

"NATIONAL CORN GROWERS"

DECATUR, ILLINOIS

THURSDAY, FEBRUARY 3, 1983

I. The President and the New Congress

A. In his State of the Union message, President Reagan made clear that he and the 98th Congress must work together to deal with an active agenda. That means action on the deficit, on unemployment, on social security, and attention to the shifting patterns of industry and job creation in our economy. At the same time we have to realize there will be major areas where we will not agree. No one is going to compromise away the gains won towards restraining the growth of spending, controlling the tax burden, and beating back inflation. The American people still overwhelmingly support those goals.

B. The President, the House leadership, and the Senate leadership will have to work together to forge a consensus on major decisions if we are to get the job done. On some issues we simply cannot afford to have a legislative stalemate: social security is one of these, and the President and the Speaker have shown a statesmanlike regard for the public interest in supporting the bipartisan social security package.

C. The President still sets the agenda. On taxes, spending, deficits, employment, and trade the President proposes, and Congress must dispose. Those of us who have ideas of our own will work with the White House to get things done--but leadership still must come from the President. That is why we are unlikely to see any major departure from the principles of government Ronald Reagan has espoused in his first two years in office.

D. There is no coherent alternative to Republican leadership. The people still recognize that our economic problems were a long time in the making, and that the cure will take time too. According to CBS/New York Times voter exit polls in the last election, voters by a 5 to 4 margin blamed our economic problems on past Democratic policies rather than on President Reagan.

II. 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.

1. Inflation was cut to 3.9 percent in 1982, from 12.4 percent in 1980. This is the lowest inflation rate since 1972.



2. Interest rates are down and still falling. The prime rate is down to 11 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. Already a significant result of the tax changes has been to boost the savings rate to about 7 percent: additional savings we need to build the capital pool to finance recovery.

B. The Unemployment Problem. Unemployment, of course, is the major negative in the economic picture, and it may continue to rise in the near term. High unemployment costs the Government in lost revenue and lost production, and it has to come down. But it 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 reflate the economy, either.

o While the main emphasis must remain on the long-term goals of growth with low inflation, there are steps we can take in the short term to deal with the plight of the unemployed. Many things have already been done:

- a new Federal supplemental unemployment compensation program was passed with the 1982 tax bill, providing additional unemployment benefits to about 2 million workers in 38 States. The President will propose extending this by 6 months beyond March 31, 1983.



- The President signed into law the new Job Training Partnership Act, which emphasizes training for permanent employment rather than make-work jobs. New initiatives outlined by the President will focus on the long-term unemployed, youth, and on training or relocating displaced workers who lost jobs due to plant closures or force reductions.

- The targeted jobs tax credit, which was extended for 2 years by the 1982 tax bill, gives employers a real incentive to hire the disadvantaged--about 600,000 workers are certified under the program.

- The enterprise zone legislation reported last fall by the Finance Committee can provide us with an experiment in private-sector job creation in depressed areas, through a combination of Federal tax incentives and State and local efforts to target an area for development with regulatory and tax relief, neighborhood participation, and capital and other improvements.

- The 5¢ per gallon gas tax increase can create over 300,000 jobs by funding much needed repairs and construction of the Federal highway system.

#### 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.

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. Freezing discretionary programs in real terms may help ensure a broad-based reduction effort.

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.

### III. Social Security

A. Bipartisan cooperation continues to be the key to resolving the social security financing crisis. The National Commission developed a bipartisan package that deserves support. It is not perfect, and everyone had to swallow hard on some items: that is the cost of reaching agreement.

B. The work of the Commission made clear that it is a crisis in social security that we are confronting. The Commission agreed that \$150-\$200 billion is needed between 1983 and 1989 to ensure the solvency of the system through 1990. This means providing about a 15 percent reserve ratio by 1990 under the pessimistic--some would say realistic--assumptions. This is still a reserve level lower than at any point in history, and does not take into account the medicare program, which will have serious reserve problems by 1990 if nothing is done.

C. The real job is, and always has been, up to Congress. The bipartisan package, including a 6-month delay in cost-of-living adjustments, partial acceleration of scheduled payroll tax increases, coverage of new Federal workers and non-profit organizations, and partial taxation of benefits for higher-income beneficiaries, will be before Congress right away. The Finance Committee has scheduled hearings for February 15.

D. Long-term changes are also needed, of course, and the work of the commission has helped give us valuable guidance. We cannot forget that the payroll tax burden is already heavy and scheduled to increase, and the confidence of young people is critically low. The long-term deficit can be reduced considerably by very gradually slowing the growth of benefits as people come on to the rolls in the future. Another route is to raise the retirement age, again very gradually, for people retiring some 20 or 30 years from now. In either case ample time would be available for people to adjust their savings and retirement decisions.

