REMARKS OF SENATOR DOLE

MINNESOTA AGRI-GROWTH COUNCIL'S ANNUAL MEETING

Monday, October 22, 1984--7:15 p.m.
Bloomington, Minnesota

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 7.4%, 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%, and producer prices have declined in each of the last two months.

- 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 12 1/2%. 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 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 future appropriations 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.

● Contrary to the uninformed assertions of the Mondale campaign, the Reagan Administration is not planning to propose a national sales tax or a so-called Value Added Tax. Treasury Secretary Don Regan has said repeatedly that those are among the least-favored tax options. Besides, do not forget that the President wants tax reform--not tax increases, which he continues to oppose.

Tax Reform, Tax Indexing, and Mondale

- Walter Mondale has consistently opposed tax indexing and advocated either repeal, deferral, or drastic cutbacks in this major tax reform that helps working people most of all. In the October 7 debate he said he would repeal indexing as soon as he could--notwithstanding disclaimers to the contrary, that is consistent with everything he has ever said or done on this subject.

- In his so-called deficit reduction plan Mondale promised--or rather threatened--that he would raise taxes on everyone making over $25,000 by indexing only for inflation in excess of 4 percent. That change alone, just one part of a massive tax increase scheme, would increase taxes on some 30 million taxpayers. But even more important, it ignores that principle that lies behind tax indexing: ending the injustice of automatic, unlegislated tax increases caused by inflation, and making Congress fully accountable for its tax decisions.

- A growing bipartisan group in Congress wants to see major tax reform in the interest of fairness and economic efficiency. Tampering with indexing would reverse course and set back the tax reform movement, because indexing puts the pressure on to broaden the tax base, keep rates low, and weed out unjust tax shelters and preferences. Lowering rates is one reason we have had so much success in enacting base-broadening, loophole-closing measures in the last 3 years.

- Repeal or deferral of indexing means a massive tax increase that would hit low- and moderate-income working people the hardest. Repeal would increase taxes by $136 billion over the next five years: 78 percent of the increase would fall on taxpayers earning under $50,000 a year. Only 1.2 percent of the increase would come from those earning $200,000 a year or more. Here is the <u>real</u> fairness issue.

- Without indexing, taxpayers earning less than $10,000 would face a 9.5 percent increase in their taxes in 1985. For a family of four earning $10,000, repeal or deferral of indexing would result in a tax increase of $655 between 1985 and 1989, a staggering 39.6 percent increase.

- For a median income family of four, the tax increase between 1985 and 1989 would be $1,863, a 10 percent increase.

- The real point is that Walter Mondale does not trust the American people; he puts the Government first, and sees nothing wrong in giving the Government an inflation revenue bonus while unwary taxpayers foot the bill. President Reagan embraces tax indexing because he has faith in the people and believes in fair, honest government.

Estate tax benefits for farmers

Special use valuation. Under section 2032A of the Internal Revenue Code, family farms get special estate tax relief by virtue of the farm property being specially valued for estate tax purposes. Normally property is valued at fair market based on highest and best use: but farm property that meets the conditions for special use valuation can be valued based on current use, rather than fair market. The reduction in value available under this provision cannot exceed $750,000.

The conditions for qualifying for special use valuation include demonstrating use of the property in farming, with such property representing at least 50 percent of the estate, and material participation by the family in the farming operation.

Installment payment of estate tax. Under section 6166 of the Internal Revenue Code, extended payment of estate tax (rather than within 9 months of death) is allowed where 35 percent or more of the estate is an interest in a closely-held business, such as a family farm. Payment under this provision may extended in installments over 14 years, and the interest due on the first $1 million in closely held business value is limited to 4 percent.

General estate tax (unified credit/marital deduction). The increased unified credit and unlimited marital deduction passed in 1981 provide substantial benefit to farmers. By 1987 the first $600,000 in the estate will be able to pass free of tax (the amount increase each year between now and then). This is a major benefit to family farms.

In addition, the unlimited marital deduction is a boon to those who want to leave a family farm to their spouse. It provides that no tax is due on property left to the spouse, although tax would be due on later transfers.

TALKING POINTS - 1985 FARM BILL

* GENERAL - Recent comments have suggested that agriculture is at a "crossroads" point or a "watershed time" and that the 1985 farm bill will affect agriculture into the 21st century. Historically, agriculture has had the persistent problem of oversupply and resulting low prices and low farmer incomes. Ag policy has generally evolved slowly.

* BACKGROUND - In 1985, policy makers will be sensitive to recent high costs of commodity programs which saw CCC net expenses rise from $4 billion in 1981 to $19 billion in 1983. With PIK, costs were about $30 billion. This raises the question of whether farm programs are really effective given the financial problems of farmers.

