REMARKS BY SENATOR BOB DOLE
NATIONAL COUNCIL OF FARMER COOPERATIVES
J.W. MARRIOTT HOTEL, WASHINGTON, D.C.
JUNE 12, 1984

THANK YOU VERY MUCH. IT IS A GREAT PLEASURE TO AGAIN ADDRESS THE NATIONAL COUNCIL OF FARMER COOPERATIVES BOARD OF DIRECTORS. WE HAVE HAD THE OPPORTUNITY TO WORK TOGETHER CLOSELY OVER THE YEARS ON VARIOUS ISSUES AFFECTING THE ECONOMIC ENVIRONMENT FOR AMERICA'S FARMERS AND RANCHERS. I HOPE WE CAN CONTINUE THESE EFFORTS THIS YEAR, AND IN THE IMPORTANT YEARS TO COME.

THE CURRENT DEFICIT EFFORT

AS MANY OF YOU ALREADY KNOW, THE CONGRESS HAS BEEN PREOCCUPIED WITH TRYING TO BRING DOWN FEDERAL DEFICITS OVER THE

NEXT THREE YEARS FOR ALMOST FIVE MONTHS -- EVER SINCE THE PRESIDENT CALLED FOR A DEFICIT REDUCTION PAGKAGE IN HIS STATE OF THE UNION MESSAGE IN JANUARY. THE HOUSE WAS ABLE TO QUICKLY PUT TOGETHER A PLAN TO CUT THE RED INK BY $187 BILLION OVER THREE YEARS, BUT IT INCLUDED A MAJOR ROLLBACK IN DEFENSE SPENDING THAI IS UNACCEPTABLE TO THE PRESIDENT. IT WOULD ALSO REPEAL THE INDEXING PROVISIONS OF THE 1981 TAX ACT, WHICH TAXES THE REVENUE INCENTIVE OUT OF INFLATION BY RAISING TAX BRACKETS AT THE SAME PACE AS INCREASES IN THE COST OF LIVING.

IN THE SENATE, WE TRIED TO OBTAIN SAVINGS OF ABOUT $4Ø TO $5Ø BILLION IN EACH OF THE THREE MAJOR AREAS -- REVENUE INCREASES,

REDUCED DOMESTIC SPENDING, AND A CUT IN THE DEFENSE BUDGET. WE FINALLY PUT TOGETHER A $144 BILLION PACKAGE, AND HAVE BEEN WORKING OUT OUR DIFFERENCES WITH THE HOUSE IN A JOINT CONFERENCE COMMITTEE SINCE LAST WEEK. AT THIS POINT, I BELIEVE IT'S SAFE TO SAY WE EXPECT TO COMPLETE A PACKAGE OF ABOUT $130-$140 BILLION, HOPEFULLY BY THE END OF THE MONTH.

MORE MUST BE DONE IN 1985

DESPITE THE RHETORIC ON DEFICITS BETWEEN NOW AND THE ELECTIONS IN NOVEMBER, IT IS CLEAR THAT MORE MUST BE DONE IN 1985. EVEN WITH $130-$140 BILLION IN REDUCED OUTLAYS OR INCREASED REVENUES IN THIS YEAR'S PACKAGE, WE ARE STILL LOOKING AT DEFICITS IN THE $180 TO $200 BILLION RANGE THROUGH FISCAL YEAR 1989. WITHOUT FURTHER DEFICIT REDUCTION, THE NATIONAL DEBT,

CURRENTLY UNDER A CEILING OF $1.56 TRILLION, WILL BE PUSHED UP TO ABOUT $2.5 TRILLION BY THE END OF THE DECADE. THE COST OF SERVICING THE NATIONAL DEBT, ALREADY THE FASTEST GROWING PART OF THE BUDGET AT AROUND $140 BILLION THIS YEAR, WOULD RISE TO SOME $240 OR $250 BILLION IN 1989.

INTEREST RATES AND THE FOREIGN DEBT PROBLEM

ON THE INTERNATIONAL LEVEL, HIGH INTEREST RATES HAVE HAD A CRUSHING EFFECT ON EFFORTS OF DEVELOPING COUNTRIES TO RESTORE ECONOMIC GROWTH. EVERY ONE PERCENTAGE POINT INCREASE IN THE U.S. PRIME RATE MEANS AN ADDITIONAL $7 TO $8 BILLION IN DEBT SERVICING PAYMENTS PER YEAR ON THE CURRENT WORLD DEBT OF ABOUT $800 BILLION.

