

M E M O R A N D U M

September 30, 1990

TO: SENATOR DOLE

FROM: JIM MCMILLAN

RE: LAFFER, CANTO & ASSOCIATES 28TH WASHINGTON CONFERENCE

Background. You have been asked to address a group of approximately 50 individuals consisting of chief financial officers, pension fund directors, and money managers from major corporations, financial institutions, and investment firms on Monday, October 1, 1990, at the Ritz-Carlton.

You will be met at the door by Mr. Victor Canto (president of the company) and will be introduced to speak at 9:00 a.m. The schedule provides 45 minutes during which you may speak and take questions. Cong. Frenzel will be speaking before you and Sen. Bumpers (who is followed by Sen. Hatch), will speak after you (see attached program schedule).

Laffer, Canto & Associates, the sponsor of the conference, is an economic service firm located in La Jolla, California, which provides studies focusing on the economy, political policies, and changing demographic factors which relate to the financial markets.

You have been asked to speak on any international and/or domestic issues of interest to you. Your prepared remarks primarily cover the Persian Gulf situation and the budget summit (even though Frenzel will also address the budget, this issue is obviously what this crowd wants to hear about).

Issues. Some specific issues on which you may get questions include the following:

1. Securities Transfer Excise Tax (STET). One revenue proposal raised in the summit which would have directly affected pension assets was to apply a transaction tax of .15% to purchases and sales of all securities (e.g., equity, debt, futures, options, etc.), except treasury securities. Proponents of the tax argued that it would help to curb volatility and add to the progressivity of the tax system. However, given the increasing weakness in the equity markets, this idea was abandoned as part of the budget plan.

2. Asset Reversions. An agreement has been reached which will (a) increase the current 15% excise tax on asset reversions and (b) allow excess pension assets to fund current retiree health liabilities.

Restricting or prohibiting asset reversions has been a priority of Metzenbaum for a number of years. His "latest" bill, S. 685, the

Employee Pension Protection Act of 1989, was reported out of the Labor Committee on May 16th. The bill would have greatly restricted asset reversions by basically requiring that the excess assets of terminated pension plans be used for COLA's. The budget compromise satisfies Metzenbaum and puts this issue to bed.

3. ERISA Enforcement. DOL is putting the finishing touches on legislation designed to improve ERISA enforcement and oversight by tightening plan audit requirements, increasing incentives for private enforcement (i.e., bounties), expanding disclosure requirements (including how stock was voted), and increasing excise tax and civil penalties for unlawful behavior.

I have a meeting with DOL this week to discuss the legislation. DOL is hoping that you, along with Sen. Hatch, might become cosponsors when it is introduced. Given the S&L debacle, a bill improving standards and oversight with respect to the pension system (where the government's exposure is potentially enormous) has a lot of practical and political appeal.

4. Pension Simplification. In July, Pryor introduced his Pension Simplification Act which would amend the IRS Code to revise the application of the tax laws with respect to employee benefit plans; the focus of the bill is on the distribution rules (e.g., rollovers and lump sum payments). Hearings were held on August 3rd before the Subcommittee on Private Retirement Plans and IRS, and while Pryor wants to push the bill through this year, action is unlikely and the stage has been set for next Congress.

The bottemline for the bill, which has some support in the business community, is that it is a good step forward in an area that is vastly in need of simplification to ease the burden on employers and individuals. The problem is that real simplification would require real tax changes which is unlikely since any such changes would be revenue losers for the Treasury.

5. Pension Portability. The Pryor bill also addresses pension portability which has been an issue of great concern to Secretary Dole. While the bill does not do all that DOL would like, it does address the problem of the high rate of consumption of cashed out pension contributions (note: a direct result of the frequency with which people change jobs today) and the stagnation in pension plan coverage.

SPEAK

A.B. Laffer, V.A. Canto and Associates

4275 Executive Square • Suite 330

La Jolla, California 92037

Telephone (619) 458-0811

Fax (619) 458-9856

Monday - Oct. 1
Tuesday - Oct. 2
Ritz-Carlton Hotel
Wash. D.C.

July 23, 1990

The Honorable Bob Dole
United States Senate
SH-141 Hart Senate
Office Building
Washington DC 20510-1601

Dear Senator Dole,

On October 1 and 2, 1990, A.B. Laffer, V.A. Canto and Associates will sponsor their Twenty-Eighth Washington Conference at the Ritz-Carlton.

