REMARKS OF SENATOR DOLE

NATIONAL BROILER COUNCIL

Did not do

Thursday, October 4, 1984--8:30 a.m.
J.W. Marriott Hotel--Washington

## Our Economic Progress

• Our spectacular recovery remains on track and appears to be moderating to a pace that can be sustained in the years ahead. Real GNP grew 6.1% in 1983, and continued at a 10.1% rate in the first quarter of 1984, and 7.5% in the second quarter. This is the strongest recovery since 1961.

• With national unemployment down to 7.5%, this recovery has created 6.4 million jobs. Factories are operating at the highest capacity levels in 4 years, close to 82%. And the investment needed to sustain future growth is being made: businesses plan to increase spending on plant and equipment by 14.8% this year, the biggest increase in 18 years.

• The best news about this recovery is that inflation is staying low. Producer prices in 1983 showed that smallest increase since 1984. The 1983 CPI increase was just 3.8%, and consumer prices indicate we can sustain strong growth with low inflation. Consumer price increases are running at around 4%.

• Growth, lower inflation, and major tax relief have translated into real income gains for all Americans. Real personal income has risen by $116 billion since the low point of the recession (August 1982). For the first time since 1978, real income is growing.

• All the trends in the economy look good. Most observers believe the recent drop in the economic indicators just show a moderating pace of recovery. Meanwhile the prime rate--which rose from 6.5% to 21.5% under Carter-Mondale--stands at 13%. The misery index, which peaked at 24.5% in March of 1980, is around 11%. Auto sales and housing starts are up.

## The Deficit Problem and Sustaining Recovery

• Just about everyone agrees that the deficit remains the number one obstacle to sustaining the strong recovery we have enjoyed to date. If we don't cut the deficit Federal debt will nearly double over the next five years to over $10,000 for every man, women, and child in America.

- By 1989 it would take half of all individual income tax payments just to pay the interest on the debt; the interest cost would be $250 billion, or about $1,100 for every American.

- Record deficits cannot be sustained, and they have very real costs. They drive up the cost of home mortgages, they threaten to rekindle inflation or crowd out private investment and lead to a new recession. And they hurt our businessman trying to compete overseas by keeping the dollar high, thus raising the price of goods we try to export.

- We have made a good start on the deficit problem with this year's Deficit Reduction Act. The President took the lead by calling for bipartisan negotiations on a down-payment deficit package. The so-called Rose Garden plan that emerged helped us pass the Deficit Reduction Act, which makes real spending cuts of $13 billion and raises about $50 billion in revenue, largely by reforms to close off tax shelters, plug loopholes, and defer some tax breaks scheduled to come on stream.

- The immediate goal now is to fulfill the entire Rose Garden plan--aimed at saving over $140 billion over three years--by keeping the appropriations bill in line with that budget blueprint. That will ensure that the primary emphasis in deficit reduction remains on spending restraint, where it belongs.

<u>Mondale Deficit Plan</u>

- The Mondale plan to cut the deficit just is not credible and not very specific on the spending side. Where President Reagan puts spending reduction and economic growth first in the deficit battle, Walter Mondale reaches right for the tax increase option as a first resort. By tampering with tax indexing, the Mondale plan would hit between 30% and 40% of taxpayers: those with income over $25,000. The Mondale surtaxes and rate changes for upper incomes are just more of the same kind of backward fiddling with the tax structure that has made our tax code so inefficient. By contrast, with his rate cuts and tax indexing, President Reagan set us on the path toward a lower-rate, broader-based and fairer tax system. Mondale would set tax policy back at least four years.

- On spending, the Mondale plan has very little that is real. $51 billion is saved from hoped-for interest savings, and while $54 billion in spending cuts are proposed, so are $30 billion in <u>new</u> spending. That means $24 billion in real spending cuts by <u>1989</u>, mostly unspecified (like 'management initiatives'). Of the claimed $176 billion in deficit reduction in this plan, $153 billion comes from tax hikes, interest savings, and economic growth assumptions.

## Major Tax Reform

- There is still a lot of interest in major reforms to make tha tax system simpler, fairer, and economically more efficient. The Treasury Department will report its options in December, and the Finance Committee is holding four days of hearings to hear from the public about possible alternatives.

