REMARKS OF SENATOR DOLE

FERTILIZER INSTITUTE

Thursday, September 27, 1984--6:00 p.m.--Washington--Hyatt Regency

Our Economic Progress

- Our spectacular recovery remains on track and appears to be moderating to a pace that can be sustained in the years ahead. Real GNP grew 6.1% in 1983, and continued at a 10.1% rate in the first quarter of 1984, and 7.5% in the second quarter. This is the strongest recovery since 1961.

- With national unemployment down to 7.5%, this recovery has created 6.4 million jobs. Factories are operating at the highest capacity levels in 4 years, close to 82%. And the investment needed to sustain future growth is being made: businesses plan to increase spending on plant and equipment by 14.8% this year, the biggest increase in 18 years.

- The best news about this recovery is that inflation is staying low. Producer prices in 1983 showed that smallest increase since 1984. The 1983 CPI increase was just 3.8%, and consumer prices indicate we can sustain strong growth with low inflation. Consumer price increases are running at around 4%.

- Growth, lower inflation, and major tax relief have translated into real income gains for all Americans. Real personal income has risen by $116 billion since the low point of the recession (August 1982). For the first time since 1978, real income is growing.

- All the trends in the economy look good. Most observers believe the recent drop in the economic indicators just show a moderating pace of recovery. Meanwhile the prime rate--which rose from 6.5% to 21.5% under Carter-Mondale--stands at 13%. The misery index, which peaked at 24.5% in March of 1980, is around 11%. Auto sales and housing starts are up.

The Deficit Problem and Sustaining Recovery

- Just about everyone agrees that the deficit remains the number one obstacle to sustaining the strong recovery we have enjoyed to date. If we don't cut the deficit Federal debt will nearly double over the next five years to over $10,000 for every man, women, and child in America.

- By 1989 it would take half of all individual income tax payments just to pay the interest on the debt; the interest cost would be $250 billion, or about $1,100 for every American.

- Record deficits cannot be sustained, and they have very real costs. They drive up the cost of home mortgages, they threaten to rekindle inflation or crowd out private investment and lead to a new recession. And they hurt our businessman trying to compete overseas by keeping the dollar high, thus raising the price of goods we try to export.

- We have made a good start on the deficit problem with this year's Deficit Reduction Act. The President took the lead by calling for bipartisan negotiations on a down-payment deficit package. The so-called Rose Garden plan that emerged helped us pass the Deficit Reduction Act, which makes real spending cuts of $13 billion and raises about $50 billion in revenue, largely by reforms to close off tax shelters, plug loopholes, and defer some tax breaks scheduled to come on stream.

- The immediate goal now is to fulfill the entire Rose Garden plan--aimed at saving over $140 billion over three years--by keeping the appropriations bill in line with that budget blueprint. That will ensure that the primary emphasis in deficit reduction remains on spending restraint, where it belongs.

Mondale Deficit Plan

- The Mondale plan to cut the deficit just is not credible and not very specific on the spending side. Where President Reagan puts spending reduction and economic growth first in the deficit battle, Walter Mondale reaches right for the tax increase option as a first resort. By tampering with tax indexing, the Mondale plan would hit between 30% and 40% of taxpayers: those with income over $25,000. The Mondale surtaxes and rate changes for upper incomes are just more of the same kind of backward fiddling with the tax structure that has made our tax code so inefficient. By contrast, with his rate cuts and tax indexing, President Reagan set us on the path toward a lower-rate, broader-based and fairer tax system. Mondale would set tax policy back at least four years.

- On spending, the Mondale plan has very little that is real. $51 billion is saved from hoped-for interest savings, and while $54 billion in spending cuts are proposed, so are $30 billion in new spending. That means $24 billion in real spending cuts by 1989, mostly unspecified (like 'management initiatives'). Of the claimed $176 billion in deficit reduction in this plan, $153 billion comes from tax hikes, interest savings, and economic growth assumptions.

Major Tax Reform

- There is still a lot of interest in major reforms to make tha tax system simpler, fairer, and economically more efficient. The Treasury Department will report its options in December, and the Finance Committee is holding four days of hearings to hear from the public about possible alternatives.

- Everyone wants to improve the tax code, but it is important to build a consensus for any far-reaching changes, or else the new system begins to unravel again right away. So it may not be possible to jump into a new system in one step: we may have to proceed gradually, indentifying areas of agreement as we go along.

- We need to know how people really feel about the trade-offs they would face under a lower-rate, broader-base, or modified 'flat' tax. Would they really give up their favorite deductions and credits in return for lower rates? Or do they really care most about the bottom line--the size of their tax payment?

- We may be able to agree on some basic principles of tax reform, set a goal, and take initial steps toward that goal. That is why we are examining in some detail the more popular flat or 'quasi-flat' proposals, plus consumption taxes and the like. The important thing is to be sure that we are making an improvement: otherwise it is not worth the effort.

