

REMARKS OF SENATOR BOB DOLE
LAND O'LAKES 63RD ANNUAL MEETING
FEBRUARY 21, 1984

IF 1983 WAS THE YEAR OF THE PIK PROGRAM, THEN 1984 WILL BE THE YEAR TO INTRODUCE A NEW KIND OF "PIK" -- IT'S SPELLED P-I-C-K , AS IN "LET'S PICK A NEW FARM PROGRAM." THERE MUST BE 20 INITIATIVES UNDERWAY TO DEVELOP SOME CONCEPT OR IDEA THAT WILL RELIEVE OUR CHRONIC PROBLEMS OF INCREASING PRODUCTION, DECLINING MARKETS AND LOW PRICES. AT THE SAME TIME, WE MUST BRING THE COST OF FARM PROGRAMS BACK TO REALITY, AND MAKE A CONTRIBUTION TOWARD REDUCING THE MASSIVE BUDGET DEFICITS STRETCHING OUT OVER THE REST OF THIS DECADE -- SO THE "PICK" WON'T BE EASY.

THE EMPHASIS IS ALWAYS ON FINDING THE "PERFECT" FARM BILL. I'VE BEEN IN CONGRESS, AND ON THE AGRICULTURE COMMITTEES OF BOTH THE HOUSE AND THE SENATE, FOR 24 YEARS, AND MY OWN VIEW IS THAT THERE IS NO SUCH THING. ECONOMIC CIRCUMSTANCES CHANGE, AND FARMERS AND THEIR REPRESENTATIVES MUST RESPOND TO THEM THROUGH CHANGES IN POLICY.

FACING REALITY

ONE THING IS CERTAIN, HOWEVER. WE ARE GOING TO HAVE TREMENDOUS DIFFICULTY PASSING ANY FARM BILL IN 1985. MANY FARM GROUPS, INCLUDING DAIRY AND WHEAT PRODUCERS, OPPOSED PASSAGE OF THE 1981 FARM BILL BECAUSE THEY THOUGHT IT WAS TOO MEAGER. YET IT

RESULTED IN A QUINTUPPLING OF FARM PROGRAM COSTS, FROM LESS THAN \$4 BILLION IN 1980 TO NEARLY \$19 BILLION IN 1983. THROW IN THE PIK PROGRAM, AND OUTLAYS ALMOST REACHED \$30 BILLION LAST YEAR. LOOK BACK ON THE MARGINS BY WHICH THE 1981 BILL PASSED VARIOUS TESTS IN CONGRESS: TARGET PRICES WERE SUSTAINED BY ONLY ONE VOTE IN THE SENATE AGRICULTURE COMMITTEE AND TWO VOTES ON THE SENATE FLOOR; THE ENTIRE FARM BILL SURVIVED THE HOUSE BY ONLY TWO VOTES. THERE ARE LIBERAL MEMBERS OF CONGRESS FROM URBAN AREAS WHOSE ONLY CONSERVATIVE VOTE IS AGAINST FARM PROGRAMS. INSTEAD OF RESEARCHING ONLY NEW PROGRAM IDEAS, SOMEONE SHOULD STUDY HOW WE ARE GOING TO GET ANY FARM BILL THROUGH NEXT YEAR, AND AT THIS POINT, I DON'T THINK WE SHOULD BE THROWING ANY IDEAS OUT.

WE HAVE LEARNED ONE USEFUL, IF COSTLY, LESSON -- THAT SIMPLY THROWING MONEY AT OUR AGRICULTURAL PROBLEMS IS NOT THE ANSWER. WE SPENT NEARLY \$19 BILLION ON FARM PROGRAMS IN 1983 -- FIVE TIMES THE CARTER BUDGET FOR 1980 -- PLUS \$9 BILLION ON PIK. AND ALL WE BOUGHT WAS A ONE OR TWO YEAR DELAY IN SURPLUS PRODUCTION, STOCK GROWTH, AND LOWER PRICES.

ADMINISTRATION ACHIEVEMENTS

I AM SURE THAT FARMERS WILL BE GIVEN A STEADY DIET OF RHETORIC AND PROMISES AS THIS ELECTION YEAR UNFOLDS -- AND SOME OF BOTH WILL COME FROM BOTH PARTIES. I WOULD ONLY SUGGEST THAT, IN ORDER TO MAINTAIN SOME PERSPECTIVE, WE SHOULD KEEP IN MIND WHERE WE WERE THREE YEARS AGO WHEN THE REAGAN ADMINISTRATION ARRIVED IN

WASHINGTON. QUITE FRANKLY, FARM POLICY WASN'T EVEN IN NEUTRAL IN JANUARY 1981. IT WAS IN REVERSE. BETWEEN THE SOVIET GRAIN EMBARGO, 20 PERCENT-PLUS INTEREST RATES, AND 14 PERCENT INFLATION, FARMERS WERE ALREADY IN AN ECONOMIC TAILSPIN THAT HAS BEEN DIFFICULT TO TURN AROUND.

