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KANSAS

United States Senate
OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

May 15, 1985

TO: Senator Dole

FROM: George Pieler

SUBJECT: Talk to the Farm and Industrial Equipment Institute

You are scheduled to speak to them between 12 noon and 2 tomorrow afternoon (Thursday) in SD-106. Main interest is in the deficit and ag.

Attached are a current version of your budget background, current talking points from John on agriculture, and talking points on the relation between the deficit and ag problems.

Attachments

FARM AND INDUSTRIAL EQUIPMENT INSTITUTE

Agriculture Talking Points

Note: The President of the Farm and Industrial Equipment Institute is Emmitt Barker, who is also Chairman of the National Endowment for Soil and Water Conservation.

o Farm equipment manufacturers and dealer franchises have felt the brunt of the depressed conditions in the farm economy.

International Harvester sold its farm implement division to J.I. Case. John Deere and others have laid off workers and/or closed plants.

o There are no quick fix solutions for U.S. agricultural problems.

--Deficit reduction should cut interest rates by one percent or more. Each percent reduction saves farmers $2 billion in interest outlays on $215 billion farm debt.

--Need to make U.S. exports competitive in world markets:

1) The Administration's "Export Enhancement Program" will use $2 billion in surplus CCC commodities over three years to bridge the gap between U.S. and competitor prices.

2) Congress must complement the Administration's export initiative by adjusting price supports in the 1985 farm bill to allow U.S. prices to reach competitive levels.

o Outlook for 1985 farm legislation is favorable.

--Deficit reduction package included only $17 billion in cuts in ag-related programs -- 6% of the $295 billion total.

1) Price support cuts total $5.5 billion, compared to original Administration request of $16 billion.

2) All farm bills introduced in the Senate, except Boschwitz/ Boren, meet the new baseline levels in FY-86/88.

--General consensus is that price and income support levels will be scaled back over four years. The question is on how quickly the loan rates can be reduced, and how costly the resulting gap between the loans and the target prices will be.

Deficit and Agriculture

• Reducing the deficit is the most decisive step we could take towards restoring stability in the agricultural sector: meaning not just farmers, but the innumerable businesses and enterprises--suppliers of farm equipment, distributors, manufacturers of fertilizer, etc., as well as financial institutions.

• Agriculture will benefit from deficit reduction in two critical ways. First, lower interest rates will reduce the crushing debt burden that is squeezing the farm community today. Second, stablizing our fiscal situation and guaranteeing moderate, sustained growth will improve our export position as the value of the dollar moderates.

• In addition, deficit reduction greatly decreases the threat of renewed inflation. The inflationary spiral of the '70's is the reason agricultural got into such difficulty in the first place, as land values skyrocketed and too many people in farming--and in banking--gambled on continued inflation. The situation just was not sustainable, and there is plenty of blame to go around: including blame to the government, which did not show a lot of foresight either.

• As everyone knows, farmers benefit more than anyone from a stable economy. Their greatest enemy is a volatile economy, with demand and prices swinging high and low each year--that makes it impossible to plan for production in a realistic way. If we want to reduce the risks for farmers, we need to reduce the deficit and restore some semblance of stability and consistency to our economy.

FINAL SENATE BUDGET

PROGRAMS TERMINATED (13)

- o Trade adjustment assistance to firms
- o Conrail (Sale)
- o Appalachian Development Program
- o Economic Development Administration
- o UDAG
- o General Revenue Sharing
- o Export-Import Bank Direct Loans
- o Community Services Block Grant after 1986
- o WIN
- o HODAG
- o Section 312 Rehabilitation Loans
- o U.S. Travel and Tourism Program
- o Direct Treasury Payment for most of Postal Subsidy Program

MAJOR ADJUSTMENTS TO ORIGINAL WHITE HOUSE/LEADERSHIP (WH/L) PLAN (DOLE PACKAGE)

- o Medicare/Medicaid: reduces 3-year savings from $20.1 billion to $17.5 billion
  - No cap on state medicaid reimbursement
  - No Part B premium increase in 1986. Phased up to 30% over next five years vs. 35% in WH/L plan.
- o AMTRAK: 12%/25%/40% cut instead of termination
- o SBA: $2.5 billion 3 year savings compromise instead of total termination of lending programs ($5.0 billion savings)

- o <u>Mass Transit Operating Subsidy:</u> 20% cut instead of 5-year phase out

- o <u>Impact Aid Part B:</u> Freeze at 1984 level ($78 million) instead of termination

- o <u>Postal Subsidies:</u> Small newspapers and non-profits retain subsidized rates. Substantive legislation to limit program abuses, improve overhead allocations and spread part of subsidy cost over all regular rate users.