#### E. Major Features of the Package

##### 1. COLA Delay

Even with the 6-month delay of the cost-of-living increase, benefits for 1984 for the average retired couple will be about \$330 higher than their benefits for 1983, assuming an inflation rate of 4 percent.

## 2. Taxation of Benefits Above Threshold

Many low and moderate income retired taxpayers are already taxed on their pensions, dividends, interest, and other income. Basic fairness requires that individuals with substantial amounts of other income should at least treat some of their social security benefits as income subject to income tax. One-half is an appropriate amount and should not cause undue hardship.

Taxation of benefits above the threshold should only affect about 11 percent of all social security beneficiaries, so the great majority of social security recipients will not be affected by this change.

## 3. Payroll Tax Acceleration

The acceleration of the payroll tax increase will only increase payroll tax revenues by \$9 billion between now and 1988. Half of this amount--the employee portion--will be offset by an income tax credit. The other half--the employer portion--will be deductible on the employer's income tax return. The net effect will only be to take about \$3 billion out of the economy--an insignificant factor in a 3 trillion dollar economy.

By removing the enormous amount of misinformation and uncertainty which has scared the elderly people of the country, the bill will improve confidence, both among the elderly and in the financial markets. These should have significant positive economic effects.

## F. \* Benefits vs. taxes

- o Of the \$169 billion financing package, one can view the largest component as being on the benefit side through slowing the rate of future benefit growth and partial taxation of benefits for the highest-income beneficiaries.
  - o Benefit slowdown and recapture \$70 billion - 41%
    - COLA adjustments (\$40 billion)
    - Recapture of benefits through tax systems (\$30 billion)
  - o Expansion of coverage and repayment of military service obligation \$41 billion - 24%
    - Coverage of Federal and nonprofit employees (\$23 billion)



	Military service debt	(\$18 billion)
o	<u>Tax speedup and restructuring of self-employment tax</u>	\$58 billion - 34%
	Tax speed up	(\$40 billion)
	Self-employment restructuring	<u>(\$18 billion)</u>
		\$169 total
o	Even though one-third (\$58 billion) of the package is comprised of payroll tax changes, the real impact on the economy will be less because of the tax credit to employees, the deductibility of employer payroll taxes and the tax deduction provided for the self-employed will reduce the total tax burden by about \$18.5 billion. Thus the real additional payroll tax burden will be slightly below \$40 billion over the period 1983-1990.	

#### IV. Revenue Sharing/Federalism/IDBs

A. General revenue sharing, which provides \$4.6 billion per year in fiscal assistance to localities each year, expires at the end of September. The President has indicated that he will ask for a continuation of revenue sharing consolidated with the entitlement portion of the Community Development Block Grant program.

B. Issues for Congress will be the funding level for such a consolidated block grant; whether a two- or three-year, or longer, extension of revenue sharing is appropriate; and what the long-term future of the program may be in connection with any revenue-turnback scheme the administration may propose. But clearly there is strong support in both the administration and Congress for continuing general-purpose assistance to localities and increasing the discretion recipient governments have over the use of Federal funds. There may be interest in boosting revenue-sharing funds to get money out promptly to localities for job-creation.

C. IDBs. In the 1982 tax equity bill Congress made significant changes in the use of tax-exempt industrial development bonds, including a sunset of the small-issue exemption after 1986. There are no indications the administration will propose additional restrictions on IDBs. This is an area the tax-writing committees seem unlikely to get involved with again this year--provided the common-sense restrictions agreed to last year, such as the sunset, the anti-



double dip rule with ACRS, the requirement for greater input from State and local governments, are preserved intact. If efforts are made to roll back the 1982 changes, then all bets may be off with regard to the future of IDBs.

D. Federalism. Revenue sharing renewal will be proposed by the Reagan administration as part of a new Federalism package involving creation of four new block grants. Congress will certainly give close attention to any legislative proposals to increase the ability of local governments to decide how to best utilize grant funds, and hopefully a realistic Federalism package could see legislative action this year. Removing the question of where to administer major income security programs from the Federalism agenda should make it much easier to reach agreement.

#### V. Taxes and the Budget

A. If we need additional revenues in the out-years, it has to be done consistent with the goal of reducing the deficits as recovery proceeds: a goal that everyone agrees is essential.

B. 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; and there are a number of ways in which you could fashion a temporary add-on tax without undermining a commitment to lower tax rates and a broader-based, fairer tax system.

C. Indexing. There seems to be a growing clamor for 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, and we may have to--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 reflate 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.

D. Outyear tax increases. It is not clear why we would need to use a "trigger" device to raise taxes based on deficit levels: if we estimate that the revenues will be needed, we can agree that any tax increase we provide for will be temporary, whether it be a surtax or a package of miscellaneous changes. 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.

