diplomatic
Ronald Ostrow, Justice/Investigations
Penny Pagano, Communications
Tom Redburn, Economics
Robert Secter, Congress
Gaylord Shaw, General Assignment
Donald Shannon, United Nations/National Security
Robert Shogan, Politics
Karen Tumulty, congress
Mike Wines, Economics
Mike Yamamoto, Night News Editor
Pete King, Metro Reporter/Los Angeles
Al Stephenson, Photographer
Carolyn Shields, Administrative Assistant
Aleta Embrey, Researcher
Abebe Gessesse, Researcher
Barclay Walsh, Researcher

DALE AND I WILL MEET YOU IN THE LOBBY OF 1875 EYE STREET;
I'VE ALSO TOLD JACK NELSON YOU WILL HAVE TO LEAVE AT 9:15
A.M. (TO MAKE IT BACK TO THE HILL IN TIME FOR THE 9:30
SHULTZ/HABIB BRIEFING)

TALKING POINTS ON CONTRA AID

President's request/compromise

- STRONGLY SUPPORT PRESIDENT'S REQUEST (\$30 MILLION HUMANITARIAN, \$70 MILLION UNRESTRICTED AID).
- NOT WORKING ON ANY COMPROMISE.
- DON'T EXPECT TO LOSE, BUT IF WE DO WILL THEN SEE WHERE WE GO FROM THERE. PREMATURE TO CONSIDER NOW.

Situation on vote

- PRESIDENT WANTS UP-DOWN VOTE. VOTERS HAVE RIGHT TO SEE WHERE EACH OF US STANDS ON THIS ISSUE.
- HOUSE WILL VOTE LATER TODAY. WILL BE CLOSE. HAVE FIGHTING CHANCE.
- SENATE WILL VOTE NEXT WEEK (PROBABLY TUESDAY).
- OUTCOME IN HOUSE COULD AFFECT OUR VOTE. BUT CONFIDENT NOW WE HAVE VOTES IN SENATE.

National security issue

- PRESIDENT MADE ESSENTIAL POINT IN HIS SPEECH: NOT A PARTISAN MATTER BUT QUESTION OF NATIONAL SECURITY.
- SANDINISTAS ACTIONS (ATTACK NEIGHBORS, BUILD-UP MILITARILY AND SUPPRESS PEOPLE) NOT DEFENSIVE BUT CENTRAL TO THEIR GOALS AS MARXISTS.

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-- THEY WANT ONE-PARTY STATE AT HOME.

-- THEY WANT TO BE MILITARILY AND POLITICALLY DOMINANT
IN REGION.

-- THEY WANT TO ASSIST SOVIETS AND CUBANS IN PURSUIT OF
THEIR GOALS.

US goals/policy

-- OUR DEMANDS: SANDINISTAS MUST:

-- (1) END AGGRESSION AGAINST NEIGHBORS, OUR FRIENDS AND
ALLIES;

-- (2) DRASTICALLY REDUCE SOVIET AND CUBAN PRESENCE AND
COMPANION MILITARY BUILD-UP;

-- (3) REESTABLISH DEMOCRACY AT HOME; AND

-- (4) START DIALOGUE WITH CONTRAS.

-- POLICY:

-- (1) SEEK NEGOTIATED SETTLEMENT (WILL TALK TO
SANDINISTAS WHEN THEY AGREE TO TALK TO CONTRAS); AND

-- (2) KEEP UP PRESSURE THROUGH SUPPORT OF CONTRAS.

-- DOES ANYONE REALLY BELIEVE THAT, IN ABSENCE OF CONTRA
PRESSURE, SANDINISTAS WILL TAKE ANY POSITIVE STEPS?

Support in region

-- INDEPENDENT POLLS SHOW WIDESPREAD PUBLIC

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UNDERSTANDING/SUPPORT OF US POLICIES AMONG PEOPLE OF CENTRAL AMERICA.

-- ALTHOUGH GOVERNMENTS UNDERSTANDABLY RELUCTANT TO ENDORSE OUR CONTRA PROGRAM, BELIEVE THERE IS ALSO SILENT SUPPORT THERE.

-- MET WITH (WILL MEET WITH) HABIB THIS MORNING FOR UPDATED REPORT ON REGIONAL SITUATION.

cc.JOYCE

DALE

TALKING POINT ON ANGOLA

Support aid for UNITA

-- STRONGLY SUPPORT AID TO DEMOCRATIC RESISTANCE GROUPS IN ANGOLA, INCLUDING JONAS SAVIMBI'S UNITA.

-- SAVIMBI IMPRESSIVE LEADER, HAS FOUGHT COURAGEOUSLY AGAINST GREAT ODDS, HAS OBVIOUS STRONG SUPPORT FROM MANY ANGOLANS.