LOOK AT THE IMMEDIATE IMPACT OF THE TWO ONE-HALF PERCENT INCREASES IN THE U.S. PRIME THIS SPRING. IN ARGENTINA, NEW NEGOTIATIONS BROUGHT THE U.S. IN TO UNDERWRITE A $300 MILLION LOAN BY FOUR SOUTH AMERICAN COUNTRIES TO STAVE OFF DEFAULT. NOW, THE ARGENTINE GOVERNMENT HAS DECIDED TO WITHDRAW FROM ITS NEGOTIATIONS WITH THE INTERNATIONAL MONETARY FUND, WITH UNCLEAR IMPLICATIONS FOR THE RECENT AGREEMENT. MEANWHILE, BOTH BOLIVIA AND ECUADOR HAVE BEEN ALLOWED TO DEFAULT ON THEIR RELATIVELY MINOR OBLIGATIONS, WHICH ARE BEING WRITTEN OFF BY THE BANKS.

THE CONTINUING INSTABILITY IN INTERNATIONAL DEBT FINANCING HAS BEGUN TO HAVE AN IMPACT HERE IN THE U.S. A MONTH AGO, WE SAW THE EIGHTH LARGEST U.S. BANK, CONTINENTAL ILLINOIS, ALMOST BECOME

INSOLVENT DUE TO INVESTOR FEARS ABOUT ITS FOREIGN LOAN PORTFOLIO. ONLY THE INTERVENTION OF THE FEDERAL DEPOSIT INSURANCE CORPORATION, BACKING UP SOME $3 BILLION IN NEW BORROWING AUTHORITY, PREVENTED A COLLAPSE. EVEN NOW, THE SITUATION IS NOT ENTIRELY STABLE, AND EFFORTS CONTINUE TO FIND A SUITABLE PARTNER TO GIVE CONTINENTAL ILLINOIS A BROADER BASE.

THESE FOREIGN AND DOMESTIC EVENTS DUE TO THE WORLD DEBT PROBLEM HAVE BECOME AN INCREASINGLY IMPORTANT FOCUS OF DISCUSSION. THE LONDON ECONOMIC SUMMIT JUST CONCLUDED ON SATURDAY MADE THE DEBT ISSUE ITS CENTERPIECE. A FOUR-POINT PLAN WAS APPROVED, BUILT AROUND THE IMF'S PROPOSAL TO REWARD NATIONS WHICH GET A HANDLE ON THEIR FINANCES BY RESCHEDULING THEIR DEBT

PAYMENTS OVER A LONGER PERIOD. I WOULD ADD THAT THERE WAS ALSO CONTINUED PRESSURE ON THE UNITED STATES TO DO MORE TO BRING DOWN OUR BUDGET DEFICITS AND REDUCE THEIR UPWARD PRESSURE ON INTEREST RATES.

U.S. TRADE DEFICIT

BEFORE TURNING TO THE OUTLOOK FOR THE U.S. FARM ECONOMY, I WOULD MENTION THE OTHER MAJOR DEFICIT WHICH HIGH INTEREST RATES ARE CONTRIBUTING TO -- OUR RECORD-HIGH INTERNATIONAL TRADE DEFICIT DUE IN PART TO THE HIGH U.S. DOLLAR MAKING OUR GOODS AND SERVICES MORE EXPENSIVE ABROAD, AND FOREIGN GOODS MORE OF A BARGAIN AT HOME, OUR TRADE GAP WIDENED LAST YEAR TO $64 BILLION. THIS YEAR, IT IS FAIRLY CERTAIN TO EXCEED $100 BILLION,

AND COULD REACH THE $120 BILLION MARK. REFLECTING THIS DOWNTREND, FARM SALES OVERSEAS HAVE FALLEN FROM $41 BILLION IN 1981 TO $32 BILLION IN 1983. A SLIGHT IMPROVEMENT IS EXPECTED IN 1984 DUE TO INCREASED EXPORTS. SO THERE ARE GOOD INTERNATIONAL REASONS FOR U.S. FARMERS AND RANCHERS, AS WELL AS FOREIGN COUNTRIES WITH SERIOUS DEBT PAYMENT PROBLEMS, TO CLOSELY FOLLOW EFFORTS TO EASE THE PRESSURE ON INTEREST RATES BY DEALING EFFECTIVELY WITH FEDERAL BUDGET DEFICITS.