#### E. Tax Issues of Continuing Concern

A number of issues that have been around for some time ought to receive attention from the 98th Congress.

1. 6-month holding period. Efforts to reduce the capital gains holding period to 6 months will continue. There is very strong support for this change, because it can give a boost to capital markets at a time when greater savings and investment is vitally important to sustained economic recovery. This change was approved by the House in 1981 and by the Senate on three separate occasions in 1982, so it is time to get it enacted into law.

2. Education and/or Housing Savings Account. An idea that has been around for several years and may receive attention in the new Congress is to use an IRA-type arrangement to encourage savings for college education or advanced vocational training. Contributions to an account set up for this purpose would be tax-free subject to limits on the use of the funds for the stated purpose. In the area of education of one's children, in particular, the President has a strong interest in this initiative. It could provide support for education with a free-market approach, which has a lot of appeal.

3. Fringe Benefits. The moratorium on IRS fringe benefit regulations expires on December 31, 1983, having been extended to that date by ERTA. This issue has been with us since 1978, when the moratorium was first imposed, and it may be time to deal with it. The Congressional Budget Office estimates that about \$500 million could be generated by taxing so-called "nonstatutory" fringe benefits provided to employees--e.g., free airline travel, recreational facilities, etc. While theoretically taxable, these benefits raise difficult issues of valuation and allocation to individual employees. Still, fringe benefits are "compensation" and, to prevent erosion of the revenue base, something may have to be done.

4. Life Insurance Taxation. The temporary life insurance company taxation provisions of TEFRA expire at the end



of 1983. The Finance Committee and Joint Committee staffs, as well as GAO, are looking at permanent changes in the taxation of the life insurance and casualty insurance industries. If the temporary rules were simply extended, a substantial revenue loss would result, probably in excess of \$1 billion per year.

5. Mortgage Subsidy Bonds. In 1980 Congress legislated restrictions on the use of tax-exempt mortgage revenue bonds. Under the terms of that 1980 compromise, the authority to issue tax-exempt mortgage revenue bonds terminates on December 31, 1983. There will probably be some interest in extending mortgage revenue bonds in some form beyond that date: Senator Durenberger already has indicated such an interest.

#### G. Possible Administration Tax Initiatives

A number of initiatives were not acted on in the 97th Congress, and the administration may be expected to make similar proposals in the 98th.

1. Tuition Tax Credits. Although the Finance Committee fashioned a compromise tuition tax credit proposal last year after extensive consideration, the bill received no further action last year. But the Committee's efforts could form the basis for legislation in the 98th Congress.

2. Caribbean Basin Initiative. The administration's proposal to provide trade and certain tax incentives for economic development in the Caribbean Basin made substantial progress in the 97th Congress, but still awaits final action. This is likely to be a priority item for the administration.

3. Enterprise Zones. The Finance Committee reported out a modified version of the administration's enterprise zone proposal in September, but no further action was taken. The proposal is likely to come up again in connection with discussion of job-creation and economic development proposals, and possibly could be acted on with further refinements. A major question is whether the House will take an interest in the idea, which they did not in the 97th Congress.

4. DISC. While no specific DISC proposal was made in the 97th Congress, the issue was extensively discussed--particularly the question of legality under the GATT. The search is clearly on for an alternative way to encourage exports, and the administration is likely to be active.

#### VI. Trade

A. Trade deficit is too large. The size of our trade deficit (which is now projected at \$75 billion in merchandise trade and \$40 billion in current account) alone means Congress



will continue to look hard for ways to reform our trade policy. The system of multilateral arrangements has been called into serious question as many believe it fails to meet our needs. Many voters and members of Congress will want to see us approach more of our trade problems on a bilateral basis. The average American simply does not understand why Japanese cars and TV's sell well here but American cigarettes, beef, baseball bats, and cosmetics cannot be sold in Japan. Remedies for this type of situation are certain to be a major focus of attention in the new Congress.

B. Export issues. Unfortunately, the GATT ministerial failed to make progress on the question of foreign subsidies for agricultural exports. There will be continue if pressure from Congress to resolve this situation through negotiation or for other export promotion actions like the recent wheat flour sale to Egypt. I will be introducing legislation which will facilitate such activities in the future. This does not mean trade war, but does mean seeking to expand East-West trade, developing a viable substitute for DISC, utilizing Ex-Im Bank resources more adeptly, and moving the trade reciprocity bill that the Finance Committee approved in 1982. Fair access to markets must be a two-way street, and Congress will be under considerable pressure to see that that is so.

