

REMARKS BY SENATOR BOB DOLE  
NATIONAL PORK PRODUCERS COUNCIL  
FEBRUARY 8, 1984

I AM GLAD TO BE WITH YOU TODAY, AND WOULD LIKE TO THANK YOUR ASSISTANT VICE PRESIDENT FOR GOVERNMENT AFFAIRS, MIKE MISHOE, FOR THE INVITATION. WE HAVE WORKED CLOSELY TOGETHER ON A NUMBER OF ISSUES OF CONCERN TO PORK PRODUCERS -- INCLUDING FOOD SAFETY AND MEAT INSPECTION LEGISLATION. IT IS GOOD TO SEE WAYNE WALTER FROM MY OWN STATE OF KANSAS AGAIN, AND ORVILLE SWEET FROM YOUR DES MOINES HEADQUARTERS. I WOULD ALSO NOTE THAT YOU HAVE ADDED ANOTHER KANSAN AND FORMER DIRECTOR OF THE KANSAS PORK PRODUCERS, DOYLE TALKINGTON, TO YOUR WASHINGTON STAFF THIS YEAR, AND WISH DOYLE THE BEST OF LUCK IN HIS NEW JOB. I AM ALSO GLAD TO MEET DOYLE'S REPLACEMENT, GARY HELLEBUST, AND LOOK FORWARD TO WORKING WITH HIM ON NEW ISSUES IN THE FUTURE.

I KNOW THAT YOU HAVE A NUMBER OF SPECIFIC CONCERNS TO ADDRESS IN THIS LEGISLATIVE SEMINAR, AND IN YOUR MEETINGS WITH MEMBERS OF CONGRESS AND THE ADMINISTRATION DURING YOUR VISIT THIS WEEK. THE SHORT LIST INCLUDES QUESTIONS ON PORK IMPORT AND EXPORT POLICIES, THE NEED FOR ADDITIONAL FUNDING FOR AGRICULTURAL RESEARCH, AND REVISED REGULATION OF THE FOOD IRRADIATION PROCESS.

IN ADDITION, YOU HAVE A PARTICULAR CONCERN OVER HOW GOVERNMENT COMMODITY PROGRAMS IMPACT ON YOUR OWN INDUSTRY. AFTER THE LAST YEAR -- WITH THE MASSIVE EFFECT ON FEED SUPPLIES OF THE PIK PROGRAM AS WELL AS THE DROUGHT, AND FEARS OVER THE POTENTIAL IMPACT OF THE DAIRY PAID DIVERSION PROGRAM ON RED MEAT PRICES -- YOU HAVE EVERY REASON TO BE CONCERNED. AND I UNDERSTAND THAT, IN ADDITION TO GETTING INVOLVED IN THE DEBATE OVER THE NEXT FARM BILL, YOU ARE ALSO CONSIDERING FORMING YOUR OWN POLITICAL ACTION COMMITTEE.

IMPACT OF BUDGET DEFICITS ON AGRICULTURE

BEFORE GETTING INTO THE OUTLOOK FOR U.S. AGRICULTURE IN 1984 AND FOR NEW FARM LEGISLATION IN 1985, I WOULD LIKE TO TALK BRIEFLY ABOUT AN ISSUE THAT WILL HAVE JUST AS GREAT AN IMPACT ON THE HEALTH OF OUR FARM ECONOMY DURING THE 1980's. I AM REFERRING, AS MANY OF YOU ALREADY KNOW, TO OUR FEDERAL BUDGET DEFICITS, WHICH NOW STRETCH INTO THE FUTURE AT A RATE OF \$180 TO \$200 BILLION PER YEAR. AND WHILE THE DEFICIT ISSUE MAY BE THE HARDEST ONE FOR CONGRESS TO GET A HANDLE ON IN THIS ELECTION YEAR, I CAN ASSURE YOU THAT NO ONE HAS AS MUCH TO GAIN IF WE SUCCEED -- NOR AS MUCH TO LOSE IF WE FAIL -- AS THE AMERICAN FARMER.