FARM ECONOMY OUTLOOK FOR 1985

IN THE MEANTIME, FARMERS AND THEIR REPRESENTATIVES HAVE BEEN DEVOTING CONSIDERABLE ATTENTION TO PREPARING FOR THE 1985

FARM BILL. WHILE WE ARE STILL NINE MONTHS OR SO AWAY FROM THE ACTUAL DEBATE IN THE HOUSE AND SENATE AGRICULTURE COMMITTEES, IT IS ALREADY CLEAR THAT THE ECONOMIC ENVIRONMENT FOR THE LEGISLATION WILL BE UNDER A GREAT DEGREE OF STRESS.

SINCE 1980, THERE HAS BEEN A SIGNIFICANT RISE IN THE NUMBER OF FARM FORECLOSURES AND BANKRUPTCIES DUE TO FALLING LAND PRICES IN SOME AREAS AND TIGHTENING LOAN CRITERIA BY RURAL BANKERS. THE RECENT INCREASES IN THE PRIME INTEREST RATE HAVE PUSHED OPERATING LOANS INTO THE 14 TO 15 PERCENT RANGE, ALREADY TOO HIGH FOR MOST FARMERS TO SHOW A PROFIT. THROW IN THE OUTLOOK FOR ANOTHER WHOPPING WHEAT CROP -- LAST WEEK'S REPORT BY CONRAD LESLIE PUT 1984 WINTER WHEAT AT NEARLY 2.1 BILLION BUSHELS -- AND ITS HARD TO BE OPTIMISTIC ABOUT PRICES DURING THE NEXT YEAR.

POSSIBLE PROVISIONS IN 1985 FARM BILL

I BELIEVE THERE ARE IMPORTANT CHANGES WE NEED TO CONSIDER IN THE NEXT FARM BILL. I WOULD ONLY MENTION SOME IDEAS THAT ARE NOW KICKING AROUND: VARIABLE-BASE LOAN RATES, SOME DIVISION BETWEEN THE INCOME SUPPORT AND MARKET FUNCTIONS OF THE TARGET PRICE PROGRAM, A LONG-TERM CONSERVATION LAND RETIREMENT PROGRAM, AND SOMEHOW TARGETING PROGRAM BENEFITS TO SMALL FAMILY FARMERS WHO ARE MOST IN NEED.

EVEN WITH SUCH CHANGES, HOWEVER, IT IS BECOMING EVIDENT THAT THE PROSPERITY OF AGRICULTURE IS AFFECTED BY AND DEPENDENT ON MANY FACTORS THAT CANNOT BE LEGISLATED IN THE FARM BILL. I HAVE ALREADY MENTIONED THE DEFICITS, AND THEIR IMPACT ON INTEREST RATES. I WOULD STRONGLY ENCOURAGE YOUR ORGANIZATION TO PUT

DEFICIT REDUCTION AT THE TOP OF YOUR LIST FOR 1985 LEGISLATION. IN FACT, THE COUNCIL MAY WANT TO TAKE SOME LEADERSHIP IN ORGANIZING A COALITION OF FARM GROUPS TO SUPPORT DEFICIT REDUCTION NEXT YEAR.

AGRICULTURAL TRADE POLICY

FINALLY, I WOULD ALSO MENTION THE NEED TO LOOK AT OUR NATIONAL AGRICULTURAL TRADE POLICY AND THE INTERNATIONAL ENVIRONMENT IN WHICH IT EXISTS. WE HAVE HEARD MANY TIMES ABOUT HOW THE HIGH DOLLAR IS CUTTING INTO OUR FOREIGN SALES, AND THERE MAY BE LITTLE WE CAN DO TO BRING IT DOWN OTHER THAN TRYING TO BRING DOWN DEFICITS AND INTEREST RATES. BUT THERE ARE A NUMBER

OF OTHER FACTORS WHICH ARE BRINGING THE EFFECTIVENESS OF U.S. FARM TRADE POLICY INTO QUESTION, AND WHICH SHOULD BE ADDRESSED.

