

June 25, 1990

MEMORANDUM

June 22, 1990

TO: Senator Dole
FROM: Kathy Ormiston
SUBJECT: Washington Tax Seminar Lunch

Time and Place

June 25, 116 Club, 234 3rd St, N.E.. The lunch will take place between 12:00 and 1:30. They would like you to be there between 12:00 and 12:30. You will be greeted by Frank McDermott, a lawyer/lobbyist at Hopkins, Sutter.

Format and Audience

They would like you to speak informally for between 20 and 30 minutes, followed by 10 minutes of Q&A. You will be introduced by Frank McDermott.

There will be about 20 tax lawyers in attendance, including Bob Lighthizer. A complete membership list is attached.

What They Would Like You to Talk About

What is going on in Congress, particularly in the tax area. Also, will the budget summit have any tax provisions, and if so, what will they be.

Contact Person

Mr. Frank McDermott, Hopkins & Sutter, 835-8000D

WASHINGTON TAX SEMINAR

STATEMENT

- O THANK YOU AND GOOD AFTERNOON.
- O THIS IS AN EXCITING TIME FOR AMERICA. IT SEEMS THAT EVERY ELECTION ADDS TO WORLD FREEDOM -- IN LATIN AMERICA, IN EASTERN EUROPE AND EVEN INSIDE THE SOVIET UNION. IT MAY BE THE WORLD WE'VE ALL BEEN WAITING FOR -- THE COLLAPSE OF COMMUNISM AND THE DISINTEGRATION OF THE "EVIL EMPIRE".

EASTERN EUROPE

- O IN EASTERN EUROPE, THE PACE OF CHANGE HAS BEEN BREATH-TAKING. SIX MONTHS AGO, AN INDIVIDUAL'S CHANCES OF RISING TO POWER DEPENDED ON HIS YEARS OF SERVICE TO THE PARTY; NOW IT'S HIS YEARS IN A COMMUNIST JAIL.
- O I HAPPENED TO BE IN POLAND LAST SUMMER ON THE DAY THE MAZOWIECKI GOVERNMENT TOOK POWER. ONLY THREE OR FOUR PEOPLE IN THE ROOM HAD ANY EXPERIENCE IN GOVERNING. IT WAS LIKE SEEING OUR FOUNDING FATHERS. YET, NOW THIS IS THE SENIOR GOVERNMENT IN EASTERN EUROPE.
- O THE NEW POLISH GOVERNMENT COULD PROBABLY TEACH CONGRESS A FEW LESSONS. RIGHT NOW, THEY ARE WRESTLING WITH THE DIFFICULT DECISION OF REDUCING ALL FARM SUBSIDIES, WHILE WE, ON THE AGRICULTURE COMMITTEE, ARE DEBATING HOW MUCH TO INCREASE OUR SUBSIDIES. THE POLES SHOULD TAKE THE ADVICE OF ECONOMIST JEFFREY SACHS TO DO THE TOUGH STUFF, LIKE CUTTING FARM SUBSIDIES, UP FRONT, WHILE THEY STILL HAVE THE SUPPORT OF THE PEOPLE.

GORBACHEV'S CHALLENGES

- O DURING THE SUMMIT A FEW WEEKS AGO, I HAD THE OPPORTUNITY TO MEET GORBACHEV THREE TIMES. AND FROM OUR MEETINGS, ESPECIALLY A LENGTHY SESSION WITH CONGRESSIONAL LEADERS, IT WAS CLEAR THAT GORBACHEV HAS SOME REALLY TOUGH DAYS AHEAD OF HIM. IT'S EASY TO OVERLOOK THE FACT THAT GORBACHEV IS MUCH MORE POPULAR IN AMERICA THAN HE IS IN HIS OWN COUNTRY.
- O HIS ECONOMIC REFORMS ARE ALREADY CREATING PUBLIC DISSATISFACTION. HE FACES AN UNPRECEDENTED POLITICAL CHALLENGE FROM BORIS YELTSIN. AND OF COURSE, THE FREEDOM MOVEMENT IN THE BALTIC STATES SIMPLY IS NOT GOING TO GO AWAY.
- O WITH ALL THESE CHALLENGES FACING GORBACHEV AND THE SOVIET UNION, WE CAN'T PRECLUDE ANY OUTCOME INSIDE THE KREMLIN -- FROM GORBACHEV'S CONTINUED CONSOLIDATION OF PERSONAL AUTHORITY, TO HIS OUSTER. AND I WOULDN'T ENTIRELY WRITE OFF THE POSSIBILITY THAT HIS OUSTER COULD LEAD TO A REAL CRACKDOWN INSIDE THE SOVIET UNION.
- O IF THE DEMOCRACY MOVEMENTS PREVAIL -- AND IT IS IN OUR INTEREST TO HELP THEM SUCCEED -- WE WILL HAVE ENORMOUS OPPORTUNITIES, BOTH POLITICAL AND ECONOMIC. THESE COUNTRIES HAVE NOT COME TO US LOOKING FOR A HAND-OUT -- THEY INSTEAD WANT AMERICAN INVESTMENT AND KNOW-HOW TO "JUMP-START" THEIR ECONOMIES. BUT TO BE CANDID, I AM NOT SURE WE WILL BE ABLE TO HELP, UNTIL WE GET OUR OWN BUDGET IN ORDER.