C. Import issues. As you know the House passed "local content" legislation at the end of the last Congress. That is a drastic proposal and likely to be counterproductive in the long run if our goal is to increase access to markets and to gain maximum benefit from the mutual advantages of international trade. There may be other areas, however, where we might make adjustments: in considering extension of the Generalized System of Preferences, there may be an interest on the part of some members of the Finance Committee to restrict the program, particularly in light of the failure of the GATT ministers to agree on a new round of negotiations between developed and developing countries concerning tariffs. Similarly, there may be some objection to the trade provisions of the CBI proposal, and it may be difficult to extend the President's authority to negotiate tariff reductions on a limited basis. In addition, I believe it would be advisable for the Japanese to continue to voluntarily restrain their automobile imports to this market until the domestic industry has had an adequate time to get back on its feet.

D. Clearly the heat is on when it comes to seeing that American producers get fair treatment under our system of international trade. If we choose our battles carefully to secure an appropriate response from our trading partners, we have an opportunity to making trade freer and fairer, to the advantage of everyone. But we must avoid the two extremes of allowing the world to think only the U.S. will play by the rules of free



trade, regardless of disadvantage to our citizens; or, on the other hand, taking extreme unilateral actions that may look good politically but that, in the long run, will provoke severe reaction and deprive us of market opportunities. We need just the right amount of leverage to open more doors, not have them slammed in our face.

#### VII. Conclusion

The months and years ahead must not be dominated by rigid ideologies on either side--but neither can the President or the Republican leadership be expected to cast aside the principles of Government the American people so soundly endorsed in 1980. Those principles--a more restrained Government, a freer economy, greater accountability to the American people--are as valid today as they ever were, and there is no indication that the people have changed their commitment to these same principles. Guided by these principles, we will try to work together to build on the sound foundation for recovery that has already been laid.



REMARKS OF SENATOR BOB DOLE  
5TH ANNUAL ILLINOIS CORN-SOY CONFERENCE  
DECATUR, ILLINOIS  
FEBRUARY 3, 1983

THANK YOU VERY MUCH, JACK, FOR THOSE KIND WORDS OF INTRODUCTION. AND I WANT TO THANK DAIN FRIEND OF THE ILLINOIS CORN GROWERS AND JERRY GATES OF THE LAND OF LINCOLN SOYBEAN ASSOCIATION FOR INVITING ME THIS EVENING. I CAME FROM WASHINGTON, D.C. - A CITY THAT DOESN'T ALWAYS DISPLAY MUCH SENSITIVITY TOWARD THE AMERICAN FARMER, BUT ONE THAT SUDDENLY HAS A VERY INTENSE INTEREST IN HOGS. IF YOU WATCHED THE SUPER BOWL YOU KNOW THAT I MEAN.

VICTIMS OF SUCCESS

WASHINGTON HAS GONE CRAZY OVER THE REDSKINS, AND SOME OF YOU MAY SEEM A LITTLE CRAZY TO OTHERS BY TRYING TO EARN A LIVING FARMING. GOVERNMENT IS RESPONSIBLE FOR SOME OF THAT SENSE OF FRUSTRATION. GOVERNMENT CAN BE A HINDRANCE AS WELL AS A HELP. WASHINGTON D.C. PLANTS AS MANY SEEDS OF DOUBT AS HOPE - AND I NEEDN'T REMIND YOU THAT THERE'S RARELY ANY SHORTAGE OF THE STUFF THAT MAKES PLANTS GROW. YET THE



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FARMER HAS ACHIEVED MIRACLES OF PRODUCTIVITY. IRONICALLY, THE AMERICAN FARMER MAY BE A VICTIM OF HIS OWN SUCCESS. THAT'S AN OLD SAYING THAT HOLDS THAT NOTHING SUCCEEDS LIKE EXCESS. HERE IN THE MIDWEST, EXCESSIVE PRODUCTION HAS SUCCEEDED IN SOME WAYS. SURELY, IT'S BEEN RESPONSIBLE FOR AN ENHANCED STANDARD OF LIVING FOR MOST AMERICANS, NOT TO MENTION TENS OF MILLIONS IN OTHER LANDS DEPENDENT ON U.S. FARM PRODUCTS. BUT WHAT ABOUT THE STANDARD OF LIVING OF THE AVERAGE FARMER? IT IS THIS QUESTION WE CONFRONT. HOW WE ANSWER IT WILL DETERMINE THE FUTURE OF FARMING AS A WAY OF LIFE.