I WOULD JUST MENTION A FEW OF THESE FACTORS -- THE NEED TO RESPOND IN A CONSISTENT WAY TO FOREIGN COMPETITION, THE NEED TO INTEGRATE U.S. FOOD ASSISTANCE PROGRAMS WITH COMMERCIAL EXPORTS, THE NEED TO INCLUDE FOREIGN DEVELOPMENT NEEDS WITHIN OUR MARKET DEVELOPMENT PLANNING, AND THE NEED TO MAKE THE CURRENT INTERNATIONAL TRADING RULES UNDER THE GENERAL AGREEMENT ON TARIFFS AND TRADE MORE EFFECTIVE AND WORKABLE. THE U.S. AND JAPAN EXPRESSED AN INTEREST AT THE LONDON SUMMIT IN BEGINNING A NEW ROUND OF GATT NEGOTIATIONS AS EARLY AS 1986. EUROPEAN COUNTRIES, HOWEVER, ARE BEING MORE CAUTIOUS. HAVING PARTICIPATED IN THE GATT MINISTERIAL IN NOVEMBER 1982 IN GENEVA, I WOULD ONLY EMPHASIZE THE NEED TO ASSURE THAT PROGRESS WILL BE MADE BEFORE A NEW ROUND OF TALKS BEGINS. AND AFTER WITNESSING THE INABILITY

OF THE CURRENT GATT PROVISIONS AFFECTING SUBSIDIES ON AGRICULTURAL PRODUCTS TO CONTROL FOREIGN BEHAVIOR, I WOULD HOPE U.S. NEGOTIATORS WILL STRESS THE IMPORTANCE OF REFORM IN THIS AREA IN ANY NEW ROUND OF TALKS.

NATIONAL AG TRADE COMMISSION

ANOTHER INITIATIVE THAT MAY HAVE SOME MERIT IF IT CAN GET OFF THE GROUND IS CREATION OF A NATIONAL COMMISSION ON AGRICULTURAL TRADE AND EXPORT POLICY. I KNOW THAT THE COUNCIL AND SOME OF ITS MEMBERS ARE PARTICULARLY INTERESTED IN THIS PROJECT, AND STAFF OF THE SENATE AND HOUSE AGRICULTURE COMMITTEES HAVE BEEN MEETING WITH VARIOUS PRIVATE SECTOR GROUPS TO TRY AND WORK OUT AN

ACCEPTABLE BILL OR RESOLUTION. HOWEVER, WE DON'T HAVE MUCH TIME BEFORE THE JUNE 29 RECESS, AND WE WILL REALLY NEED THE SUPPORT OF THE ENTIRE AGRICULTURE COMMUNITY IF WE ARE GOING TO GET A COMMISSION IN PLACE THIS YEAR.

P.L. 480

FINALLY, I WOULD JUST MENTION THAT PREPARATIONS ARE UNDERWAY TO COMMEMORATE THE 30TH ANNIVERSARY OF THE FOOD FOR PEACE PROGRAM ON JULY 10, AND I KNOW THE COUNCIL IS ACTIVE IN THIS ENDEAVOR AS WELL. THE P.L. 480 PROGRAM HAS BEEN THE FOCUS OF A NUMBER OF POSITIVE STUDIES LATELY, ALTHOUGH IT REMAINS UNDER SOME CRITICISM DUE TO USE OF THE PROGRAM FOR POLITICAL OR FOREIGN POLICY REASONS.

I WOULD ONLY SAY THAT, WITH SO MANY COMPLEX DECISIONS FACING AGRICULTURE IN THE NEXT YEAR, AND WITH SO MUCH AT STAKE, IT MAY BE THAT A STRAIGHTFORWARD EFFORT TO INCREASE FUNDING FOR P.L. 480 OVER A MULTI-YEAR PERIOD COULD HAVE A PROFOUND, YET SIMPLIFYING EFFECT ON BOTH OUR DOMESTIC AND INTERNATIONAL AGRICULTURAL ENVIRONMENT. AND IF ANY OF THE VARIOUS STUDIES SHOWING A POSITIVE COST-BENEFIT CONTRIBUTION BY INCREASING THE FOOD FOR PEACE BUDGET ARE CORRECT, THERE MAY BE SOME JUSTIFICATION FOR LOOKING AT AN EXPANDED PROGRAM.