THE SUMMIT

- O AS YOU MAY HAVE HEARD, THE CONGRESS AND THE ADMINISTRATION ARE

IN THE MIDDLE OF HEAVY DUTY NEGOTIATIONS ON THE BUDGET. I
THINK EVERYONE INVOLVED IS IN AGREEMENT THAT THE THAT THE
DEFICIT IS TRULY OUR COUNTRY'S "PUBLIC ENEMY NUMBER ONE".
O INTEREST ON OUR NATIONAL DEBT IS APPROACHING \$200 BILLION A
YEAR, TWICE AS MUCH AS THE ENTIRE FEDERAL BUDGET WHEN I WAS
FIRST ELECTED TO CONGRESS. AND SOMETIME IN JULY, WE WILL HAVE
TO PASS A BILL TO INCREASE THE DEBT LIMIT AGAIN -- TO
SOMETHING WELL OVER \$3 TRILLION DOLLARS -- THAT'S TRILLION
WITH A T.

O IN 1991, WE WILL NEED TO LOOK AT BUDGET CUTS TOTALLING AT
LEAST \$50 BILLION DOLLARS TO MAKE A SERIOUS DENT IN THE
DEFICIT. EVEN FOR A BLOATED AND WASTEFUL CONGRESS, \$50
BILLION IS NOT PEANUTS. LAST YEAR, FOR EXAMPLE, WE SPENT 10
MONTHS AND DEVOTED OVER 60% OF OUR ROLL CALL VOTES IN THE
SENATE TO REDUCE THE DEFICIT BY ONLY \$16 BILLION. AND TO DO
EVEN THAT, WE NEEDED FOUR MONTHS OF AUTOMATIC, ACROSS-THE-
BOARD, GRAMM-RUDMAN CUTS.

NEW TAXES

O THIS YEAR, EVERYTHING IS ON THE TABLE: SPENDING CUTS,
ENTITLEMENT REFORM, AMENDMENTS TO THE BUDGET PROCESS AND NEW
TAXES. ALTHOUGH THE REPUBLICAN NEGOTIATORS AGREE WITH THE
PRESIDENT THAT IT IS BEST TO REDUCE THE DEFICIT IS THROUGH
SPENDING CUTS, RATHER THAN NEW TAXES, ONE REVENUE INCREASE WE
ALL SUPPORT IS A CUT IN THE MAXIMUM CAPITAL GAINS TAX RATE.
O THE PRICE FOR CAPITAL GAINS RELIEF IN A SUMMIT AGREEMENT MAY
BE A FAMILY SAVINGS INCENTIVE, AS PROPOSED BY THE PRESIDENT,
OR AN EXPANDED IRA, AS PROPOSED BY SEVERAL SENATORS.
NEVERTHELESS, IT IS LIKELY THAT SOME CAPITAL GAINS INCENTIVE
WILL PASS THIS YEAR.

GRAMM-RUDMAN

O IN ADDITION TO REDUCING OUR DEFICIT, WE ALSO NEED TO LOOK AT
SOME PROPOSALS REFORM THE CURRENT BUDGET PROCESS. WE CANNOT
AFFORD TO ABANDON A REGIME LIKE GRAMM-RUDMAN-HOLLINGS THAT
IMPOSES MANDATORY SPENDING RESTRAINTS ON CONGRESS. BUT WE
ALSO NEED TO INVOLVE THE PRESIDENT IN ELIMINATING WASTE IN
CONGRESSIONAL PROGRAMS WITH A LINE ITEM VETO OR ENHANCED
RESCISSION AUTHORITY.
O MOST IMPORTANT OF ALL, WE NEED A TWO YEAR BUDGET CYCLE SO THAT
CONGRESS CAN DEVOTE TIME TO OTHER NATIONAL PRIORITIES.