FERTILIZER INSTITUTE

Talking Points On Superfund

- The House has passed H.R. 5640, which would extend Superfund for 5 years and raise $10.1 billion in revenue that period to fund the program. The revenue comes from an expansion of the existing taxes on chemical feedstocks and petroleum, plus continued appropriations from general revenues (one-quarter of the amount would come from general revenues). Rates on petroleum and feedstocks would be hiked substantially: the crude oil tax would be increased about tenfold. Also, additional items would be added to the list of taxable substances.

- The Senate Environment Committee has reported its own bill S. 2892. That bill provides for spending up to $7.5 billion over 5 years, principally for hazardous waste site cleanup.

- The Finance Committee held hearings on Superfund on September 19 and 21 and there is a lot of interest. We need to focus on how big a fund is needed, and can be usefully spent over the next 5 years just on cleaning up waste sites. We also need to know what impact the large tax hikes in the House bill might have on certain industries (metals and chemicals) and whether the rationale behid the feedstock tax--that we should tax the generation of the "building blocks" that may go into the production of hazardous wastes--is sensible enough that it should be expanded so dramatically.

- Everyone is in favor of extending Superfund, and of finding the revenues needed to fund cleanup of waste sites. But we want to raise those revenues in the right way, in a fair way, and not just single out particular industries out of proportion to their contribution to the problem. There is no perfect answer, but we believe we can do a better job than the House did.

- Since Superfund does not expire until next year, this job could be postponed until we get more and better answers to these questions. Obviously there is a lot of interest in renewing Superfund now, and getting it out of the way. My view is that we ought to be sure we know what we are doing, and I am talking with all the interested parties to see whether it is feasible, and good policy, to finish the bill this session.

- The House bill continues the fertilizer exemption from the feedstock tax essentially as it stands under present law, and I know of no opposition to doing the same on the Senate side. I know there is also interest in exempting substances used in animal feed, particularly phosphoric acid, which is made taxable under the House bill. You can be sure we will give close attention to this issue on the Finance Committee.

Also: You may get a question about the Gibbons trade remedies bill as it pertains to Mexican ammonia (which could be subject to countervailing duties at a much higher level under the bill). Attached are Len's talking points on the bill.

The Fertilizer Institute is evenly divided on the bill, so they have not taken a formal position.

ARGUMENTS AGAINST ENACTMENT OF H.R. 4784

The Administration urges you to oppose H.R. 4784, the Trade Remedies Reform Act of 1984 (the Gibbons bill). This bill does contain some provisions acceptable to the Administration, and we welcome the amendment dropping the provision defining targeting practices as a subsidy. However, that does not alter our opposition. As passed by the House the bill is unacceptable. The principal sections the Administration opposes are outlined below.

Natural Resources: Section 105(a)(1) would expand the definition of "subsidy" to include natural resources sold by a foreign government to all users within the foreign country at a price below the price at which the resource is exported. Countervailing duties would be added to products exported to the U.S. that incorporate this natural resource. The Administration opposes this provision because:

-- It represents a major departure from longstanding U.S. and international practice on what is a subsidy;

-- All governments, including the U.S., have programs which reduce the cost to all companies (e.g., irrigation projects and electrification programs). These would become subsidies under this bill.

-- If other countries enacted mirror legislation, US exports could be seriously affected. (In 1980 the EC successfully stopped its synthetic fibers made from controlled natural gas).

-- If the provision was found to violate the GATT rules on subsidies, as we believe it would, foreign countries could retaliate against U.S. exports.

Upstream Dumping: Section 105(b) would impose an antidumping duty on any product exported to the U.S. which contained a part or component sold to the exporter at a lower price than charged in the component-maker's home market. The Administration opposes this provision because:

-- It violates Article VI of the GATT, which defines dumping as a sale at less than fair value of the "like product" (i.e., the exported product, not its components or parts by themselves).

-- Chairman Gibbons admitted the provision violated the GATT at a Committee markup, but could not get the votes to drop it.

-- It is unfair to innocent purchasers; the remedy is not imposed against the "dumper," but against his customer, who may well not know the part was dumped.

-- It would be unadministrable, introducing additional complexity into investigation that already are difficult to complete within the strict statutory deadlines.

Import Monitoring: Section 104(a)(2) would require that where an antidumping order was issued against a product from one country, imports of that product from other countries could be subject to monitoring where there was no evidence that dumping was occurring.

The Administration objects to this provision because:

-- Since the monitoring would occur only where there was no evidence of dumping, the likely chilling effect on trade would be completely unjustified. (Where dumping is likely, an investigation would be initiated).

-- Investigating resources would have to be diverted from active investigations of dumping to carry out the monitoring.

-- If there is a problem, it is best remedied by changes to strengthen findings by the International Trade Commission based on threat of injury. The Administration supports such changes.