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PROGRESS HAS BEEN SLOWER THAN FARMERS WOULD LIKE, BUT IT HAS BEEN CLEAR AND MEASUREABLE. THE EMBARGO WAS ENDED AND A NEW AGREEMENT WITH A 50 PERCENT HIGHER MINIMUM PURCHASE GUARANTEE NEGOTIATED WITH THE SOVIET UNION. CONTRACT SANCTITY PROTECTION HAS BEEN BUILT INTO LAW, THANKS TO THE EFFORTS OF SENATOR DAVE DURENBERGER, SENATOR RUDY BOSCHWITZ AND OTHER MEMBERS OF CONGRESS. WE ARE ON THE WAY TOWARD RESTORING OUR REPUTATION AS A RELIABLE SUPPLIER TO FOREIGN MARKETS. WE HAVE ALSO BEGUN TO CONFRONT UNFAIR COMPETITION BY OUR INTERNATIONAL COMPETITORS, AS EXEMPLIFIED BY OUR SIZEABLE WHEAT FLOUR SALE TO EGYPT LAST JANUARY.

MORE WORK TO BE DONE

WE ALL KNOW THAT, WHILE THESE ACHIEVEMENTS HAVE HELPED TO REVERSE THE DOWNTREND, THE EFFORT TO RESTORE PROSPERITY TO AMERICAN AGRICULTURE WILL REQUIRE EVEN GREATER EXERTIONS.

I WAS READING RALPH HOFSTAD'S SPEECH TO THE FARGO, NORTH DAKOTA, FARM FORUM ON JANUARY 30 THE OTHER DAY. ONE OF RALPH'S STATEMENTS STRUCK ME AS PARTICULARLY TRUE: THAT IN OUR EFFORTS

TO RECONCILE OVERPRODUCTION AND DEPRESSED FARM INCOME, WE HAVE HAD ONE FOOT ON THE ACCELERATOR AND ONE FOOT ON THE BRAKE. OUR NEED TO PROVIDE SOME SECURITY TO SMALL FAMILY FARMERS HAS BECOME TANGLED UP WITH THE ECONOMIC INCENTIVES WHICH OUR FARM PROGRAMS PROVIDE FOR PRODUCTION. AND THE INCENTIVES HAVE WORKED FOR FOREIGN PRODUCERS AS WELL AS FOR OUR OWN FARMERS.

A BASIC PROBLEM, IN MY VIEW, IS THAT WE HAVE BEEN TRYING TO RESPOND TO LONG-RANGE ECONOMIC TRENDS THROUGH SHORT-TERM SOLUTIONS WHICH, BY THEIR VERY NATURE, PROVE TOO COSTLY TO SUSTAIN AND ARE CONSEQUENTLY DISCOUNTED BY OUR CUSTOMERS AND COMPETITORS IN THE WORLD MARKETPLACE. WHAT WE NEED IS TO SEND SOME EQUALLY LONG-RANGE SIGNALS THAT THE U.S. INTENDS TO REVERSE THOSE FACTORS THAT HAVE ERODED OUR COMPETITIVE POSITION SINCE THE MID-1970'S.

A CHALLENGE TO AGRICULTURE

AS WE APPROACH THE BEGINNING OF DEBATE ON A NEW FARM BILL, WE ALSO HAVE THE OPPORTUNITY TO INCLUDE AGRICULTURE AS A PRIORITY ITEM ON THE AGENDAS OF BOTH POLITICAL PARTIES. I WILL BE THE CHAIRMAN OF THE PLATFORM COMMITTEE ON AGRICULTURE AT THE REPUBLICAN PARTY CONVENTION IN DALLAS THIS AUGUST. AS FAR AS I AM CONCERNED, THE PLATFORM IS WIDE OPEN, AND THE PROCESS SHOULD BE USED TO DEVELOP THE MOST EFFECTIVE AND RESPONSIBLE POLICIES WE CAN.