LET ME JUST GIVE YOU SOME INDICATION OF THE MAGNITUDE OF THE PROBLEM WE ARE FACING. BEFORE CONGRESS RECESSED LAST NOVEMBER, WE HAD TO RAISE THE CEILING FOR THE NATIONAL DEBT TO \$1.45 TRILLION. AT THIS LEVEL, THE INTEREST PAYMENT TO



SERVICE THE DEBT WAS IN THE PRESIDENT'S BUDGET FOR FISCAL 1984 AT \$144 BILLION, OR SOMEWHAT MORE THAN THE TOTAL COST OF MEDICARE, MEDICAID AND ALL FEDERAL EDUCATION, TRAINING, EMPLOYMENT AND SOCIAL SERVICES PLUS OUTLAYS FOR TRANSPORTATION. BELIEVE IT OR NOT, THAT'S THE GOOD NEWS. THE BAD NEWS IS THAT WE WILL HAVE TO RAISE THE DEBT CEILING AGAIN SOMETIME IN MARCH, AND THAT, UNLESS SOMETHING IS DONE SOON, WE WILL ADD ABOUT \$900 BILLION TO THE NATIONAL DEBT BY THE END OF THE DECADE. THE INTEREST PAYMENT WOULD RISE FROM \$140 BILLION TO SOME \$250 BILLION BY 1989 -- THAT'S CLOSE TO WHAT WE NOW ARE PAYING FOR SOCIAL SECURITY PLUS MEDICARE.

AS MANY OF YOU KNOW FROM WATCHING HOW WASHINGTON WORKS -- OR DOESN'T WORK -- MOST POLITICIANS HAVE A KNACK FOR AVOIDING TOUGH CHOICES WHICH COULD BE POLITICALLY SENSITIVE. THEY USUALLY GO OFF AND FIND SOME OTHER ISSUE TO TALK ABOUT AND

WAIT UNTIL THINGS GET DECIDED ONE WAY OR ANOTHER. UNFORTUNATELY, THE REALITY OF THE BUDGET DEFICIT CRISIS ISN'T GOING TO GO AWAY -- IT'S ONLY GOING TO GROW. AND IT'S GOING TO REQUIRE THE PARTICIPATION OF ALL OF US -- THE SENATE, THE HOUSE AND THE PRESIDENT -- TO FACE OUR RESPONSIBILITIES SQUARELY AND DO SOME UNPOPULAR THINGS.

SO FAR, I CAN SAY THAT WE'VE MADE A START, BUT THE JURY IS STILL OUT AS TO WHETHER WE WILL COMPLETE THE FIRST STEP. AS YOU KNOW, PRESIDENT REAGAN INCLUDED A CALL FOR A BIPARTISAN COMMISSION ON THE DEFICIT IN HIS STATE OF THE UNION ADDRESS TWO WEEKS AGO. THE GOAL WOULD BE TO MAKE A MODEST DOWNPAYMENT ON THE DEFICIT OF \$100 BILLION OVER THE NEXT THREE YEARS. SINCE THEN, THERE HAS BEEN SOME FIERCE JOCKEYING FOR POSITION BY A NUMBER OF HOUSE DEMOCRATS, WHO WERE PREPARED TO BLAME THE ADMINISTRATION FOR ALL THE RED INK RIGHT UP UNTIL ELECTION

DAY IN NOVEMBER. THE PRESIDENT IS WILLING TO PUT EVERYTHING ON THE NEGOTIATING TABLE -- INCLUDING DEFENSE AND TAX INCREASES AS WELL AS SPENDING REDUCTIONS. SO FAR, THE DEMOCRATS HAVE DONE EVERYTHING BUT CARTWHEELS TRYING TO APPEAR RESPONSIBLE WITHOUT AGREEING TO THE SAME TERMS. THEY EVEN PROPOSED GIVING THE PRESIDENT A LINE-ITEM VETO OVER APPROPRIATIONS BILL -- BUT FOR ONLY ONE YEAR -- TO AVOID HAVING TO COOPERATE ON A PROGRAM THAT WILL UNDOUBTEDLY INCLUDE SOME CUTS IN DOMESTIC SPENDING PROGRAMS.

AGRICULTURE'S ROLE IN THE DEFICIT ISSUE

AS FARMERS, THERE IS NO MORE IMPORTANT ACTION YOU CAN TAKE THAN TELLING YOUR CONGRESSIONAL REPRESENTATIVES THAT THE DEFICIT ISSUE IS AT THE TOP OF YOUR LIST OF NATIONAL PRIORITIES. NO INDUSTRY LIVES AS CLOSELY TO THE FUNDAMENTALS OF NATIONAL ECONOMIC HEALTH AS AGRICULTURE, AND FARMERS ARE THE FIRST



TO FEEL THE EFFECTS WHEN A RECOVERY BEGINS TO TURN SOUR.  
THE MEMORY OF 18 AND 20 PERCENT INTEREST RATES IS TOO FRESH  
FOR ANYONE TO BECOME TOO CONFIDENT ABOUT THE CURRENT OUTLOOK  
FOR THE ECONOMY. AND EVEN IF WE CAN RESOLVE SOME SPECIFIC  
ISSUES OF CONCERN TO THE PORK INDUSTRY THIS YEAR, THESE GAINS  
WOULD BE SEVERELY ERODED IF WE CAN'T ENSURE A SOUND BASIS  
FOR ECONOMIC GROWTH BEYOND 1984.