#### SIGNS OF ECONOMIC RECOVERY

OF COURSE, THE AGRICULTURAL ECONOMY DOES NOT EXIST WITHIN A VACUUM. IT IS PART AND PARCEL OF A LARGER ECONOMY, AND ITS RECOVERY IS VITAL TO EFFORTS TO OVERCOME THE RECESSION AND HIGH INTEREST RATES. FORTUNATELY, SIGNS OF ECONOMIC RECOVERY ARE ALL AROUND US, ALTHOUGH THEY ARE STILL FRAGILE AND REQUIRE CAREFUL TENDING TO REACH MATURITY. BOTH INFLATION AND INTEREST RATES ARE DOWN SHARPLY. THE



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GROWTH RATE AT WHICH UNCLE SAM SPENDS MONEY HAS BEEN BROUGHT DOWN BY A THIRD SINCE 1980. THANKS TO THE TAX CUTS AND SUBSEQUENT REFORMS ENACTED LAST YEAR, AMERICANS WILL TAKE HOME AN EXTRA \$344 BILLION BETWEEN NOW AND 1985. THEY'LL HAVE A TAX SYSTEM THAT'S FAIRER AS WELL AS LESS BURDENSOME. THEY'LL BE ABLE TO PASS ON THEIR ESTATES TO THEIR HEIRS -- NOT THE GOVERNMENT. AND THEY'LL BE ABLE TO COUNT ON A VASTLY ENLARGED POOL OF CAPITAL TO FINANCE NOT ONLY SHORT-TERM RECOVERY, BUT LONG-RANGE AND SUSTAINED PROSPERITY.

IN HIS STATE OF THE UNION ADDRESS, PRESIDENT REAGAN MADE CLEAR HIS INTENTION TO WORK WITH THE 98TH CONGRESS. THE PRESIDENT STILL SETS THE AGENDA. HE PROPOSES; WE DISPOSE. AND NO ONE HAS YET DEFINED A COHERENT ALTERNATIVE TO THE LEADERSHIP OF RONALD REAGAN OR HIS ALLIES ON CAPITAL HILL. NOT TIP O'NEILL, NOT ROBERT BYRD, AND NOT THE HERD OF DEMOCRATIC PRESIDENTIAL CONTENDERS.

WE MUST REMAIN COMMITTED TO THE PRAGMATIC: IF A JOB NEEDS TO BE DONE, DO IT; IF PROBLEMS ARISE, FIND WAYS TO SOLVE THEM. NO



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IDEOLOGICAL BLINDERS SHOULD PREVENT US FROM SEEING OPPORTUNITIES WHERE OTHERS SEE ONLY OBSTACLES.

FACTS ARE FACTS. AND THE FACT IS THAT THE ECONOMIC PROBLEMS WE CONFRONT TODAY HAVE THEIR ROOTS IN MANY YESTERDAYS. A WHOLE NEW CLIMATE HAD TO BE CREATED, ONE CONDUCIVE TO SAVING AND INVESTMENT, TO HARD WORK AND REWARDS TO MATCH.

#### FIGHTING UNEMPLOYMENT

NOW NO ONE IS CLAIMING WE HAVE REACHED A MILLENIUM. ALTHOUGH THE GROUNDWORK FOR A STABLE, LASTING RECOVERY HAS BEEN LAID, TWELVE MILLION OF OUR PEOPLE ARE WITHOUT JOBS AND MILLIONS MORE ARE UNDEREMPLOYED. THE CHALLENGE WE FACE IS HOW TO BRING DOWN THE UNEMPLOYMENT RATE WITHOUT POURING GAS ON THE FIRES OF INFLATION. THEY'VE COOLED, BUT THE EMBERS ARE STILL HOT TO THE TOUCH. FOR NOW, WE CAN PROVIDE THE UNEMPLOYED WITH ADDITIONAL BENEFITS. WE CAN TARGET OUR JOBS TRAINING PROGRAMS AT YOUNG PEOPLE AND THE LONG-TERM UNEMPLOYED. WE CAN PROVIDE TAX CREDITS TO EMPLOYERS WHO HIRE THE ECONOMICALLY



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DISADVANTAGED. WE CAN PASS THE PRESIDENT'S ENTERPRISE ZONE LEGISLATION, FORGING A PARTNERSHIP BETWEEN THE PUBLIC AND PRIVATE SECTORS TO RESTORE JOB OPPORTUNITIES TO DEPRESSED RURAL AS WELL AS URBAN COMMUNITIES. WE CAN COUNT ON THE NEW GASOLINE TAX - A TAX FROM WHICH FARMERS ARE LARGELY EXEMPT - TO CREATE 300,000 PRODUCTIVE PRIVATE SECTOR JOBS AT THE SAME TIME WE GET ON WITH THE OVERDUE WORK OF REPAIRING A CRUMBLING FEDERAL HIGHWAY SYSTEM.