I WOULD LIKE TO USE THIS OCCASION TO ISSUE A CHALLENGE TO ALL ORGANIZATIONS INVOLVED IN AMERICAN AGRICULTURE TO COME FORWARD AND MAKE A REAL CONTRIBUTION TO THE DEVELOPMENT OF A LONG-RANGE FARM POLICY. I INTEND TO CONSULT WITH MY OWN FARM LEADERS IN KANSAS, AND TO HOLD HEARINGS ON WHAT KANSAS FARMERS BELIEVE SHOULD BE INCLUDED IN FEDERAL PROGRAMS. I INVITE SIMILAR GROUPS AND INDIVIDUALS IN OTHER STATES TO DO THE SAME, AND TO BRING THE RESULTS TO DALLAS FOR A THOROUGH DISCUSSION AND COMPREHENSIVE EFFORT TO CRAFT AN IMPROVED PROGRAM.

SOME IDEAS HAVE ALREADY BEEN RAISED THAT MAY HAVE MERIT, OR MAY AT LEAST GET THE DISCUSSION STARTED:

1. LOAN RATES FOR MAJOR COMMODITIES COULD BE MADE MORE FLEXIBLE BY TIEING THEM TO AN AVERAGE OF MARKET PRICES. THIS WOULD REMOVE THE FLOOR UNDER FOREIGN PRODUCERS, WHO ARE BENEFITTING FROM THE HIGH DOLLAR, AND WOULD ALSO PREVENT THEIR GOVERNMENTS FROM MAKING LONG-RANGE PRODUCTION AND MARKETING PLANS AT OUR EXPENSE.
2. WE SHOULD DEMONSTRATE THAT THE U.S. WILL NOT BE DRIVEN OUT OF FOREIGN MARKETS BY CONTINUING TO RESPOND TO UNFAIR PRICE-CUTTING BY TARGETING SPECIFIC PRODUCTS FOR PRICE OR CREDIT SUBSIDIES TO SELECTED MARKETS. WE SHOULD NOT, HOWEVER, SEEK TO GET INTO AN ACROSS-THE-BOARD TRADE WAR.
3. THE U.S. SHOULD PREPARE TO RETURN TO GENEVA FOR A NEW ROUND

OF GATT NEGOTIATIONS WHENEVER THERE IS EVIDENCE THAT OUR TRADING PARTNERS ARE READY TO CLEAR UP THE AMBIGUITIES AND CONFUSION SURROUNDING AGRICULTURAL TRADE. WE PARTICULARLY NEED CLARIFICATION ON THE MEANING OF THE SUBSIDIES CODE, AND ON WAYS TO LIMIT NON-TARIFF TRADE BARRIERS.

4. WE SHOULD LOOK AT A MAJOR AND MULTI-YEAR INCREASE IN OUR FOOD AID COMMITMENT. CONSIDERING THE DEPRESSED STATE OF THIRD WORLD ECONOMIES AND THE DROUGHT IN AFRICA, WE COULD TAKE THE OPPORTUNITY PROVIDED BY THE 30TH ANNIVERSARY OF P.L. 480 ON JULY 10, 1984, TO REDEDICATE OURSELVES TO THE BENEFICIAL EFFECTS OF THE FOOD FOR PEACE PROGRAM.

5. I HAVE WRITTEN PRESIDENT REAGAN TO RECOMMEND CREATION OF A PRESIDENTIAL TASK FORCE ON AGRICULTURAL TRADE AND FOOD ASSISTANCE POLICY, TO REPORT AFTER THE NOVEMBER ELECTIONS AND BEFORE DEBATE BEGINS ON THE NEW FARM BILL. THE GROUP WOULD BE ASKED TO SET OUT A LONG-TERM AGENDA AND COMPREHENSIVE POLICY STATEMENT, AND ALSO TO RATIONALIZE THE COST AND PURPOSE OF EXISTING EXPORT AND ASSISTANCE PROGRAMS.

6. ONE IDEA RAISED BY A RECENT LAND O'LAKES POLICY PAPER WOULD INCREASE INCENTIVES FOR SOIL AND WATER CONSERVATION AS PART OF THE 1985 FARM BILL. THIS AREA HAS BEEN NEGLECTED OR LEFT TO PRIVATE INITIATIVE IN THE PAST, AND IS BECOMING AN URGENT NATIONAL PRIORITY.

7. ANOTHER PROPOSAL BEING PURSUED BY COOPERATIVES AND THEIR UMBRELLA ORGANIZATIONS IN WASHINGTON WOULD SIGNIFICANTLY EXPAND DEVELOPMENT PROJECTS IN LESS DEVELOPED COUNTRIES OVERSEAS. I KNOW OF YOUR SUPPORT FOR RECOVERING PART OF THE VALUE OF DONATED COMMODITIES IN LOCAL CURRENCIES TO BE INVESTED IN SUCH PROJECTS, AND INTEND TO TAKE A CLOSE LOOK AT THE MERITS OF THE IDEA.