- o <u>Agricultural Programs:</u> $3.5 billion added back to WH/L plan plus following programs:

  - o New export incentive program using CCC stocks to counter foreign subsidies

  - o New farm credit interest rate buy-down program

  - o $1 billion per year add on for farm credit guarantees

  - o No change in Federal crop insurance

  - o Soil and water conservation cut reduced from 30% to 15%

  - o Compromise on REA

- o <u>Job Corps:</u> 30% cut instead of termination

- o <u>Student Aid:</u> Freeze on student assistance at 1985 level and $200 million savings in GSL programs. No $8,000 cap on cost of education (Stafford compromise)

- o <u>NIH Grants:</u> 6,000 new research grants per year vs. 5500 in WH/L

Why the Deficit Matters

- Sustained deficits in the $200 billion+ range are a direct threat of the economy, because they will lead to either higher inflation or stagnation with rising unemployment. Cutting the deficit is the key to creating lasting jobs and restoring our position in international trade.

- The worst risk is that endless deficits will compound themselves: each year that we add $200 billion in new Federal debt adds about $15 billion to the next year's interest costs. The exploding cost of servicing the debt makes controlling spending that much more difficult.

- Endless deficits means higher interest rates--make it more difficult for people to own a home, borrow for their children's education, and plan for the future.

White House-Senate Budget Plan

- This is a very tough, very serious budget--no one understimates the difficulty of getting it passed. But it also is a balanced, reasonable package that calls on everyone--and every sector with a stake in the Federal budget--to give a little, to do with less Federal largesse than they would otherwise get.

- To demonstrate how serious this budget is: 13 programs would be eliminated. Defense would be held to an inflation increase in 1986 and to a 3% increase in each of the following two years: much less than the President wanted. And permanent savings would be achieved in all inflation-adjusted, non-means tested entitlement programs by freezing the COLA for the next year.

- In addition, to help lower-income Americans, SSI recipients would get both a full COLA and a $10 per individual/$15 per couple increase.

- All Federal pay, civilian and military, would be frozen for one year.

- The plan meets our goal of reducing the deficit to 2% of GNP by 1988, with reductions totalling about $295 billion over three years.

- This program goes beyond a freeze simply because a freeze is not enough to do the job. A freeze would not address the problem of long-term growth in spending and deficits, which is the key to eliminating fears about the stability of our recovery. In addition, a freeze just postpones making the policy decisions--in terms of priorities among spending program--that have to be made if we are serious about the deficit problem.

- Over the past three years deficits have totalled $606 billion: an average of 5.7% of GNP. That is just not sustainable if we want to continue a strong economic recovery.

- If we do nothing, the situation gets much worse, even under optimistic projections: $716 billion in additional deficits over the next three years.

- Under the compromise Deficit Reduction Plan, Federal borrowing as a percent of private savings would decline from an estimated 78% this year to 30% by 1988. That will dramatically reduce pressure on credit markets due to Treasury borrowing--free available capital for private investment and job creation--reduce interest rates, and help our trade position.

- Even with this budget plan, we will still be spending an enormous amount to meet the basic needs of our citizens. Nondefense spending still will increase each year, from $520 billion in 1984 to $583 billion in 1988. Similarly, combined Medicare and Social Security spending will continue to rise--from $232 billion in 1984 and $293 billion in 1988: nearly 7 times the amount that wao spent on those programs in 1970.

- Means-tested safety net programs are kept intact and will continue to grow as scheduled under present law. By 1988, safety net spending will still exceed the 1980 level by 72%.

- Agricultural programs will undergo major reforms, but by 1988 we will still be spending between $13 billion and $15 billion a year--much higher than any year before 1980. And don't forget that over the past three years we spent a record $53 billion on farm programs, while largely doing the agricultural economy more harm than good.