CAMPAIGN FINANCE REFORM

O NOW, AS YOU KNOW, THIS IS AN ELECTION YEAR. AND THE SENATE
IS APPROPRIATELY CONFRONTING THE ISSUE OF CAMPAIGN FINANCE.
O SENATE REPUBLICANS INTRODUCED AN AMBITIOUS NEW REFORM
PROPOSAL. IT GETS RID OF POLITICAL ACTION COMMITTEES -- "AXES
THE PACS". IT BANS SOFT MONEY. IT IMPOSES LIMITS ON OUT-
OF-STATE CONTRIBUTIONS.
O AND IT INCREASES COMPETITION IN THE POLITICAL ARENA BY
OFFERING SEED MONEY TO VIABLE CHALLENGERS AND BY REDUCING THE
SO-CALLED "MILLIONAIRE'S LOOPHOLE". THE MONEY AVAILABLE TO
A CANDIDATE IS AUTOMATICALLY INCREASED WHEN HIS OPPONENT
RELIES ON PERSONAL FUNDS.
O CONGRESSIONAL INCUMBENTS ENJOY MANY BUILT-IN ADVANTAGES --

LARGE STAFFS, FREE MAIL, HIGH NAME RECOGNITION AND MEDIA ACCESS. HOWEVER, THEIR BIGGEST ADVANTAGE MAY BE THEIR SHARE OF PAC CONTRIBUTIONS. IN 1988, INCUMBENTS RECEIVED A WHOPPING 74% OF ALL PAC CONTRIBUTIONS. IF POLITICIANS ARE TO BECOME TRULY ACCOUNTABLE TO THE VOTERS, THIS SYSTEM MUST BE CHANGED.

THE ELECTION

- O AND SPEAKING OF CHALLENGES, FOR A CHANGE, THE REPUBLICANS APPEAR LIKELY TO MAKE GAINS IN A MID-TERM ELECTION.
- O UNLIKE RECENT SENATE CAMPAIGNS WHERE THE DEMOCRATS HAVE BEEN ABLE TO RECRUIT BETTER CANDIDATES, WE NOW HAVE 9 REPUBLICAN HOUSE MEMBERS RUNNING FOR THE SENATE BEHIND A PRESIDENT WHOSE POPULARITY IS BREAKING RONALD REAGAN'S RECORDS.
- O OF COURSE, PRESIDENT BUSH'S RATINGS WILL COME DOWN SOMEWHAT, AND PUNDITS CONTEND THAT A PRESIDENT'S COATTAILS DO NOT HELP IN CONGRESSIONAL ELECTIONS. BUT I THINK THAT BILL SCHUETTE IN MICHIGAN, TOM TAUKE IN IOWA, LYNN MARTIN IN ILLINOIS, CLAUDINE SCHNEIDER IN RHODE ISLAND AND PAT SAIKI IN HAWAII ARE EACH POSITIONED TO UNSEAT AN INCUMBENT SENATOR.

CONCLUSION

- O BECAUSE THIS IS AN ELECTION YEAR, BI-PARTISAN COOPERATION IN THE CONGRESS MAY BECOME MORE AND MORE DIFFICULT. NEVERTHELESS, I BELIEVE THAT WE WILL FINALLY AGREE ON WHAT I HAVE CALLED THE FIVE C's: CLEAN AIR, CHILD CARE, CAMPAIGN FINANCE REFORM, A CRIME PACKAGE, AND SOME FORM OF CAPITAL GAINS RELIEF. HOWEVER, AS ALWAYS, THE SERIOUS DEBATE ON THE DEFICIT AND THE BUDGET PROCESS WILL CONTINUE TO DOMINATE OUR AGENDA UNTIL BOTH CONGRESS AND THE PRESIDENT FACE UP TO THE TOUGH CHOICES.
- O THANK YOU.

WASHINGTON TAX SEMINAR MEMBERS

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O THANK YOU.