8. FINALLY, MANY FARM GROUPS ARE UPSET WITH THE SHARE OF THE P.L. 480 PROGRAM THAT GOES TO PAY FOR HIGHER U.S. FLAG VESSELS UNDER THE CARGO PREFERENCE PROGRAM. AFTER TWO LOPSIDED DEFEATS IN THE LAST TWO YEARS, HOWEVER, THEY MAY WANT TO TRY TO WORK SOME COMPROMISE OUT WITH THE LABOR UNIONS.

CONCLUSION

THE ONLY WORD OF ADVICE I WOULD HAVE FOR FARMERS AT THIS POINT IS THAT THEY NOT GET TOO FAR OUT ON A LIMB WITH ONE APPROACH OR ANOTHER SO EARLY IN THE DEBATE. WE NEED INPUT FROM AS MANY GROUPS AND INDIVIDUALS AS POSSIBLE, AND WE WILL CONTINUE TO NEED INPUT THROUGHOUT 1984 AND 1985 AS WELL.

I KNOW THAT LAND O'LAKES INTENDS TO PARTICIPATE FULLY IN THE POLICY DEVELOPMENT PROCESS, AND THAT ITS CONTRIBUTION WILL BE EXTREMELY VALUABLE. I COMMEND YOU FOR YOUR INVOLVEMENT, AND LOOK FORWARD TO WORKING WITH EACH OF YOU IN FINDING ANSWERS TO ISSUES OF KEY CONCERN TO AMERICAN AGRICULTURE.

LAND O'LAKES 63RD ANNUAL MEETING: TUESDAY, FEBRUARY 21, 1984

AGRICULTURE TALKING POINTS

General farm economy outlook--Even with higher than expected participation in 1984 farm programs, large and possibly record crops of wheat, corn and other feed grains are expected. Prices should approach price support loan rates this fall: \$3.30 for wheat; \$2.55 for corn.

1984 farm programs-- Sign-up extension to March 16 will allow time to try to work out improvements in 1984 programs as part of the President's "downpayment" on budget deficits. We are still looking at cutting back on target prices, lowering the acreage reductions, and using part of the savings for exports.

Dairy program--Surprisingly low sign-up for dairy paid diversion program: 12% of dairy farmers; 9.3 billion pounds of milk, or only 5.5% of total milk production expected through March 1985. Even participation in the "milk belt" states represented by Land O'Lakes* reached only 17.8% of all producers.

Future dairy policy--Low sign-up reflects long-term producer plans for productivity growth as well as disinterest in government programs. Further price support reductions may be needed if purchases continue at \$1.0 billion plus.

1985 farm bill--Concerns over budget deficits may conflict with efforts to find "long-term" policy for grain programs. The relationship between price/income supports and farm prices is attracting unwanted production, creating excessive outlays in the effort to protect small family farms, and pricing U.S. exports out of world markets.

Hofstad/Sandness proposal to President Reagan (letter attached)--
Presidential commission to investigate forming a national food and agriculture board patterned after the Federal Reserve Board, with broad authority over production and price programs. Similar to Carlin Food and Fiber Foundation proposal.

* Iowa, Minnesota, Nebraska, North Dakota, South Dakota, Wisconsin and Kansas. Total membership of 350,000 farmers.

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Questions about agriculture board concept:

1. Federal Reserve Board analogy is flawed--Controlling money supply through the sale and purchase of securities is an exact, immediate and no-cost system. Trying to regulate food supply and prices is far less predictable, involves cycles of from 1-7 years, and costs billions for production control and export programs.
2. Political independence would be difficult--Consumers concerned with supply and cost of food would insist on equal representation. Taxpayers concerned with budgetary impact would want cost controls. Congressional Committees responsible for program oversight and financing would react to the cost, effectiveness, and political impact of policy decisions.

Three-point export program:

1. Need immediate increase in export programs (P.L. 480 and blended credit) to relieve expected surplus production this summer and fall. U.S. food aid commitment of 4.5 million tons per year could be doubled in connection with the 30th anniversary of Food for Peace on July 10. Boschwitz bill would raise government-backed loans from \$4.0 to \$7.0 billion in FY-84, add \$500 million to P.L. 480.
2. Presidential Task Force to set long-range farm policy objectives and define government commitment to and responsibility for agricultural trade performance.
3. If protectionism continues to grow, recommend new round of multilateral trade negotiations to address GATT failures: subsidies code violations, unresolved Section 301 complaints, expanding non-tariff trade barriers, production subsidies.