* ECONOMY - The most important new agenda item concerns macroeconomic policy. With two of every five bushels exported, U.S. agriculture is dependent on world trade. A strong dollar and high interest rates have limited our competitive position and money problems, particularly in the Third World, have reduced the buying power of our importers.

  Agricultural groups need to be more involved in the federal deficit issue since large deficits increase interest rates, production costs and reduce domestic and foreign demand.

* FLEXIBILITY - Although some have called for a "long-term program," it would be more appropriate to have a "long-term policy." The key issue appears to be whether the U.S. will return to a more market oriented approach and avoid rigid price escalators that have no basis in supply and demand and a changing economic environment.

* DISCUSSION TOPICS

  1) Indexing price supports to recent multi-year market price averages. This could remove the floor under foreign producers and would prevent their government from making long-range production and marketing plans at our expense.

  2) Eliminate or cap the Farmer-Owned Reserve (FOR). When U.S. farmers produce for the FOR and not the market, production becomes locked into the FOR and depresses market prices for years to come. Other countries benefit as the U.S. bears the costs of leveling out the grain markets and reducing risks of foreigners. This allows them to increase their production.

3) The export trade area is a major concern of the Minnesota Agri-Growth Council. The 1985 farm bill will give Congress an opportunity to develop a formalized agricultural trade policy consistent with domestic policy. The newly signed National Commission on Agricultural Trade and Export Policy is scheduled to issue an interim report by March of 1985 with a final report due in July of 1986. The Commission will make recommendations on how to improve our export programs and make them more consistent and competitive in the world marketplace. Hopefully this type of initiative will lead to higher commodity prices as farmers increase demand for their products.

4) The U.S. will want to evaluate the possible use of export subsidies on a targeted basis to prevent loss of foreign markets to unfair price-cutting practices of foreign competition. We would not want an across-the-board trade war.

5) The U.S. should prepare for a new round of GATT negotiations whenever our trading partners indicate a willingness to address the ambiguities surrounding agricultural trade. Clarification is needed on the meaning of the subsidies code and ways to limit non-tariff trade barriers.

6) May want to significantly expand the PL-480 program. PL-480 removes surplus commodities from the market while helping countries graduate from aid to trade.

7) Review credit programs to other countries for developing export markets. Further credit is not the answer in itself. The key is to develop economic growth in other countries while avoiding loan defaults.

8) In addition to the sodbuster bill, there will be momentum to establish a conservation reserve to pay (cash or PIK) farmers to remove land from production on a long-term basis. It would have to be administratively flexible to keep costs low.

9) The Administration's new credit package is a recognition of the credit needs of some farmers. Although not a bailout, it will provide targeted assistance to eligible farmers to improve their cash flow position. Main provisions are: a) FmHA will defer for 5 years up to 25 percent of the farmer's total debt to FmHA or $100,000, whichever is less; b) FmHA will guarantee loans up to 90 percent on loans which lenders agree to write down by at least 10 percent; c) financial planning assistance and loan processing assistance.

TRADE AND AGRICULTURE
TALKING POINTS

- Congressional passage of the Trade and Tariff Act of 1984 (TTA) represents a victory for the American agricultural community.

- The TTA includes a renewal of the Generalized System of Preferences for 8 1/2 years, thus permitting the underdeveloped world to continue generating the foreign reserve with which to purchase U.S. agricultural exports.

- The Senate conferees refused to include in the TTA a change in the trade laws known as the natural resources provision which would have increased the cost of fertilizer to U.S. farmers and invited retaliation against U.S. farm exports.

- Earlier this year, through the leadership of the Administration and the cooperation of the Finance Committee, we enacted the Foreign Sales Corporation to replace Domestic International Sales Corporations and specifically provided that this export incentive be available to agricultural cooperatives as well as other exporters of farm products.

- The Finance Committee has held hearings on, and continues to follow closely, the European Communities' agricultural policies, particularly proposals to restrict U.S. corn glutten exports. We regard such proposals as another reflection on the bankruptcy of the EC common agriculture policy.

- Reducing the exchange rate of the dollar is probably the greatest contribution we could make in helping U.S. farm exports, and there seems to be a concensus that reducing the federal budget deficit would lead to bringing down the value of the dollar.

- Reduction of budget deficits has been a top priority for the Finance Committee and we will continue to wage this struggle next year.

- Although the Export Administration did not win renewal this year, we must insure next year's efforts to renew the Act recognizing the need to protect the U.S. reputation as a reliable supplier of agricultural exports by preventing the use of these exports as a foreign policy tool.

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