Soviet/Cuban presence

-- MAIN PROBLEM IN ANGOLA IS MASSIVE SOVIET AND CUBAN PRESENCE:

-- SEVERAL THOUSAND SOVIET ADVISERS, 30,000 CUBAN TROOPS.

-- PROP UP ILLEGAL, REPRESSIVE MARXIST MPLA REGIME.

-- THREATEN OTHER INDEPENDENT NATIONS OF REGION (ESPECIALLY ZAIRE).

-- \$2 BILLION IN SOVIET ARMS

US goals/strategy

-- US GOALS:

-- SOVIETS AND CUBANS MUST GO HOME.

-- NEGOTIATIONS ON INTERNAL SETTLEMENT, TO INCLUDE UNITA.

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-- RESOLUTION OF NAMIBIA ISSUE.

-- ANGOLA REGIME HAS USED NEGOTIATIONS AS SMOKESCREEN BEHIND WHICH HAS PROSECUTED VICIOUS WAR AGAINST UNITA.

-- CLEARCUT EVIDENCE THAT MPLA PLANS MAJOR NEW OFFENSIVE AS SOON AS RAINY SEASON ENDS (PROBABLY APRIL).

-- US AID TO RESISTANCE MUST INCLUDE DEFENSIVE WEAPONS EFFECTIVE AGAINST SOVIET AIRPLANES, HELICOPTERS AND ARMOR.

Legislative situation

-- ADMINISTRATION HAS CLEARLY INDICATED INTENTION TO PROVIDE AID TO SAVIMBI.

-- NOT SURE THAT LEGISLATION NEEDED/DESIRABLE IN SENATE. KEEPING OPTION OPEN BUT NO SPECIFIC PLANS NOW.

-- HOUSE IS CONSIDERING TWO PROPOSALS.

-- OPPOSE HAMILTON BILL: JUST NEW VERSION OF CLARK AMENDMENT.

-- PEPPER-SILJANDER HAVE INTRODUCED DOLE RESOLUTION. HOPE HOUSE WILL PASS IT.

cc.JOYCE

DALE

BUDGET TALKING POINTS

o The Senate Budget Committee reported out a fiscal 1987 budget by a 13-9 vote. 7 Republicans and 6 Democrats voted for the resolution.

o I salute Chairman Domenici, and the rest of the members of the Budget Committee for their diligence and the speed with which they produced the budget.

o It is the first step in the process. We will begin floor debate early next week, and complete action before the Easter recess. And I hope the House will act as expeditiously, so that Congress can meet the April 15 deadline for adoption of the resolution set out by Gramm-Rudman-Hollings.

o The Committee's budget resolution contains \$18.5 billion in additional revenues in fiscal 1987 and a total of \$73.9 billion from fiscal 1987-89. Revenue effects from spending measures assumed in the budget, such as retirement reforms and the sale of CONRAIL, plus revenue from reconciliation would account for \$6.1 billion, \$22.3 billion over three years. And the president's budget contained \$5.9 billion in FY 87 revenue increases, \$21.6 over three years.

o Defense spending under the resolution would call for \$295.1 billion in FY 87 budget authority and \$280 billion in outlays. The President requested \$320.4 billion in budget authority, outlays, \$282.2 billion. According to the Budget Committee, the amounts included in the resolution allows for 2.8 % growth in budget authority from the FY 86 post-sequester budget authority level. In FY 1988 and 1989 there would be a 1% real growth rate.

o The budget resolution would reduce non-defense spending in FY 87 by \$17.3 billion in outlays, and by more than \$70 billion from FY 87-89, mostly through freezes and reductions. However, \$2.3 billion in additional FY 87 spending would be allocated for critical programs such as embassy security, space shuttle construction, a farm credit initiative (\$400 million over 3 years), IRS, Head Start and key education programs.

Social Security, military and civil service pensions and all other indexed programs would receive a cost-of-living adjustment. All civilian and military personnel would receive a 3% pay raise.

TAX REFORM EFFECTIVE DATES

- o Last December the Senate passed my resolution urging that the general date for 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.
- o 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.
- o Unfortunately, since last December only modest progress has been made in clarifying the effective date issue other than in the tax exempt bond area. Last week Senator Packwood, Senator Long, Congressman Rostenkowski, Congressman Duncan and Secretary Baker released a joint statement that certain of the tax-exempt bond provisions should not go into effect before September first.
- o Senator Packwood has also released his package of tax reform with a general effective date of January 1, 1987, although some items such as the repeal of the investment tax credit would be effective March 1, 1986 and other items such as the rate reductions would be delayed until mid-1987.
- o I also understand, however, that Senator Packwood's proposal to include all tax-exempt interest as a preference item for the corporate and individual minimum tax is causing some of the same uncertainty for the bond market as the effective date problem.
- o Yesterday at our first markup session I joined 17 of my colleagues on the Committee in agreeing not to sign any tax reform conference report unless the effective dates substantially followed those in the Senate bill. We also agreed not to negotiate a conference agreement on substantive issues until the effective date issue was resolved.