#### THE AGRICULTURAL OUTLOOK FOR 1984

LOOKING BRIEFLY AT THE OUTLOOK FOR FARMERS IN 1984, MOST  
ANALYSTS AGREE THAT WE WILL SEE ANOTHER YEAR OF BUMPER GRAIN  
HARVESTS, WEAK WHEAT AND CORN PRICES, AND AN IMPROVED PRICE  
AND PROFIT PICTURE FOR LIVESTOCK OPERATORS. PIK, WITH ITS  
CONTROVERSIAL COSTS -- AND BENEFITS -- IS NOW BEHIND US.  
SOME WOULD CRITICIZE THE SIZE OF THE PROGRAM -- 82 MILLION  
ACRES TAKEN OUT OF PRODUCTION. SOME COMPLAIN ABOUT THE MILLION

DOLLAR PAYMENTS TO LARGE COTTON FARMERS AND WHEAT FARMERS.  
OTHERS MAKE THE POINT THAT AGRICULTURE IS AN INTEGRATED ECONOMIC  
STRUCTURE -- THAT MAJOR PROGRAMS TO REVIVE ONE SECTOR CAUSE  
SERIOUS PROBLEMS FOR THOSE WHO DEPEND ON IT.

I DON'T DISAGREE WITH ANY OF THESE ARGUMENTS. I WOULD,  
HOWEVER, MAINTAIN THAT, WITHOUT THE PIK PROGRAM, THERE WOULD  
HAVE BEEN A LOT OF FAMILY FARMS WHICH WOULD NOT HAVE SURVIVED  
1983. PIK PROVIDED A MUCH-NEEDED "BREATHING" FOR MANY PRODUCERS,  
AND A CHANCE FOR SOME TO EITHER DIVERSIFY, CUT BACK ON INDEBTEDNESS,  
OR MOVE INTO ANOTHER BUSINESS.

ALSO, NONE OF US COULD HAVE PREDICTED THAT MOTHER NATURE  
WAS GOING TO SIGN UP FOR THE PIK PROGRAM. LAST SUMMER'S RECORD  
DROUGHT TOOK OVER TWO BILLION BUSHELS OF CORN OUT OF PRODUCTION,  
WITH SIMILAR QUANTITIES OF OTHER FEED CROPS. THE LIKELIHOOD  
OF ANOTHER WEATHER DISASTER OF SUCH PROPORTIONS THIS YEAR  
IS HIGHLY UNLIKELY.



ANOTHER FACTOR OF PARTICULAR INTEREST TO THE LIVESTOCK INDUSTRY IS THE OUTCOME OF THE PAID DIVERSION PROGRAM IN THE LATEST DAIRY LEGISLATION. DURING THE LENGTHY DEBATE ON THE SO-CALLED "COMPROMISE" DAIRY BILL LAST YEAR, I COULD CERTAINLY APPRECIATE THE FEARS OF CATTLEMEN AND PORK PRODUCERS THAT THE PROGRAM WOULD BRING ANYWHERE FROM ONE MILLION TO 1.5 MILLION DAIRY COWS TO MARKET, DEPRESSING SEASONALLY-LOW PRICES FOR RED MEAT.

IN DEFENSE OF THE SYSTEM BY WHICH THE BILL WAS DEVELOPED, I WOULD ONLY SAY THAT THE DIVERSION PROGRAM WAS BEING ACTIVELY DISCUSSED AND CONSIDERED BY A BIPARTISAN GROUP FROM THE AGRICULTURE COMMITTEES OF BOTH HOUSES OF CONGRESS AS FAR BACK AS LAST APRIL. AS I RECALL, THE FIRST QUESTIONS ABOUT ITS EFFECT ON LIVESTOCK PRICES WERE RAISED IN LATE AUGUST, AND IT WAS NOT UNTIL TWO WEEKS BEFORE THE BILL REACHED THE HOUSE FLOOR

IN NOVEMBER -- AND A WEEK AFTER IT PASSED THE SENATE -- THAT AN ACTIVE LOBBYING EFFORT OPPOSING THE BILL WAS INITIATED.