- Everyone wants to improve the tax code, but it is important to build a consensus for any far-reaching changes, or else the new system begins to unravel again right away. So it may not be possible to jump into a new system in one step: we may have to proceed gradually, indentifying areas of agreement as we go along.

- We need to know how people really feel about the trade-offs they would face under a lower-rate, broader-base, or modified 'flat' tax. Would they really give up their favorite deductions and credits in return for lower rates? Or do they really care most about the bottom line--the size of their tax payment?

- We may be able to agree on some basic principles of tax reform, set a goal, and take initial steps toward that goal. That is why we are examining in some detail the more popular flat or 'quasi-flat' proposals, plus consumption taxes and the like. The important thing is to be sure that we are making an improvement: otherwise it is not worth the effort.

## NBC CONCERNS OVER FOREIGN POULTRY SUBSIDIES

- In September, 1981, the U.S. poultry industry filed a petition under Section 301 of the Trade Act of 1974 claiming that the European Community (France) and Brazil were unfairly subsidizing poultry exports. There is no indication the case will be resolved soon.

- Chicken exports from the U.S. in 1981 were 340,000 metric tons. 1984 estimates are less than half of that figure.

- The rising value of the dollar has been a factor as it has risen 50% against an average of 11 major foreign currencies since 1980. At the same time, Brazil has devalued its currency, making the U.S./Brazilian currencies gap wider.

- On October 16, 1984, the U.S. and the EEC have scheduled another bilateral meeting to discuss a number of trade issues. One discussion will focus on how the grain restitution is calculated as a part of the EC chicken export subsidy. After more than five meetings with the EC, NBC feels another meeting will result in little, if any, progress.

- NBC claims that Brazilian officials continue to be very reluctant to meet and discuss trade issues. When the Brazilians do meet, they are ill-prepared and come without authority to officially address the issues.

- NBC is seeking support for their section 301 trade dispute with U.S. agencies such as Treasury, Commerce, and the USTR office. USDA has supported the case but the State Department has not been interested in the issue.

# TALKING POINTS - 1985 FARM BILL

* GENERAL - Recent comments have indicated agriculture is at a "cross-roads" point or a "watershed time" and that the 1985 farm bill will affect agriculture into the twentieth century. Ag policy has generally evolved slowly, without radical changes.

* BACKGROUND - In 1985, policy makers will be sensitive to recent high costs of commodity programs which saw CCC net expenses rise from $4 billion in 1981 to $19 billion in 1983. The Administration has conducted six listening tours and have prepared several background papers. The private sector has had numerous study groups in addition to traditional groups studying the issue. Other groups such as the cattlemen, pork producers and input suppliers will also be involved.

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

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

* INPUT INDUSTRIES - Should not get hooked on expansion of agriculture capacity unless there is an indication that there will be long-term demand available to meet domestic production and foreign competition.

* DISCUSSION TOPICS

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

2) The U.S. should evaluate the effectiveness of the Farmer-Owned Reserve to determine if it should have a cap or be eliminated. Has outlived its' original purpose of providing a reserve for Soviet imports since the 1980 embargo reduced that market. Now serves as an artificial demand source locking up production which hangs over the market as a depressant for years to come.

3) Develop a formalized agricultural trade policy consistent with domestic policy. The newly signed National Commission on Agricultural Trade and Export Policy is scheduled to issue an interim report by March of 1985 with a final report due in 1986.

TALKING POINTS - 1985 FARM BILL

4) The U.S. will want to evaluate the possible use of export subsidies on a targeted basis to prevent loss of foreign markets by unfair price-cutting policies of foreign competitors. Although we should not seek to get into an across-the-board trade war, we should evaluate the possible U.S. response to export subsidies and nontariff trade barriers.

5) The U.S. should prepare to renegotiate and perhaps broaden the GATT subsidy code with respect to agriculture. A thorough review of GATT could strengthen the process and make it more effective in dealing with trade conflicts.

6) Further credit is not the answer for real demand or cash. It only softens the blow of our domestic overcapacity encouraged by domestic policies. The key would be to encourage economic development and political stability in Third World countries.

7) The U.S. should look at a major and multi-year increase in our food aid commitment through the PL-480 program. Considering that half of the world still lives in poverty, this represents a considerable potential export market. This approach doesn't count as a subsidy but rather as food assistance. Lowers stocks without obligations by foreign countries.

8) The U.S. should emphasize efforts to reduce protectionism and trade barriers both domestically and internationally.