Approximately fifty men and women will be attending the conference. They are chief financial officers, pension fund directors and investment managers. They represent the largest funds in this country and abroad.

Among others we are inviting Administration and Congressional leaders to discuss domestic and international issues. From our standpoint we would prefer the speakers to talk about issues that they are involved with rather than prepare something different. Everyone benefits. There will be no lack of comments and discussion from the attendees.

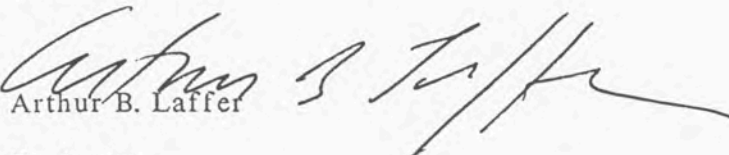
You and our other previous speakers constitute an extraordinarily distinguished group of men and women. And, the caliber of our audience reflects the enormous importance the financial community attaches to political economics. Enclosed you will find a list of some of our previous speakers and a list of some of our previous attendees.

We would be honored if you could meet with us for about an hour during this conference. In light of the crucial issues facing our country, your observations would be most valuable to our attendees. This is clearly a unique opportunity for members of the financial community to hear you in person--an opportunity rarely afforded them.

Please contact Pedro Marcal at 619 458-0811 for further information on the conference. We look forward to hearing from you. 619-756-1225

With every good wish.

Cordially,


Arthur B. Laffer

Enclosure

8-3-90 Interim Ltr.

Handwritten notes: "Monday", "Tuesday", "Ritz-Carlton", "Wash. D.C.", "\$2,000-"

Handwritten notes: "Start 8:00", "9:00", "8:00", "8:00"

9/25/90

A.B. LAFFER, V.A. CANTO & ASSOCIATES
TWENTY EIGHTH WASHINGTON CONFERENCE

AGENDA

SUNDAY, SEPTEMBER 30, 1990

6:00 P.M. - 7:00 P.M.

COCKTAILS
Unveiling of the Painting
Ruth Munson

7:00 P.M. - 9:00 P.M.

DINNER
Larry Kudlow
Ritz Hotel

MONDAY, OCTOBER 1, 1990

7:30 A.M. - 8:00 A.M.

CONTINENTAL BREAKFAST

8:00 A.M. - 8:45 A.M.

Congressman Bill Frenzel
(R-Minnesota)

8:45 A.M. - 9:00 A.M.

BREAK

9:00 A.M. - 9:45 A.M.

Senator Bob Dole
(R-Kansas)

9:45 A.M. - 10:00 A.M.

BREAK

10:00 A.M. - 11:00 A.M.

Senator Dale Bumpers
(D-Arkansas)

11:00 A.M. - 12:00 P.M.

Senator Orrin G. Hatch
(R-Utah)

12:00 P.M. - 1:30 P.M.

LUNCHEON

1:45 P.M. - 2:45 P.M.

Tony Coelho
Wertheim Schroeder

2:45 P.M. - 3:30 P.M.

Michael R. Darby
Under Secretary for
Economic Affairs

3:30 P.M. - 3:45 P.M.

BREAK

3:45 P.M. - 4:30 P.M.

Bernadette Budde

Vice President
for Political Education
of the Business-Industry
Political Action Committee

6:00 P.M. - 7:00 P.M.
7:15 P.M.
GEORGETOWN CLUB
1530 Wisconsin Avenue

COCKTAILS
DINNER
Dr. Jeane J. Kirkpatrick

TUESDAY, OCTOBER 2, 1990

7:30 A.M. - 8:00 A.M.

CONTINENTAL BREAKFAST

8:00 A.M. - 8:45 A.M.

Congressman Chalmers P. Wylie
(R-Ohio)

8:45 A.M. - 9:45 A.M.

Senator Timothy E. Wirth
(D-Colorado)

9:45 A.M. - 10:30 A.M.

Senator Albert Gore, Jr.
(D-Tennessee)

10:30 A.M. - 10:45 A.M.

BREAK

10:45 A.M. - 11:45 A.M.

Congressman Vic Fazio
(D-California)

11:45 A.M. - 12:00 P.M.