March 19, 1986

Tax Reform Talking Points

- o 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.
- o Both substantially reduce tax rates for individuals (the President to a maximum of 35%; Ways and Means to 38%) and for corporations (President 33%; Ways and Means 36%). But the Ways and Means rates take effect at much lower income levels: the 35% rate clicks in at \$43,000 for married couples, as opposed to \$70,000 under the Reagan plan.
- o Neither plan gets an A+ for the major objectives of tax reform--simplification and fairness, 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.
- o 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.
- o 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.
- o The Senate Finance Committee has begun action on tax reform and will have a full schedule next week. A lot of difficult decisions await the Committee if it is to maintain momentum 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.
- o The 'Packwood draft' of tax reform goes a long way toward meeting the President's goals, including a top rate of 35% and a \$2,000 personal exemption for all but the wealthiest taxpayers. Still there are many controversial points that will be closely scrutinized.

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- the deduction for State and local sales and personal property taxes would be repealed, and that for income taxes would be available only through the first two brackets.
- Interest deductions would be more severely limited than in the House bill, including a \$1,000/\$2,000 limit on the consumer interest deduction.
- The minimum tax would have a lower rate and a broader base than in the House bill, but is still likely to be controversial.
- Excise taxes would be increased significantly including those on beer and wine.
- o On the plus sides, from the viewpoint of many taxpayers--
 - The nonitemizer charitable deduction would be made permanent without adopting the floor under the charitable deduction included in the House bill.
 - Investment credit repeal would not take effect until March of this year.
 - ACRS would remain the basic depreciation system, with a limited inflation adjustment allowed.
 - The R&D credit would be made permanent.
 - The amount of new equipment costs small businesses can expense would be dramatically increased.
- o All in all, the Packwood draft does a better job of lowering tax rates while encouraging new investment and a productive climate for business.

BALANCED BUDGET AMENDMENT

- The compromise amendment we are supporting embodies a simple principle: in the normal situation, outlays of the Federal Government should not exceed receipts. Our amendment just requires that to allow a deficit, Congress must by 3/5 vote authorize a specific excess of outlays over receipts. In addition, the Senate has adopted a provision imposing a similar vote requirement to raise the debt ceiling. And to preserve a bias in favor of controlling spending we say that tax increases cannot be passed except by a majority of all Members of the House and Senate: not just those present and voting.
- So the Senate is being presented with an historic opportunity. This proposed Constitutional Amendment would restore a proper balance to the way we conduct the fiscal affairs of the Government. The proposal before us is not a quick fix, a response to a sudden shift in public opinion, or an attempt to evade our assigned duties under the Constitution with regard to decisions on taxing and spending. This is an idea that has been around for quite some time, but that has gained momentum in recent years because of the growing realization that there is something fundamentally wrong with the way we conduct fiscal policy.
- Fundamental problems demand fundamental solutions. Those of us who have worked to develop a responsible Constitutional Amendment over the years have not taken lightly our duty to respect the form and the spirit of the basic law of the land. The language of this amendment is appropriate to the Constitution. It is not premised on any particular economic philosophy, but rather on the belief that Congress ought to make specific decisions on fiscal policy and be held accountable for those decisions. The amendment requires that we follow consistent procedures in setting fiscal policy, and establishes firm parameters to govern those procedures. That is all there is to it, and it is something we very much need.

A POPULAR MANDATE

- The American people clearly are convinced that our fiscal house is not in order. Popular concern over runaway budgets is the reason why the drive for a Constitutional Convention to draft a fiscal restraint amendment is only a few states short of its goal. Polls consistently show that 70-80 percent of the American people support a balanced budget amendment. No

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one should maintain that we ought to take certain steps just because they are popular; but in this case it seems that the people are ahead of the politicians. They understand that Congressional spending habits have to be put under a firm limitation, and that only new procedures, externally imposed, can do the job.

- I would also suggest that this amendment, if approved by Congress, is not the end of the story. It is the beginning. Legislative implementation and compliance will be a complex and difficult matter--we should not deceive ourselves on that point. And we are learning from the experience of the Gramm-Rudman-Hollings law that enforcement is not a simple matter. But it can and will be done once we have a clear Constitutional obligation to fulfill. We can demonstrate our willingness and ability to follow through on this amendment by moving swiftly to meet the fiscal 1987 targets for Gramm-Rudman.