REMARKS OF SENATOR DOLE

LAND O'LAKES, INC.

Tuesday, February 21, 1984--3:00 p.m.--Minneapolis, Minn.

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.

- By 1989 the annual Federal interest cost will amount to \$250 billion--about \$1,100 for every American.
- That \$1,100 per person interest cost is equal to 40% of each person's annual expenditure for food.
- Virtually all economists agree that the sustained enormous deficits that we are facing will be economically harmful.
- 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.
- 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 do you think the Administration will propose
in its FY 1985 budget to deal the with deficits?

- Clearly the Administration will repropose many of the domestic spending cuts from its 1984 budget that have not been acted upon.
- Based on the figures I have seen, the Administration may propose only about \$6 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>
\$5.6 billion	\$13.7 billion	\$17.0 billion	\$22.1 billion

- On the tax side, the Administration will likely propose some tax reforms that will raise revenue, including cutbacks in tax shelters Treasury has endorsed.
- 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?

- It is expected the Administration will recommend \$305 billion in defense spending for FY 1985--a 13% real increase over the 1984 defense spending level.
- This sharp increase in defense spending is \$16 billion over the substantial increase provided for FY 1985 in the most recent Congressional budget resolution.
- 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.
- 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.
- 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

- 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.
- 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.
- 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.
- 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.

- 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.
- 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.
- 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.
- 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.
- 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."
- 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.
- 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

- 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.

- 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.
- 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%.
- 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

- 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

- 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.
- 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.
- 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.

TWO COMMON MYTHS ABOUT THE BUDGET

Myth #1

The reason that we have huge deficits is that the big spenders in Congress have run wild, creating new programs and ignoring the President's tight budget requests.

Reality:

- ⦿ In the first three budget rounds since President Reagan took office, Congress raised the Administration's total appropriated spending request by only 0.6%.
- ⦿ Thus, out of \$1.146 trillion (or 1,146 billion) of total Federal spending over 3 years, Congress increased total spending only \$7 billion over the President's total appropriations request.
- ⦿ Thus, Congressional spending beyond the President's request accounts for only an average of \$2.3 billion per year of the Federal deficit.
- ⦿ The President has signed, not vetoed, virtually every big appropriation bill.

Myth #2

"In 1982 the President didn't get his three dollars of spending cuts for every dollar of tax cuts"

Reality:

- ⦿ The FY 1983 Congressional budget resolution called for \$280 billion in aggregate spending reductions over 3 years and \$98.3 in revenue increases over the same period -- which amounts to \$2.8 in spending reduction for each \$1 in revenues.
- ⦿ In fact, at this point we have neither achieved all of the spending cuts, or all of the tax increases.
- ⦿ Only \$126 billion (or 45%) of the \$280 billion in spending reductions were savings that were intended to come from Congressional action.

- The remaining 55% (\$154 billion) of the assumed savings was to cover interest savings and Administration management initiatives.
- At this point, according to the CBO and the Senate Budget Committee, only 70% or \$87 billion of the \$126 billion of Congressional action savings have been achieved. The breakdown is as follows:

	<u>Target</u>	<u>Achieved</u>
Defense	\$26	\$26
Federal Pay	26	26
Entitlements	31	26
Nondefense Discretionary	35	5
Other Program Reductions	4	4
User Fees	4	0
Totals	<u>\$126</u>	<u>\$87</u>

- We do not have an estimate of how the Administration management savings fared, but we do know that interest rates plunged following enactment of the Tax Equity and Fiscal Responsibility Act (TEFRA) so that we no doubt have achieved a significant amount of Federal interest savings.
- If we can assume that we did as well in interest savings and on Administration management savings as we did in the area of Congressional action items, the total savings would amount to \$196 billion or about \$2 in spending estimates for each \$1 in increased revenues.
- On the tax side, we initially enacted the full \$98 billion in revenue increases called for as part of TEFRA.
- Nevertheless, the subsequent repeal of interest and dividend withholding reduced that total by \$9.4 billion and collections from the life insurance tax provisions will be about \$3.5 billion lower than originally estimated. Consequently, we are likely to actually collect no more than \$85 billion of the revenue increases targeted under TEFRA.
- Thus, if we can assume we will realize \$196 billion of the originally targeted spending reductions, but only \$85 billion in revenues, the final performance on the FY 1983 budget plan will be \$2.30 (rather than the targeted \$2.75) in spending cuts for every \$1 of revenue increases--not a bad final result.