BREAK

12:00 P.M. - 2:00 P.M.

LUNCHEON
Jack Kemp
Secretary of HUD

TALKING POINTS
CANTO & ASSOCIATES
WASHINGTON CONFERENCE
OCTOBER 1, 1990

INTRODUCTION

0 GOOD MORNING. IT IS A
PLEASURE TO BE HERE.

0 YOU HAVE PICKED AN
INTERESTING TIME TO COME
TO WASHINGTON ——THAT IS,
INTERESTING IF YOU LIKE

CRISIS.

0 ON THE INTERNATIONAL
FRONT, THE DRAMATIC STEPS
TAKEN BY PRESIDENT
GORBACHEV IN THE SOVIET
UNION TOWARDS FREEDOM
AND WORLD PEACE HAVE
UNFORTUNATELY BEEN OVER—
SHADOWED BY THE BRUTAL
INVASION OF KUWAIT BY
SADDAM HUSSEIN.

0 ON THE DOMESTIC FRONT,
WE HAVE HAD ANOTHER
WAR THAT IN MY OPINION
HAS BEEN JUST AS
DISRUPTIVE TO THE SECURITY
OF AMERICA. I AM OF
COURSE REFERRING TO THE
BUDGET CRISIS THAT HAS
PARALYZED CONGRESS, AND
FOR MONTHS HAS
THREATENED TO PARALYZE

THE FEDERAL GOVERNMENT AND THE COUNTRY.

THE SUMMIT

0 AFTER FOUR LONG AND
DIFFICULT MONTHS OF
NEGOTIATIONS, THE BUDGET
SUMMITEERS HAVE FINALLY
REACHED AN AGREEMENT. A
LOT OF YOU MAY BE
ASKING WHAT TOOK US SO
LONG? WELL, LET ME TELL

YOU THAT \$500 BILLION OF
REAL — NOT SMOKE AND
MIRRORS — CUTS ADDS UP
TO A LOT OF MONEY AND
A LOT OF TOUGH
DECISIONS.

0 THIS PACKAGE ISN'T PRETTY.
IF YOU SMOKE, DRINK OR
DRIVE, YOU ARE GOING TO
PAY MORE TAXES.
ENTITLEMENT PROGRAMS,

ESPECIALLY MEDICARE, WILL
FACE A SUBSTANTIAL HIT.
SOCIAL SECURITY, HOWEVER,
WAS NOT TOUCHED.

0 FROM NOW ON, NEW
ENTITLEMENT PROGRAMS AND
TAX CUTS WILL BE PAY—
AS—YOU—GO. IF YOU
WANT TO INCREASE BENEFITS
OR CUT TAXES, YOU WILL
HAVE TO FIND A WAY TO

PAY FOR THEM.

0 WITHOUT GIVING YOU ALL
THE DETAILS OF WHAT'S IN
THE PACKAGE, I CAN TELL
YOU RIGHT NOW THAT
THERE'S PROBABLY
SOMETHING IN HERE FOR
EVERYONE NOT TO LIKE. BUT
WITH 32 1/2 PERCENT
ACROSS—THE—BOARD
GRAMM—RUDMAN CUTS

STARING US IN THE FACE, I
THINK THE AMERICAN PEOPLE
ARE LOOKING FOR A LITTLE
LEADERSHIP FROM US.

TAXES

0 ON THE BRIGHT SIDE, I THINK
THE PRESIDENT AND ALL
REPUBLICANS CAN BE PROUD
THAT WE HELD THE LINE ON
INCREASING TAX RATES.

0 THE TAX PORTION OF THE

PACKAGE ALSO CONTAINS
AN INDEXING PROVISION
FOR THE STOCK OF SMALL
BUSINESSES — A MODIFIED
CAPITAL GAINS CUT —, AS
WELL AS CREDITS FOR
ENTERPRISE ZONES AND
ENERGY INCENTIVES. YOU'LL
ALSO BE PLEASED TO HEAR
THAT THE .15% SECURITIES
TRANSFER EXCISE TAX,

WHICH WAS DISCUSSED
EXTENSIVELY, DIDN'T MAKE IT
INTO THE FINAL PACKAGE.