#### FIGHTING DEFICITS

OF COURSE, THE GREATEST SINGLE STEP THAT CONGRESS AND THE PRESIDENT TOGETHER COULD TAKE TO PROMOTE A SUSTAINED RECOVERY WOULD BE TO ATTACK THE DEFICIT PROBLEM HEAD-ON. A LOT OF PEOPLE IN WASHINGTON THESE DAYS ARE SPENDING A LOT OF TIME DEBATING WHAT PORTION OF THE DEFICIT IS STRUCTURAL AND WHAT PORTION IS DUE TO THE RECESSION. I'LL LET THEM ARGUE SUCH POINTS. I PREFER TO GET THE DEFICIT DOWN, PERIOD. LOWER THE DEFICIT AND WE CAN SET THE STAGE FOR STILL MORE REDUCTIONS IN INTEREST RATES. LOWER THE DEFICIT AND YOU MAKE IT

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EASIER FOR FARMERS AND SMALL BUSINESSMEN ALIKE.

BUT HOW TO LOWER THE DEFICIT? LET ME SUGGEST A FEW WAYS.

FIRST OFF, YOU SCRUTINIZE EVERY FEDERAL PROGRAM, DEFENSE AS WELL AS ENTITLEMENT PROGRAMS. IF WE CANNOT DECIDE HOW TO BASE AN MX MISSILE, SHOULD WE PRODUCE IT? IF WE CAN'T FIND WAYS TO CONTROL THE SPIRALING COST OF MEDICARE AND OTHER HEALTH PROGRAMS, THEN ALL OUR PROCLAMATIONS OF COMPASSION FOR THE POOR AND THE ELDERLY ARE EMPTY PROMISES FOR THE NEXT GENERATION.

THERE ARE DIFFICULT DECISIONS TO BE MADE. BUT SOMEONE HAS TO SPEAK FOR AMERICA, FOR HER FUTURE AS WELL AS HER PRESENT. I HAPPEN TO BELIEVE THAT WE IN CONGRESS WERE ELECTED TO DO PRECISELY THAT. FREEZING DISCRETIONARY PROGRAMS IS A WORTHWHILE IDEA. BIPARTISAN CO-OPERATION OF THE KIND THAT RESCUED THE SOCIAL SECURITY SYSTEM THROUGH MINIMAL REFORMS IS NOT ONLY WORTHWHILE, BUT AN ABSOLUTE PREREQUISITE IF DEFICITS ARE TO BE CONTROLLED. THE FEDERAL RESERVE MUST BE GIVEN ROOM TO ACCOMMODATE THE POTENTIAL FOR REAL GROWTH



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WITHOUT INFLATIONARY PUMP-PRIMING. AND THAT MEANS A HEAVY RESPONSIBILITY AND SOME TOUGH DECISIONS AWAIT THIS CONGRESS AND THIS PRESIDENT.

LOWER DEFICITS - HIGHER REVENUES

SO LET'S NOT MERELY NIBBLE THE ECONOMIC BULLET. LET'S BITE IT. LET'S HONESTLY ADMIT THAT WE'LL NEED SOME INCREASE IN REVENUES IF OUTYEAR DEFICITS ARE TO BE RESTRAINED. WE CAN FIND SUCH REVENUES, I'M CONVINCED, WITHOUT DOING ANY DAMAGE TO THE BASIC THRUST OF THE PRESIDENT'S PROGRAM WE CAN TAKE A FRESH LOOK AT THE TAX CODE ITSELF, AND FIND WAYS TO MAKE IT BOTH MORE EQUITABLE AND MORE EFFICIENT.

THERE ARE SOME IN WASHINGTON WHO WOULD LIKE TO REPEAL THIS YEAR'S 10% INDIVIDUAL TAX CUT. HAVING ACCOMPLISHED THAT, THEY'D LIKE TO GO ON AND DO AWAY WITH TAX INDEXING, WHICH IS THE ONLY PROTECTION THE WORKINGMAN AND WOMAN HAVE AGAINST BACKDOOR TAX INCREASES THROUGH INFLATION.

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REPEALING EITHER THE 10% OR INDEXING SENDS THE WRONG SIGNAL. IT SUGGESTS THAT WE'VE NOT LEARNED A THING FROM OUR STRUGGLE TO SUBDUE INFLATION. IT SAYS THAT WHENEVER TROUBLE IS BREWING, A SPENDTHRIFT CONGRESS IS WILLING TO RESORT TO TAX INCREASES RATHER THAN SPENDING DISCIPLINE. WELL, A LOT OF AMERICANS HAVE HAD TO DO A LOT OF BELT-TIGHTENING THESE LAST FEW YEARS. IT WOULD BE A TRAGEDY IF ALL THEIR SACRIFICE WERE WASHED AWAY IN A FLOOD OF CONGRESSIONAL RED INK.

