OUTLINE OF REMARKS

NATIONAL AGRI-MARKETING ASSOCIATION

April 6, 1983--1:00 p.m.--Hyatt Regency

I. The Economy

A. Prognosis. We have to realistically assess the state of the economy and the prospects for the next few years. The fact is that the groundwork has been laid for a stable and lasting recovery, without renewed inflation. It is absolutely crucial that we proceed with care at this point, and not throw away the gains already made.

No one should doubt that we are making progress. In January the index of leading economic indicators jumped 3.6 percent--the biggest one-month rise since 1950, and the ninth increase in the last 10 months. In addition, the "concurrent indicators" of current economic performance rose .6 percent in January, showing we are in recovery.

1. Inflation was cut to 3.9 percent in 1982, from 12.4 percent in 1980. This is the lowest inflation rate since 1972. And the trend is continuing: consumer prices dropped 0.2 percent in February.

2. Interest rates are down and still falling. The prime rate is down to 10 1/2 percent, way down from the 21 percent that prevailed when President Reagan took office. Home mortgage rates are down 3 points since last year. Long-term rates for business loans are off 3 to 4 points from a year ago.

3. Government spending growth rate is down to 11.2 percent this year from 17.4 percent in 1980. The 1983 budget resolution projects the growth rate of government to fall to 7.5 percent by 1985.

4. Lower taxes with major improvements in tax equity will help buoy the recovery, both on the consumer side and on the investment side. The combined effect of the 1981 and 1982 tax bills has been to lower individual taxes over 3 years by $344 billion, as well as improve compliance and tax fairness. Lower individual rates boost personal income and restore incentive, while favorable capital cost recovery rules should spur investment.

5. In January, industrial production was up 0.9 percent; housing starts were up 36 percent; the stock market is up 300+ points over last August. These are tangible evidence of recovery.

B. Unemployment. The March drop in unemployment to 10.3 percent is continued good news, and the decline should continue, although there may be a few "blips" upward. Unemployment, of course, remains the major negative in the economic picture. High unemployment has to come down and stay down without inflationary stimulus--that is what we have failed to do in the past.

o Clearly there is a bipartisan consensus for more jobs. But resuming the inflationary policies of the past will not create lasting jobs, just an illusion of prosperity that leaves us worse off the next time we try to get "off the wagon."

o That means the most important thing we must do is judge carefully the degree of stimulus the economy can and should take, consistent with a firm anti-inflation policy. The Federal Reserve will play a key role, and has already shown a willingness to adjust its short-term goals based on an assessment of the weakness of the economy. We will not allow the recession to continue, but we will not reinflate the economy, either.

C. The Deficit and Interest Rates.

1. All our economic difficulties are, of course, related--high interest rates and slow growth boost the deficit, and higher deficits create greater uncertainty in the business community as to our future course; will there be more inflation, or less credit available for business expansion?

2. Because of this, it makes sense first of all to chart a path that is most likely to bring stable growth without inflation. Higher growth boosts revenues and cuts unemployment costs, thereby reducing the deficit as well: already, upward revisions of growth estimates are being made in light of the economic indicators.

3. In the short term, as the President urges, it makes sense to continue to review every part of the Federal budget in an effort to bring the deficit down. This means both defense and entitlements must be under scrutiny to maximize the efficiency of every dollar spent. A balanced deficit reduction program is still our goal: the Budget Committee will produce a budget resolution in the next few weeks.

4. Continued efforts to restrain the deficit by controlling Federal spending will give the Federal Reserve a bit more room to accommodate the potential for real growth that exists in the economy without inflationary pump-priming. But restraint in both fiscal and monetary policy is crucial if we want to maintain long-term confidence in the economic program. That means long-range goals must be carefully reconciled with efforts to respond to particular weaknesses in the economy. Radical attempts to reverse course would be self-defeating and must be resisted.

II. The Budget: The House and the President

A. We all know that developing a credible, deficit-reducing budget for 1984 and beyond is going to take a lot of hard work and give and take on all sides, Democrat and Republican, liberal and conservative. The President has made his proposal, and the House has adopted a radically different alternative. We are likely to end up with something in between, but we ought to consider for a moment who is closer to the mark in terms of the vital needs of our economy and in terms of natinal priorities.

B. House resolution. The House-passed budget resolution, engineered by the Democratic leadership, simply is not a credible plan for meeting our priorities and achieving sustained economic growth. The House recommends a $30 billion tax increase in FY 1984 alone. That is not only an unreasonable increase in the tax burden as we come out of a recession, it can only mean that House Democrats want to repeal the third year of the tax cut for the working people. Reneging on promises is no way to run the government, and that proposal must be rejected. Even the members of the House Ways and Means committee have expressed strong doubts that any more than $8 billion in revenue can or should be raised in 1984.

C. Defense spending. The President has recommended a 10 percent real increase in defense spending, and the House recommends a mere 4 percent increase. We all know that defense, like every area of the budget, will have to assume a fair share of the burden of deficit reduction. But surely we ought to take more seriously the President's concern about our national strength vis-a-vis the Soviet Union. We can and probably will have to modify the President's defense request, and the President will have to deal with both the Senate and the House leadership if we are to get agreement. We do have to get more out of each defense dollar spent. But the House-proposed increase is not wise, reasonable, or in the national interest.