I WOULD ALSO NOTE THE USDA'S REPORT ON SIGN-UP IN THE DAIRY DIVERSION PROGRAM RELEASED THIS WEEK -- MILK PRODUCERS CONTRACTED TO REDUCE MARKETINGS BY ONLY 9.3 BILLION POUNDS, OR 5.5%. THIS EQUATES TO ABOUT 337,000 DAIRY COWS TO BE CULLED OVER THE NEXT 15 MONTHS. USDA DOES NOT EXPECT A SIGNIFICANT IMPACT ON RED MEAT PRICES AT THIS LEVEL.

I WANTED TO REVIEW THESE EVENTS ONLY TO EMPHASIZE THE IMPORTANCE OF BECOMING INVOLVED AS EARLY AS POSSIBLE IN THE LEGISLATIVE PROCESS. THIS INCLUDES PLAYING AN IMPORTANT ROLE IN PROTECTING YOUR LEGITIMATE INTERESTS DURING FORMULATION OF THE 1985 FARM BILL. BETWEEN PIK AND THE DAIRY PROGRAM, IT WOULD APPEAR THAT A BROAD RANGE OF INDUSTRIES WHICH NEVER CONSIDERED THEMSELVES AFFECTED BY GOVERNMENT COMMODITY PROGRAMS

HAVE MADE THE SAME DECISION TO BECOME INVOLVED. SUCH INTEREST AND PARTICIPATION ONLY SERVES TO ENRICH THE LEGISLATIVE AND POLICY-DEVELOPMENT PROCESS. IT IS IMPORTANT FOR LIVESTOCK PRODUCERS -- WHO HAVE NO PROGRAM -- TO HAVE INPUT ON LEGISLATION THAT WILL AFFECT BOTH FEED GRAIN AND MEAT PRICES. AND I DON'T BELIEVE THESE INTERESTS NEED TO BE ANTAGONISTIC. WHILE FOLKS IN THE CITIES MAY NOT APPRECIATE THE IMPORTANCE OF A HEALTHY, PROFITABLE AGRICULTURE, MOST FARMERS CERTAINLY DO. SO I WOULD JUST SAY THAT YOUR DECISION TO PLAY A MORE ACTIVE ROLE IN OUR DELIBERATIONS IS A WELCOME AND POSITIVE EVENT.

#### THE DANGER OF TRADE PROTECTIONISM

FINALLY, I WOULD JUST SAY A FEW WORDS ABOUT A SUBJECT THAT MANY IN CONGRESS ARE THREATENING TO TURN INTO AN INSTANT SOLUTION TO ALL OF OUR OTHER ECONOMIC PROBLEMS -- THE RISING DANGER OF TRADE PROTECTIONISM. I BELIEVE TRADE IS AS IMPORTANT



TO THE PORK INDUSTRY AS TO OTHER SECTORS WHICH ARE MORE DEPENDENT ON EXPORTS BECAUSE OF ITS DIRECT IMPACT ON DOMESTIC POLICY DECISIONS. I CAN ASSURE YOU THAT ANY MOVE TO RESTRICT FOREIGN IMPORTS OF FARM PRODUCTS, OR SIMILAR ACTIONS BY OUR PRINCIPAL CUSTOMERS OVERSEAS, WOULD SOON BE REFLECTED IN THE ECONOMIC ENVIRONMENT OF THE PORK INDUSTRY.

WE HAVE ALL WATCHED AS THE U.S. AND THE EUROPEAN COMMUNITY HAVE EXCHANGED "SHOTS ACROSS THE BOW" IN THE CONTINUING ESCALATION OF OUR TRADE DISPUTE OVER EXPORT SUBSIDIES. THE LATEST WORD IS THAT THE EEC WILL MOVE FORWARD WITH A PROPOSAL TO RESTRICT IMPORTS OF CORN GLUTEN FEED AND OTHER NON-GRAIN FEED INGREDIENTS DURING ITS FARM PRICE MEETINGS STARTING MARCH 19.

