WILLIAM L. ARMSTRONG
COLORADO

Joyce / Senator Armstrong's ofc. is pushing hard for an answer on this. Betty

Speak

~~April~~ 29 or May 1
Tue or Thurs

United States Senate
WASHINGTON, DC 20510

March 27, 1986

Four Seasons
~~Dumbarton Rm.~~
Wash. D.C.

7:30 Dinner

The Honorable Robert Dole
U.S. Senate
Washington, D.C.

Dear Bob:

Congresswoman Lynn Martin and I are Vice Chairmen of the National Republican Legislative Campaign Committee which has been formed and is chaired by GOP Chairman Fahrenkopf. The NRLCC is designed to help win control of State Legislatures before the critical 1990 reapportionment.

The effort is being financed primarily by $2000 memberships and the funding is progressing well.

Chairman Fahrenkopf is putting together a White House Briefing followed by a Dinner for the donors to this program. We would like to invite you to address the group briefly at the dinner if your schedule will permit. We will schedule the event on either April 29 or May 1 depending on which date would be most convenient for you. The Dinner will be held at the Four Seasons and we would be able to accommodate your appearance at almost any time between 6:30 and 8:30 p.m.

OK
April 29
2:30

We will appreciate your help on this important program.

Best regards.

Sincerely,

Bill Armstrong

William L. Armstrong

WLA:hp

Michelle x40028

BOB DOLE
KANSAS

United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

April 28, 1986

TO: SENATOR DOLE

FROM: GEORGE PIELER

SUBJECT: TALK TO NATIONAL REPUBLICAN LEGISLATIVE CAMPAIGN COMMITTEE

april 29, 1986

You are scheduled to talk to the NRLCC at their dinner on Tuesday, April 29, at the Four Seasons. - Wash. DC.

As you know, the goal of NRLCC is to get more Republicans elected to State legislatures in the interest of expanding the number of Republican officeholders at the State level,and in anticipation of the 1990 census and the redistricting that will ensue.

What they want is a strong pitch in support of their efforts: why giving financial support to Republican candidates in the States makes sense. In other words, avoid the kinds of problems we had in redistricting in Indiana and California, for example, after the 1980 census.

Attached are current tax and budget materials.

April 24, 1986

BUDGET TALKING POINTS

o On April 21, the Senate kicked-off debate on the fiscal 1987 budget resolution. As usual, it took us a while to start moving on amendments. Once we did get going, the trend was not necessarily a good one -- we started adding money back for programs like education, ($300 MILLION) and offsetting the cost, which we have to do under Gramm-Rudman, by increasing taxes. The budget resolution was already in trouble on the Republican side because the $74.3 billion revenue increase it contemplates was far higher than the President and many Republicans were willing to accept. The Senate also voted overwhelmingly (83-14) against an amendment to eliminate more than 40 federal programs, as the President requested in his budget.

o What happens from here is uncertain. There are some in the administration who are urging us to re-estimate the budget numbers to reflect changes in economic conditions. I'm not sure how much we'd actually gain from this exercise. As a matter of fact, there are some, like Budget Chairman Domenici, who claim the deficit estimates will not improve and could actually worsen the deficit picture. Interest ratess have fallen, but the original projection for economic growth is higher than what the final numbers will show. And with lower oil prices, which have reduced receipts from windfall profits taxes and receipts for offshore oil sales, the revenue base is down considerably.

o From my perspective the resolution approved by the Budget Committee leaves something to be desired. First, I believe that the defense spending authority for next year is too low. And second, that the increase in revenues -- close to $75 billion over three years -- is much too high. I'm not alone in this thinking. Just before Congress adjourned for the Easter recess, I received a letter signed by 24 Republican senators expressing the same concerns.

o But I understand the problem Senator Domenici faced in getting a resolution out of the committee -- the delicate balance between enough for defense, but not too much; enough cuts in domestic programs, but not too much; and enough revenues to meet the $144 billion deficit figure in Gramm-Rudman-Hollings.

o I'd like to see us come up with a strong-bipartisan vote on a budget. And I've made a commitment to try to work with House Republicans and keep them informed on what direction we're heading. And of course, we've met with the administration, and will continue to do so. Their counsel and support, while not mandatory as it relates to the budget resolution since the President does not sign it, will be crucial in the eventual implementation of the budget.

o But it's not going to be easy. I hope that as we get into the debate, all members will begin to understand how difficult it is to meet the Gramm-Rudman deficit target and fully fund all the programs we hold near and dear.

o We may have to go through a lot of votes and debate and start all over again before it's finished. But failing to set out a spending and tax guideline for Congress to follow would make everything we do in the coming months that much more difficult.

o We've got some tough choices ahead. The Senate's shown it's willingness to make them in the past. And I'm sure it will again. It would be nice, however, to have some company.

BUDGET DETAILS

o The total deficit reduction in the resolution is $38.8 billion in fiscal 1987; $58.9 billion in 1988; and $74.4 billion in 1989.

o The Committee's budget resolution contains $18.7 billion in additional revenues in fiscal 1987 and a total of $74.3 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.

o Agriculture: The budget resolution assumes the enactment of the tobacco price support program contained in reconciliation with projected reduced budget authority and outlays of $100 million in fiscal 1987 and $600 million over three years; It assumes $ 300 million in savings over three years from enactment of the 1985 farm bill; and it increases budget authority by $150 million in each of the next three years and $130 million in fiscal 1987 for farm credit programs.

IMPLICATIONS OF FAILURE TO MEET DEADLINES

o Missing the April 15 deadline makes it even more questionable that the reconciliation process necessary to achieve savings would be completed by June 15.

o Missing the April 15 deadline further complicates and delay tax-reform legislation this year, since a major issue of revenue increases or neutrality in tax reform would remain an open issue.

o Procedurally, the failure to adopt a resolution by April 15 means that appropriation bill mark-ups could proceed with no general blueprint for FY 1987 spending.

o Assuming no resolution is adopted by May 15, then House appropriation bills would likely proceed to be reported, passed, and sent to the Senate. No point of order (Section 303) would lie against such bills in the House, but would lie in the Senate. The Senate could waive the point-of-order by a majority vote, voting on a resolution by the SBC. It is not clear that the SBC would be able to report such a resolution and such a resolution would likely be objected to by Minority Leader Byrd if it were reported using a poll.

o For those who argue that we should sit back and do nothing because the healthy economy will take care of the deficit, that just isn't so. Even if the very optimistic economic projections are realized, we won't meet the $144 billion Gramm-Rudman deficit target. And those who argue that we can reach the target merely by trimming appropriations accounts are also wrong. It will take more -- changes in entitlement benfit programs, and maybe even some revenue increases.

March 27, 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 has begun action on tax reform and will have a full schedule after the Easter recess. 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.

- 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.

--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.

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.

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.

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

- 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.

- 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.

BOB DOLE
KANSAS

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

April 28, 1986

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FROM: GEORGE PIELER

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