AGAIN, I APPRECIATE THE INVITATION TO BE HERE TODAY, AND LOOK FORWARD TO THE RESULTS OF THE COUNCIL'S DELIBERATIONS.

REMARKS OF SENATOR DOLE

NATIONAL COUNCIL OF FARMER COOPERATIVES

Tuesday, June 12, 1984--9:00 a.m.--Mayflower Hotel

Why worry about the deficit--What does it mean to the average American?

- If nothing is done to reduce deficit spending over the next five years, the total Federal debt will nearly double to over $10,000 for every man, woman and child in America.
- At this level, by 1989 it will take one-half of all Americans' personal income tax payments just to pay the Federal Government's interest bill.
- By 1989 the annual Federal interest cost will amount to $250 billion--about $1,100 for every American.
- That $1,100 per person interest cost is equal to 40% of each person's annual expenditure for food.
- Virtually all economists agree that the sustained enormous deficits that we are facing will be economically harmful.
- Many Americans will find home-buying more difficult with higher deficits. Consider a family purchasing a home at today's current interest rate, averaging about 12-1/2%, with a $55,000 mortgage. If the deficits push interest rates up, total interest costs over the 30 year term will be $15,500 more--and there are signs of that, with the prime rate up to 12-1/2--for each one percentage point increase.
- All Americans will directly feel the results of high deficits if they lose jobs as a result of a business slowdown resulting from a crowding out of private investment, or if they lose jobs to imported products made more competitive because of an abnormally strong dollar or if they end up paying higher prices because inflation is rekindled.

What is the Federal deficit likely to be?

- The estimates of future Federal deficits are quite sensitive to one's economic assumptions. Yet even under the most optimistic of economic assumptions, the deficit will remain at historically high $200 billion levels over the foreseeable future, unless drastic action is taken.

- Assuming an extremely strong recovery (4% real growth of GNP) is sustained over the next few years and all of the Administration's proposed spending cuts and revenue proposals are enacted, the deficits are still projected to be:

FY 1985	FY 1986	FY 1987	FY 1988
$180 billion	$177 billion	$180 billion	$152 billion

- If economic growth is not so strong (3% real GNP growth) and interest rates are slightly higher (9% T-bill rate), and Administration's spending cuts are not enacted, the projected deficits would be:

FY 1985	FY 1986	FY 1987	FY 1988
$202.6 billion	$236.7 billion	$270 billion	$290.1 billion

- If we have an economic downturn during this period, we may be facing $300 plus billion deficits.

Why should we act this year on the deficit

- If we fail to begin dealing with the deficit now, the problem will become worse. Current projections showing deficits holding in the range of $200 billion probably are optimistic, as they are based upon assumption of steady economic growth through 1989. However, postwar experience suggests that the average recovery lasts only 3 years, making a recession in 1985 or 1986 very possible.

- If we postpone any action until 1985 and we do suffer another recession, the deficits would then hit the $300-$400 billion range. At that point, it may be difficult to cut the deficit without further weakening the economy. Our choices would become very difficult indeed.

- Of course, failure to reduce the deficit in 1984 makes a recession likely to come sooner, as interest rates are forced up by private credit demands clashing with Treasury borrowing needs.

- By postponing action of the deficit, we increase the risk of recession. The average increase in the unemployment rate during a postwar recession is about three points, or three million jobs. By acting to reduce the deficit, we can significantly lower the risk that three million workers will lose their jobs in 1985 and 1986.

- Rising interest rates will depress auto sales, housing starts, and capital goods orders. It is widely recognized that sustained economic recovery will be impossible unless these key sectors are healthy.

- Alternatively, the Fed could offset the deficits' impact on interest rates by "monetizing" the debt, leading to a resurgence of inflation in 1985. If we do nothing, we will force the Fed to choose between high interest rates and recession, or inflation.

- Failure to reduce the deficits in 1984 may also depress the stock market: some of that has already occurred. A key factor in determining equity and bond prices is investors' confidence that Congress and the Administration can produce a sound fiscal policy. If we send the signal that the deficit problem is secondary to politics, equity and bond prices may fall.