PENSION ASSET PROPOSALS

0 THERE IS A WHOLE LIST OF
OTHER REVENUE PROPOSALS
TOO NUMEROUS TO MENTION
HERE. I KNOW YOU ARE ALL
INTERESTED IN THE PENSION
ASSET PROPOSALS, SO I
WILL GIVE YOU A QUICK

RUN DOWN NOW.

0 AN AGREEMENT WAS
REACHED ON A PROPOSAL
TO ALLOW THE TRANSFER OF
EXCESS PENSION ASSETS TO
FUND CURRENT RETIREE
HEALTH LIABILITY. IN
ADDITION, THE PACKAGE
INCLUDES AN INCREASE IN
THE CURRENT 15% EXCISE
TAX ON ASSET REVERSIONS.

PASSING THE AGREEMENT

0 NOW COMES THE TOUGH
PART, GETTING THE VOTES
TO PASS THIS AGREEMENT.
THE EASIEST COURSE FOR
MEMBERS WILL BE TO FIND
SOMETHING THEY DON'T LIKE
AND USE THAT AS AN
EXCUSE NOT TO VOTE FOR
THE PACKAGE. AND BELIEVE
ME, THERE WILL BE A LOT OF

PEOPLE JUMPING ON THAT
BANDWAGON TODAY.

0 I HOPE, HOWEVER, THAT
MOST MEMBERS WILL HOLD
THEIR FIRE LONG ENOUGH TO
FIND OUT WHAT IS IN THE
PACKAGE. THEY MAY NOT
LIKE IT ANY BETTER, BUT AT
LEAST THEY WILL REALIZE
THAT IT'S FAIR, IT'S TOUGH
AND IT'S REAL. AND IF

ANYONE HAS ANY BETTER
IDEAS ABOUT HOW TO GET
THIS DEFICIT MONSTER UNDER
CONTROL, I'D LIKE TO HEAR
THEM.

SADDAM'S NAKED AGGRESSION

0 WHEN I WAS IN THE MIDDLE
EAST ABOUT FIVE MONTHS
AGO ON A BIPARTISAN
DELEGATION OF SENATORS,
WE MET WITH SADDAM TO

EXPLORE IF THERE WAS ANY
CHANCE TO IMPROVE
RELATIONS WITH HIS REGIME.

0 DURING OUR MEETINGS, WE
HEARD A LITTLE 'SERMON
FROM SADDAM,' ON WHAT
CONSTITUTED WHAT HE
CALLED 'REAL GREATNESS' IN
THE MODERN WORLD. SUCH
'GREATNESS,' HE TOLD US,
STEMMED NOT FROM

MILITARY POWER, BUT THE
FORCE OF MORALITY.

0 HE SAID TO US, AND THIS IS
A QUOTE: 'WHERE A
PERSON IS JUST IN HIS
POSITION, HE IS THE
MIGHTIER ONE. . . . WHERE
HE PARTAKES IN ATTAINING
PEACE, NOT FOR HIMSELF
BUT FOR MANKIND AS A
WHOLE, HE IS THE MIGHTIER.'

0 THESE ARE NICE WORDS BUT
ARE NOT VERY CONSOLING
WHEN THE DICTATOR'S
BRUTAL ACTIONS AND
RECKLESS STATEMENTS HAVE
SHOWN HIM CAPABLE OF
ANYTHING — AND I MEAN
ANYTHING.

0 HE HAS, WITHOUT
PROVOCATION, INVADED A
FRIENDLY ARAB NEIGHBOR.

0 HE IS SYSTEMATICALLY
DESTROYING THAT COUNTRY
BY MURDERING AND
TERRORIZING ITS PEOPLE AND
STEALING ITS PROPERTY.

0 HE HAS TAKEN FOREIGN
CITIZENS HOSTAGE — MEN,
WOMEN, AND CHILDREN
WHICH HE SAYS HE WILL USE
AS HUMAN SHIELDS.

0 AND HE HAS THREATENED AN

ALL OUT WAR AGAINST THE
WORLD INCLUDING MASSIVE
TERRORIST ACTIVITIES.

LONG-TERM COMMITMENT

0 THIS IS THE GREATEST
CHALLENGE THAT PRESIDENT
BUSH HAS FACED SINCE HE
TOOK OFFICE, AND HIS
ACTIONS HAVE BEEN SWIFT,
DECISIVE, AND EFFECTIVE.