#### ALTERNATIVES TO THE STATUS QUO

NO ONE HAS MADE MORE OF A SACRIFICE THESE PAST FEW YEARS THAN THE AMERICAN FARMER. NO ONE DOUBTS THAT IN RECENT YEARS, WE HAVE OUT-PRODUCED DEMAND. THERE MAY BE LESS THAN COMPLETE UNANIMITY ON THE PIK PROGRAM, BUT CONSIDER THE ALTERNATIVE OF DOING NOTHING. ACCORDING TO USDA, WITH PIK IN PLACE CORN PRODUCTION SHOULD FALL FROM AROUND 8.3 BILLION



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BUSHEL LAST YEAR, TO JUST UNDER SEVEN BILLION THIS YEAR. STOCKS WOULD DECLINE BY ABOUT THE SAME PERCENTAGE. BY ITSELF, THIS ISN'T ENOUGH TO BRING RECOVERY IN CORN PRICES. HERE AS ELSEWHERE, THE SUPPLY SIDE IS ONLY ONE ELEMENT OF A COMPLEX PICTURE. BUT LET'S NOT IGNORE IT. I WOULD ENCOURAGE PARTICIPATION IN ANY PROGRAM THAT WILL BRING PRODUCTION CLOSER TO DOMESTIC AND WORLD DEMAND.

I KNOW THAT THE PIK PROGRAM WILL RAISE QUESTIONS THAT WILL NEED QUICK ANSWERS FROM WASHINGTON. CONCERN OVER THE TAX TREATMENT OF PIK COMMODITIES IS RISING, AND COULD ENDANGER SIGN-UPS. IN RESPONSE, SENATOR JEPSEN AND I INTRODUCED LEGISLATION THIS AFTERNOON TO MAKE THE PIK COUNT AS INCOME FOR TAX PURPOSES IN THE YEAR IT IS SOLD - NOT THE YEAR IT IS RECEIVED.

PROGRESS CAN ALSO BE MADE ON THE DEMAND SIDE. FOR INSTANCE, ALCOHOL FUELS IS A GROWING INDUSTRY. THIS YEAR ALONE, 150 MILLION BUSHEL OF CORN WILL BE USED TO MANUFACTURE ETHANOL AND REDUCE THE NUMBER OF U.S. DOLLARS FLOWING OVERSEAS TO PAY FOR FOREIGN OIL.

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SEEING POTENTIAL WHERE OTHERS SAW ONLY A PROBLEM, THE CONGRESS LAST DECEMBER ADDED ONE CENT TO THE FOUR CENT EXEMPTION ALREADY GRANTED ALCOHOL FUEL FROM THE GASOLINE SALES TAX. WE WERE ALSO ABLE TO DEVELOP A SUPPORT PROGRAM FOR SUGAR WITHIN THE 1981 FARM BILL THAT RECOGNIZES THE IMPORTANCE OF CORN SWEETNERS IN CREATING THOUSANDS OF NEW JOBS AND RAISING MILLIONS IN NEW REVENUES TO THE TREASURY.

#### FOOD FOR THE HUNGRY

THERE ARE OTHER WAYS OF REDUCING AGRICULTURAL SURPLUSES WITHOUT HARMING DOMESTIC MARKETS. THERE ARE HUNGRY PEOPLE IN THIS COUNTRY, PEOPLE BEYOND THE REACH OF CONVENTIONAL GOVERNMENT PROGRAMS. AND IT IS INTOLERABLE THAT ANY AMERICAN SHOULD GO WITHOUT AT A TIME WHEN FOOD STOCKPILES GLUT OUR WAREHOUSES.

LAST WEEK, I INTRODUCED LEGISLATION TO MAKE SUCH GOVERNMENT-OWNED COMMODITIES AVAILABLE TO FOOD BANKS, CHURCHES, ELDERLY FEEDING PROGRAMS AND OTHER LOCAL AGENCIES. THIS WOULD MEAN THE USE OF OVER A BILLION DOLLARS IN SURPLUS DAIRY, CORN, WHEAT, SOYBEAN, RICE AND



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HONEY STOCKS IN THE FIRST YEAR ALONE. A LOT OF CORN WOULD GO INTO MEAL AND POULTRY FEED. A LOT OF SOYBEANS WOULD BE TURNED INTO OIL AND SHORTENING.