- The exploding cost of servicing the Federal debt will make controlling spending more difficult each year, unless the deficits are reduced soon. Each year that we add $200 billion in new Federal debt adds about $15 billion to the next year's interest costs.

- The economy is now on a path where more and more of its resources go just to pay off the debt. According to economist Lawrence Summers, "It's a case where the miracle of compounding (interest) works against you."

- In 1976 net interest accounted for just 7% of total outlays But if we do nothing, by 1988 the total Federal debt will be more than half of total GNP, and the net interest cost of servicing this debt will reach 14% of all spending. Each year that we do nothing, the share of Federal spending that we can control gets smaller.

- Recent studies indicate that current and prospective budget deficits may have helped to overvalue the American dollar. If the deficits are not reduced, the problem of overvaluation could become worse, weakening the competitive position of American exports and costing the U.S. jobs in such industries as steel, electronics, and agriculture.

Deficit downpayment in 1984

- The President took the lead to begin a deficit-reduction effort in 1984 by calling for bipartisan negotiations on a package to reduce the deficit by $100 billion over 3 years. Then he worked with congressional Republicans to outline a $150 billion package including defense savings ($40 billion), nondefense cut ($43 billion), revenue increases ($48 billion), and debt service savings ($18 billion). As the President suggested, we are working with a variety of modest spending reductions, and tax reforms that raise revenue, to enact a significant deficit "downpayment" in 1984.

- Even though election-year politics makes it difficult to launch the kind of major assault on the deficit that we really need, that is no reason to do nothing. Making a noticeable dent in the deficit will make our job easier in the years ahead. Even more importantly, it will demonstrate that we can face up to the deficit problem even in an election year.

- The Senate has adopted the President's plan, including the Finance Committee's proposals on spending and revenue options that achieve about $7 billion of the "downpayment" goal. To do that we drew on a number of proposals that have been on the table for some time, including some that were already in the legislative "pipeline":

  -Items included in the FY 1984 reconciliation bill, S. 2062

  -Treasury-endorsed proposals on tax shelters and other abuses

  -Administration -proposed spending cuts that were not followed through on last year

  -Administrative savings and other proposals made by the Grace Commission

  -Additional proposals considered in the Finance Committee last fall

  -Grace Commission recommendations ($3.1 billion in the Finance package)

- Feasibility. We have made progress by following the President's suggestion and concentrating on relatively non-contentious items, avoiding things like the third-year tax cut and indexing, mean-tested entitlements, social security, and the like. Our effort must be bipartisan and balanced to do the job: Democrats and Republicans alike will benefit by cooperating to take swift action on the deficit.

- Time of the essence. The House has pased a deficit plan that makes deeper cuts in defense spending, and we are now coferring on the differences. Unless we finish action soon, election year politics may make it difficult to get this job done.

Recovery--What progress have we made

Strength of recovery

- A strong recovery is on track and appears to be moderating to a pace that can be sustained in the years ahead. As an indication, look at the expansion of real gross national product. It grew by 9.7% in the second quarter of 1983, 7.9% in the third quarter, and an estimated 4.5% in the fourth quarter. By this measure, the recovery is the strongest since 1961. And the economy grew at 8.8% in the first quarter of 1984.

- Housing starts are running at a rate of about 1.96% million units a year, and jumped 19% in February.

- Industrial output in 1983 rose 6.5%, and factory utilization is now up to 81.9%--the highest level in two years, and close to the normal capacity of 82%.

- The Commerce Department's survey of business plans for 1984 show that business plans to increase capital investment by 16%--this is higher than that seen at comparable points in previous postwar recoveries. And the 12% increase expected this year is the highest in 18 years.

Inflation

- The best news about this recovery is that it is noninflationary. In 1983 the producer price index rose just 0.6%--the lowest increase since 1964. The CPI for 1983 was 3.8%, the lowest since 1972. Continued moderation in producer prices indicates low inflation will continue.

Creating Jobs

- People are going back to work, and the pace of job creation has been unusually high for a postwar recovery. On January 6 the Labor Department announced the civilian unemployment rate dropped from 8.4% last November to 7.5% in May. Overall, this means unemployment has dropped 3.2 percentage points over the past year.

- The continued strength of the recovery shows that recent growth in employment has not just been a statistical fluke, but shows a real turnaround in the labor market. Unemployment fell 230,000 in December, and there have been 5.5 million jobs created in the last year.