0 THE PRESIDENT HAS MADE

CLEAR THAT SADDAM
HUSSEIN WILL NOT GET
AWAY WITH HIS BLOODY
GAMBLE; THAT AMERICA'S
FRIENDS IN THE REGION ARE
NOT GOING TO BE OVERRUN;
AND THAT AMERICA'S VITAL
INTERESTS — SECURITY AND
ECONOMIC INTERESTS —
ARE GOING TO BE
PROTECTED.

0 WE ALL KNOW THAT OUR
EFFORT WON'T BE EASY. WE
HAVE MADE AN IMPORTANT
COMMITMENT THAT WON'T
BE WITHOUT COST AND MAY
NOT BE RESOLVED QUICKLY.
0 BUT OUR PURPOSE IS RIGHT,
AND WE HAVE TO BE
PREPARED TO DO WHATEVER
WE HAVE TO, TO GET THE
JOB DONE.

INTERNATIONAL EFFORT

0 BUT I WANT TO MAKE ONE
POINT PERFECTLY CLEAR.
WHILE THE UNITED STATES
WAS THE ONLY COUNTRY IN
A POSITION TO REACT
QUICKLY TO HOLD THE LINE
ON SADDAM'S WAR
MACHINE, THE EFFORT CAN
NOT AND SHOULD NOT BE
MAINTAINED BY AMERICA

ALONE.

0 THE U.N. HAS BEEN AN
EFFECTIVE FORUM FOR
IMPLEMENTING THE
INTERNATIONAL CONSENSUS
THAT IRAQ SHOULD BE CUT
OFF FROM THE WORLD. THE
SANCTION ADOPTED LAST
WEEK BANNING AIR TRAVEL
TIGHTENS THE NOOSE
AROUND IRAQ ONE NOTCH

FURTHER.

0 I AM PLEASED WITH THE
CONTRIBUTIONS OF TROOPS,
SHIPS, SUPPLIES, AND
FINANCIAL RESOURCES THAT
MANY NATIONS HAVE MADE
TO THE INTERNATIONAL
EFFORT.

0 WHILE NATIONS LIKE KUWAIT
AND SAUDI ARABIA HAVE
MADE SUBSTANTIAL

FINANCIAL PLEDGES, AND
WHILE JAPAN'S OVERDUE
COMMITMENT OF AROUND
\$4 BILLION IS A GOOD
START, OTHER COUNTRIES
LIKE WEST GERMANY —
WHICH I MIGHT ADD IS
WILLING TO PAY THE
SOVIETS AROUND \$8 BILLION
TO GET OUT OF EAST
GERMANY — COULD DO

MORE AND NEED TO OPEN
THEIR WALLETS A LITTLE
FURTHER. THERE ARE NO
'FREE LUNCHESES' HERE AND
THE BENEFITS OF THIS EFFORT
— PEACE AND ECONOMIC
SECURITY — INURE TO
EVERYONE.

DON'T GUT DEFENSE

0 JUST A FEW DAYS BEFORE
SADDAM'S TROOPS AND

TANKS ROLLED INTO KUWAIT,
A MISGUIDED MAJORITY OF
LIBERAL SENATORS DECIDED
THAT WITH THE END OF THE
COLD WAR, AGGRESSION
WAS OVER AND AMERICA
COULD LIVE WITH A
SECOND—RATE DEFENSE.
THEY VOTED NOT SIMPLY TO
'CUT,' BUT TO RECKLESSLY
'GUT,' AMERICA'S DEFENSE.

0 MAYBE SADDAM DID US A
FAVOR BY JARRING THE
MEMORY OF THESE LIBERAL
SENATORS WITH THE TIME—
TESTED TRUTH THAT FREEDOM
AND SECURITY SHOULD NOT
BE TAKEN FOR GRANTED
AND ARE NEVER CHEAP.

0 I THINK WE HAVE LEARNED
THAT IT IS A LITTLE
PREMATURE TO BE SPENDING

A PEACE DIVIDEND WHEN
WE'RE DEPLOYING
THOUSANDS OF TROOPS TO
SAUDI ARABIA.

FLOOR QUESTIONS

0 IF TIME ALLOWS, YOU MAY
WANT TO TALK ABOUT SOME
OF THE ISSUES I HAVE
RAISED — OR OTHERS —
— AND I'D BE HAPPY TO
RESPOND TO YOUR

QUESTIONS.