#### THE SEARCH FOR OVERSEAS MARKETS

OF COURSE, THE MAIN EFFORT IN FINDING NEW MARKETS MUST COME OVERSEAS. THE PRESIDENT HAS MADE GOOD USE OF FUNDS SET ASIDE BY CONGRESS FOR THE BLENDED CREDIT PROGRAM - AND HAS NOW APPROVED A \$1.25 BILLION INCREASE BEYOND THE ORIGINAL CONGRESSIONAL MANDATE. AT THE SAME TIME, THE FUTURE OF SUCH FUNDING HAS TO BE IN SOME DOUBT. WHEN OTHER PROGRAM COSTS ARE BEING FROZEN OR EVEN REDUCED, FARM EXPORT PROGRAMS WILL HAVE TO JUSTIFY THEMSELVES TO A SKEPTICAL PUBLIC. ONE WAY OF DOING THIS IS TO PURSUE LOW-COST METHODS...FOR INSTANCE, AN "EXPORT PIK" THAT WOULD ALLOW THE SECRETARY OF AGRICULTURE TO MAKE BONUSES FROM CCC STOCKS TO FOREIGN BUYERS OF OUR FARM PRODUCTS. I WOULD ALSO PROPOSE SETTING UP A PERMANENT, BILLION DOLLAR REVOLVING FUND TO PROMOTE AGRICULTURAL EXPORTS. THIS COULD BE FINANCED BY

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LIMITING THE GROWTH IN TARGET PRICES FOR 1984 AND 1985 CROPS. ANOTHER APPROACH WOULD REQUIRE THE STATE DEPARTMENT TO USE 20% OF ONE OF ITS FOREIGN AID PROGRAMS - THE ECONOMIC SUPPORT FUND - FOR SALES OF U.S. FARM PRODUCTS. THAT WOULD MEAN AN EXTRA \$640 MILLION IN COMMODITIES SOLD ABROAD.

WE ALSO NEED TO MAKE CLEAR TO BOTH FOREIGN COMPETITORS AND CUSTOMERS THAT WE INTEND TO PROTECT EXISTING MARKETS AS WELL AS REGAIN OUR LOST SHARE OF OLD ONES. IN OUR OPPOSITION TO THE USE OF EXPORT SUBSIDIES BY THE ECC, THE RECENT SALE OF WHEAT FLOUR TO EGYPT WAS A CLEAR AND DECISIVE SIGNAL THAT DISCUSSIONS MUST YIELD RESULTS.

WITH REGARD TO REGAINING OUR SHARE OF THE SOVIET MARKET, SENATOR JEPSEN AND I MET WITH AMBASSADOR DOBRYNIN AND TRADE REPRESENTATIVE KALASHNIKOV THIS AFTERNOON. ALL OF US AGREE ON THE NEED TO BEGIN NEGOTIATIONS ON A NEW TRADE PACKAGE OF AT LEAST FIVE YEARS DURATION AND WITH HIGHER MINIMUM GUARANTEES OF CORN AND WHEAT.



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CHANCES FOR INITIATING LTA NEGOTIATIONS HAVE IMPROVED SINCE THE PRESIDENT LAST MONTH SIGNED CONTRACT SANCTITY LEGISLATION. I KNOW HOW IMPORTANT THIS ASSURANCE IS TO SOYBEAN FARMERS, AND I REGARD THIS STEP AS ONE THAT COMPLIMENTS OUR EFFORTS TO SECURE A NEW LTA WITH THE RUSSIANS. TOGETHER, THEY WOULD HELP RESTORE OUR TATTERED REPUTATION AS A RELIABLE SUPPLIER.

LISTENING TO THE WIND

HALF A CENTURY AGO, THIS STATE'S GREAT PRAIRIE POET, CARL SANDBURG, WROTE A TRIBUTE TO THE ILLINOIS FARMER, WHO SPENT HIS LIFE LISTENING TO THE WIND IN THE CORNSILK. IT WAS A WIND, WROTE SANDBURG, THAT ONE DAY WOULD BLOW OVER HIS RESTING PLACE "WHERE HIS HANDS MUST DREAM OF ILLINOIS CORN." SANDBURG'S WIND STILL BLOWS ACROSS THE ILLINOIS CORNFIELDS. MEN STILL DEVOTE THEIR LIVES TO THE SOIL. AND THEY STILL DERIVE A UNIQUE SENSE OF ACCOMPLISHMENT THAT COMES WITH EVERY HARVEST. BUT IT IS A FRESH WIND THAT BLOWS IN WASHINGTON THESE DAYS. IT PROMISES MUCH, BUT DEMANDS JUST AS MUCH. IT OFFERS A

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REBIRTH OF PROSPERITY AND A REDISTRIBUTION OF POWER TO THE LOCAL  
LEVEL. IT REQUIRES THAT WE EARN OUR WAY BACK TO ECONOMIC GOOD  
HEALTH; IT SAYS THAT WE MUST USE OUR NEW AUTHORITY WISELY. IT IS  
A WIND, I AM CONVINCED, THAT WILL LEAD TO A BOUNTIFUL HARVEST.  
BUT FIRST WE MUST LISTEN TO IT, JUST AS SANDBURG'S ILLINOIS FARMER  
LISTENS. AND THEN WE MUST PUT IT TO WORK, JUST AS YOU DO EVERY DAY  
OF YOUR LIVES.