- What is more, the growth in jobs is broad-based. While manufacturing industries showed the most dramatic gains, all industries other than government and agriculture showed dramatic drops in unemployment.

1984 OUTLOOK FOR INTERNATIONAL TRADE IN THE SENATE

Talking Points

Export Administration Act

- The Senate has been considering legislation to reauthorize the Export Administration Act.
- The Senate bill is likely to contain provisions protecting the sanctity of export contracts and encouraging exports while tightening national security exports controls.
- The Finance Committee has voted to delete the import control authority now contained in the bill based on a general reluctance to us trade as a political weapon. Some difficult issues on national security controls will have to be resolved in conference with the House.

Generalized System of Preferences (GSP)

- The current GSP program, which permits duty-free entry to goods exported from developing countries, will expire in January 1985. S. 1718 is the Administration's proposal to renew it.
- The Administration supports the program as a way of helping poor countries to develop.
- Organized labor will seek substantial reductions in GSP benefits, including total exclusion of the advanced developing countries from the program.
- The current exemption for most textiles and apparel products will doubtless be retained.
- The Subcommittee on International Trade held its second, and last, hearing on S. 1718 on January 27. No markup is scheduled at this time.

Reciprocity-H.R. 3398 (the miscellaneous tariff bill)

- The Danforth-Bentsen bill has gone to the Senate for the third time as part of the miscellaneous tariff bill package, but the Senate failed to act on that package before the recess.
- We expect the Senate will act on the bill containing reciprocity early in 1984 and have some hope of prompt House action on reciprocity.
- Senator Baker has asked Senator Byrd to clear H.R. 3398 for Senate consideration.

Israeli Free-Trade Area

- The Administration has proposed that a reciprocal duty-free arrangement be established with Israel. I will sponsor this for the President.
- A hearing was held on this on February 6.
- Because our overwhelming trade advantage with Israel is threatened by a free-trade agreement between Israel and the E.C., this proposal is very important to U.S. trade interests.

DISC

- I have introduced a bill, S. 1804, which reflects the Administration's proposal to replace DISC with an entity which will be compatible with GATT rules.
- The new entity, called the Foreign Sales Corporation, will exempt a portion of the income generated by significant sales functions performed outside the U.S.
- We are reviewing the revenue effect of this proposal before proceeding to markup.

Trade Reorganization

- A trade reorganization bill, S. 121, has been reported out of the Government Affairs Committee, and the Finance Committee will have hearings on this issue in February.
- In view of House opposition to trade reorganization, the Administration's proposal does not appear to be going anywhere.
- "Industrial Policy" amendments contained in the Senate trade reorganization bill will complicate Senate action on the bill.

Trade Law Reform-S. 2139

- There are a variety of proposals to reform our trade laws, streamlining the antidumping and countervailing duty procedures and responding to industrial targeting and so-called "upstream" subsidies.
- We are likely to consider these issues in the Finance Committee once the House has had an opportunity to review and refine them.

- While important, trade law reform is very controversial in its specific aspects. It is too early to predict its prospects.

<u>Domestic Content Bill</u>

- I would anticipate an effort to pass domestic content legislation in the Senate in 1984.
- Although the bill passed the House, I anticipate substantial opposition to the bill in the Senate.
- I regard the bill as a dangerous and counterproductive idea which could inflict considerable damage on American exporters while providing transitory benefits to the auto industry and its workers.

<u>Trade Deficit</u>

- The U.S. merchandise trade deficit exceeded $60 billion last year and will be larger next year.
- This deficit is caused in major part by the over-valued dollar which in turn is a reaction to the high interest rates caused by the federal budget deficit.
- We are looking at ways of reducing the federal deficit, but we are considering calling hearings in the Finance Committee to see what else might be done to reduce this growing trade deficit.

<u>LDC Debt</u>

- The huge debts accumulated by less developed countries, particularly Mexico, Brazil and Argentina, is a major cloud hanging over the international trading system.
- These debtor countries have promoted exports and slashed imports in an effort to earn the foreign exchange needed to pay their debts.
- While most of the attention has been focused on the dangers of default, I believe we must also be concerned about the effects of LDC debts on our balance of trade.