MEANWHILE, THE U.S. FLOUR MILLING INDUSTRY WOULD LIKE ANOTHER MASSIVE SALE OF WHEAT FLOUR TO EGYPT, AND OUR POULTRY PRODUCERS ARE STILL LOOKING FOR RELIEF FROM SUBSIDIZED BRAZILIAN

AND EEC BROILER EXPORTS. A NUMBER OF U.S. EXPORTERS NOW COUNT ON SOME FORM OF PRICE OR INTEREST SUBSIDY -- SUCH AS UNDER THE USDA'S LOAN GUARANTEE PROGRAM -- IN ORDER TO BE COMPETITIVE.

OUR DISCUSSIONS WITH THE JAPANESE OVER TRADE LIBERALIZATION CONTINUE TO DRAG ON, ALTHOUGH I NOW UNDERSTAND THAT SOME AGREEMENT ON MEAT AND CITRUS QUOTAS IS POSSIBLE BY THIS SPRING. THIS WOULD BE A WELCOME DEVELOPMENT, AND WOULD HELP DEFUSE TENSION OVER THE PENDING DOMESTIC CONTENT LEGISLATION SUPPORTED BY THE U.S. AUTOMOBILE INDUSTRY.

BUT U.S. AGRICULTURE IS NOT WITHOUT ITS OWN PROTECTIONIST DESIRES. RESISTANCE BY OUR TEXTILE INDUSTRY TO HIGHER QUOTAS ON CHINESE TEXTILE IMPORTS LED TO A SEVEN MONTH SUSPENSION OF U.S. WHEAT SALES TO THE PRC. EVEN AFTER WE BROKE THE IMPASSE AND SIGNED A NEW AGREEMENT, ANOTHER CRISIS OVER CHINESE SUBSIDIES WAS NARROWLY AVERTED IN DECEMBER.

FINALLY, I UNDERSTAND THAT A BILL TO RESTRICT IMPORTS OF WINE -- PRINCIPALLY FROM FRANCE AND ITALY -- HAS ACQUIRED OVER 350 CO-SPONSORS IN THE HOUSE AND SOME 53 IN THE SENATE. IT SEEMS AT TIMES THAT THE QUESTION IS NOT A MATTER OF WHETHER WE ARE GOING TO GET INTO A RETALIATORY TRADE WAR, BUT ONLY OF WHEN AND OVER WHAT PRODUCTS.

FACED WITH A CHOICE BETWEEN A MUTUALLY DESTRUCTIVE AND COSTLY TRADE WAR AND TRYING TO SALVAGE OUR MULTILATERAL TRADING SYSTEM BY SITTING DOWN AND TRYING TO WORK OUT THE DIFFERENCES, WE OUGHT TO BE EXTREMELY CAREFUL. IT MAY BE TRUE THAT THE GATT ISN'T WORKING VERY WELL, BUT WE SHOULD FIND SOMETHING BETTER TO PUT IN ITS PLACE BEFORE DECIDING TO SIMPLY THROW IT AWAY. MAYBE CONDITIONS ARE RIGHT TO BEGIN PREPARATIONS FOR A NEW ROUND OF NEGOTIATIONS, PROVIDING AGREEMENT IS REACHED ON THE OVERALL OBJECTIVES AND OUR TRADING PARTNERS ARE EQUALLY



COMMITTED TO THE PROCESS.

CONCLUSION

IN CLOSING, I WOULD ONLY SAY THAT WE LOOK FORWARD TO  
HEARING WHAT THE NATIONAL PORK PRODUCERS -- AND EACH OF YOU  
HERE TODAY -- HAVE TO SAY ABOUT THESE VARIOUS NATIONAL ISSUES,  
AND ABOUT THE SPECIFIC CONCERNS WHICH AFFECT YOUR INDUSTRY.  
THE CONVENTIONAL WISDOM IS THAT WASHINGTON IS ALREADY FULL  
OF SPECIAL INTERESTS AND LOBBYISTS -- THAT ONE MORE OR LESS  
DOESN'T MAKE MUCH DIFFERENCE. BUT THE TRUTH OF THE MATTER  
IS THAT THERE IS ALWAYS ENOUGH ROOM AROUND HERE FOR SOMEONE  
WITH A GOOD IDEA AND A POSITIVE ATTITUDE WHO WANTS TO GET  
THINGS DONE. AND I WELCOME YOUR GROUP'S CONTINUED INVOLVEMENT  
IN ISSUES OF CONCERN TO PORK PRODUCERS AND TO AMERICAN AGRICULTURE.  
THANK YOU VERY MUCH.

REMARKS OF SENATOR DOLE

NATIONAL PORK PRODUCERS

Wednesday, February 8, 1984--12:45 p.m.--Quality Inn-Capitol Hill

What is the Federal deficit likely to be?