D. Domestic spending. There is widespread agreement that we cannot let the burden of deficit reduction continue to fall on benefits for lower-income Americans. But that does not mean domestic spending is untouchable--it can and must be reduced, something the Democratic budget fails to acknowledge. The House resolution provides $25 billion more for nonmilitary spending than does the President's budget. $6 billion of that difference is in the health area: and certainly we have reached the point where we should acknowledge that Federal health program costs are not under control, and that changes to control costs are very much in order. The American people do want to share the cost of reducing the deficit in a fair way. But they do not want national security risked, or the tax burden on individuals raised to an unconscionable degree, just because some members of Congress do not want to reexamine programs that may have outlived their usefullness or have become grossly inefficient. Instead, let us work together, and with the President, to reach a bipartisan agreement like that worked out on social security.

III. The Budget: Tax Issues

A. There are lots of ways to raise revenue, but our job is to choose ways that are fair and consistent with good tax policy. We should resist the temptation to undo the progress that has been made in providing greater incentives for savings, work, and investment: those incentives will become more important as recovery proceeds. There are many base-broadening measures still to be considered that would improve the equity and efficiency of the tax code.

B. Indexing. The House budget assumes repeal of the tax indexing provision of the 1981 tax act, which takes effect in 1985. We all know that we have to compromise to get things done, but this is one area that we ought to leave alone if we are interested in sound tax policy and honesty in government. We can raise revenues--but why resort once again to back-door revenue increases generated by inflation? Tampering with indexing further risks sending a signal that we are prepared to reinflate the economy and generate revenues through bracket creep to deal with the deficit. That would mean undoing all the progress we have made over the past two years, and it would be a tremendous mistake.

C. Outyear tax increases. The President's budget recommends a contingency tax to raise $46 billion in FY 1986, consisting of a 5% surcharge and an oil tax, to be triggered if the deficit remains too high despite adoption of major spending cuts. It is not clear why we would need to use a "trigger" device to raise taxes based on deficit levels. It seems unlikely that a "trigger" mechanism would create the kind of reassurance on the deficit that the country is looking for.

If growth and revenues turn out better than now projected, we can always reduce taxes to the extent that becomes fiscally desirable. One possibility is to enact some additional base-broadening measures--improvements in equity and eliminating tax provisions that are economically inefficient--then provide for further rate reductions if the deficit is brought under control more rapidly than is now expected. This would maintain the momentum for a lower-rate, broader-based tax system that has been built over the last two years. It is also consistent with the administration's consideration of a streamlined and simplified tax structure with lower rates.

TALKING POINTS

NATIONAL AGRI-MARKETING ASSOCIATION

PIK PROGRAM: BENEFITS AND COSTS

- o Corn prices rose 50-60¢ per bu. anticipating large sign-up. Wheat is up about 20-25¢. Market strength is expected to last through harvest.
- o Tight credit has eased somewhat due to reduced demand and lower interest rates.
- o General sense of guarded optimism for the first time in years.
- o Cost of PIK won't be known until USDA plan for acquiring committed commodities is carried out. Estimates range from $9 to $12 billion.
- o Adding projected cost of $18 billion for regular farm programs, total outlays, loan forgiveness and inventory distribution could reach $30 billion in FY-83.

CRITICISM OF USDA COSTS

- o USDA Inspector General found $1.8 billion in questionable and improper loans during FY-79 by Farmers Home Administration.
- o "Grace Report" or President's Private Sector Survey on Cost Control found almost $48 billion in government savings over the next three years--much at USDA. $34.7 billion could be saved in unneeded personnel, high salaries and fringe benefits.
- o While reports may not be completely accurate, they undermine justification for other worthwhile programs.

FY-84 AGRICULTURE BUDGET

- o USDA Budget includes $800 to $900 million in dairy savings that won't be realized if the $1.00 per cwt. assessment is not collected.
- o USDA mounting major effort to freeze target prices at 1983 levels. Dole proposal to divert one-half of scheduled increases to create Export Revolving Fund could be included.
- o If Budget Committee doesn't address disparity, Agriculture Committee will have to reconcile differences.

EFFORTS TO INCREASE DOMESTIC DEMAND

o Incentive for alcohol fuels production by increasing exemption from gas tax to 5¢ per gallon. May need to be increased due to rise in corn prices.

o Continuing growth in fructose industry fostered by long-term sugar price support program in the 1981 Farm Bill.

o Jobs Bill included $50 million for processing and distribution of up to $500 million in surplus government commodities to food banks.

EXPORT INITIATIVES

o Administration blended credit program has resulted in over $1.0 billion in sales in FY-83. More may be needed.

o Egyptian wheat flour deal made clear the U.S. intention to press the export subsidy issue until the EEC is ready to negotiate.

o Senate Agriculture Committee Export Bill:

--Export PIK is a good idea, but its effectiveness may be impaired if all CCC-owned commodities are used up in meeting commitments under domestic PIK.

--Economic Support Fund: Foreign Relations Committee kept $112 million earmarked for farm exports, with one-half value-added.

--Problem areas: Mandated dairy sales, cargo preference and the possible amendment requiring loan repayment deferral and a moratorium on Farmers Home mortgage foreclosures.

--Cargo preference compromise: Have cargo preference apply to only the bonus component of an Export PIK transaction.

--Doubtful that Export Bill will come to the floor until the week of April 18 due to controversy over various provisions.

o Dole Export Agenda:

--Responsible reform of the Export Administration Act: Delete "foreign policy" as a justification for imposing trade restrictions.

--Create a $1.0 billion Export Revolving Fund.

--Negotiate a new and expanded Long-Term Agreement on agricultural trade with the Soviet Union.

SOVIET LTA

- Dole/Percy LTA Resolution (S. Res. 95) introduced March 21 now has 25 co-sponsors.. Expect to bring it to the floor next week.

- Resolution calls for immediate initiation of negotiations, encourages including higher minimum and maximum supply guarantees and processed products, and requests the President to report by April 30 on the economic benefits of a new LTA for U.S. agriculture and related processing and transportation industries.