- o 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.
- o 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:

<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
\$180 billion	\$177 billion	\$180 billion	\$152 billion

- o 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:

<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
\$202.6 billion	\$236.7 billion	\$270 billion	\$290.1 billion

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

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

- o 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.
- o 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.



- o By 1989 the annual Federal interest cost will amount to \$250 billion--about \$1,100 for every American.
- o That \$1,100 per person interest cost is equal to 40% of each person's annual expenditure for food.
- o Virtually all economists agree that the sustained enormous deficits that we are facing will be economically harmful.
- o 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 for each one percentage point increase.
- o 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 about the Administration budget proposals for FY 1985

- o The Administration repropose many of the domestic spending cuts from its 1984 budget that have not been acted upon.
- o The Administration proposes only about \$5 billion in net domestic cuts for FY 1985, but that figure is larger in the out years:

<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
\$5 billion	\$10 billion	\$12 billion	\$16 billion

- o On the tax side, the Administration has proposed some tax reforms that will raise revenue, including cutbacks in tax shelters Treasury has endorsed. These would raise about \$34 billion over three years.
- o While none of these proposals involve huge numbers given the size of our deficits, when they are combined with pending reconciliation measures and additional items, they can provide a substantial 'down payment' on the deficit.



What about defense spending?

- o The Administration recommends \$305 billion in defense spending for FY 1985--a 13% real increase over the 1984 defense spending level.
- o This sharp increase in defense spending is \$16 billion over the substantial increase provided for FY 1985 in the most recent Congressional budget resolution.
- o Over the period FY 1985-1987, the Administration's defense recommendation is about \$65 billion higher than the 5% real growth path that Congress last year set as adequate for a strong defense.
- o The Administration's defense recommendation is a first offer that sets its opening bargaining position. I believe that the final defense number for FY 1985 will be close to the \$289 billion figure contained in last year's budget resolution.
- o Even at a \$289 billion level, defense spending will have increased 91% since 1981, the first year of the Reagan Presidency.

WHY SHOULD WE ACT THIS YEAR ON THE DEFICIT

- o If we fail to deal 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 likely.
- o If we postpone 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.
- o 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.
- o 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.
- o The rise in 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.

- o 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.
- o Failure to reduce the deficits in 1984 may also depress the stock market. 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.
- o 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.
- o 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."
- o 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.
- o 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.

#### RECOVERY--WHAT PROGRESS HAVE WE MADE

##### Strength of recovery

- o 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.

- o Housing starts are running at a rate of about 1.7 million units a year, and new home sales are up by 91% over the recession low.
- o Industrial output in 1983 rose 6.5%, and factory utilization is up to 79.4%--the highest level in two years, and close to the normal capacity of 82%.
- o The Commerce Department's survey of business plans for 1984 show that business plans to increase capital investment by 9.4%--this is a rate about 2% higher than that seen at comparable points in previous postwar recoveries.

#### Inflation

- o 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

- o 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% to 8.2% in December. Overall, this means unemployment has dropped 2.5 percentage points over the past year.
- o 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 4 million jobs created in the last year.
- o 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.



## TALKING POINTS ON BUDGET

### Deficit Projections

- o The projected deficits in the Administration budget are as follows:

<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>
<u>\$180b</u>	<u>\$177</u>	<u>\$180</u>	<u>\$152</u>	<u>\$123</u>

- o Over the next three years the aggregate Federal deficit will be \$537 billion
- o These projections assume continued economic growth through 1989--if the economy falters the deficits will be higher.

### Deficit Reduction Proposals

- o The President's budget contains approximately \$75 billion in net nondefense deficit reduction proposals over 3 years--3/4s of the amount needed for a "downpayment" deficit reduction plan.
- o The \$75 billion in nondefense savings breakdown as follows:

Domestic Spending Cuts	\$26.3
Medicare	(6.5)
Means-Tested Entitlements	(10.1)
Farm Price Supports	(3.2)
Retirement COLA,	
Student Loans Other	(7.5)
Net Nondefense Discretionary	(1.1)
Debt Service	13.9
Net Revenue Increases	13.9
Structural Reform	(7.0)
(life insurance, IDD's	
public property leasing)	
Curtailement of Tax Abuse	(12.2)
Tax Cap On Employer Paid	(18.4)

Of the \$75 billion in proposed deficit reduction, \$56.4 billion is within the jurisdiction of the Senate Finance Committee.