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United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

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TO: Senator Dole
FROM: George Pieler
SUBJECT: Iowa Bankers talk

For your talk to the Iowa Bankers on Tuesday, April 16, the group indicated an interest in hearing about the deficit problem as it relates to the problems of American agriculture.

Attached are one page on the budget plan and another page on the deficit/Ag relationship.

Attachments

White House-Senate Budget Plan

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

o To demonstrate how serious this budget is: 17 programs would be eliminated. Defense would be held to a 3% increase in each of the next three years: half what the President wanted. And permanent savings would be achieved in all inflation-adjusted, non-means tested entitlement programs by guaranteeing a minimum 2% COLA for the next three years but using a CPI-2 formula if inflation is over 4%.

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

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

o The plan meets our goal of reducing the deficit to 2% of GNP by 1988, with reductions totalling about \$296 billion over three years.

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

Why the Deficit Matters

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

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

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

Deficit and Agriculture

- Reducing the deficit is the most decisive step we could take towards restoring stability in the agricultural sector: meaning not just farmers, but the innumerable businesses and enterprises--suppliers of farm equipment, distributors, manufacturers of fertilizer, etc., as well as financial institutions.
- Agriculture will benefit from deficit reduction in two critical ways. First, lower interest rates will reduce the crushing debt burden that is squeezing the farm community today. Second, stabilizing our fiscal situation and guaranteeing moderate, sustained growth will improve our export position as the value of the dollar moderates.
- In addition, deficit reduction greatly decreases the threat of renewed inflation. The inflationary spiral of the '70's is the reason agriculture got into such difficulty in the first place, as land values skyrocketed and too many people in farming--and in banking--gambled on continued inflation. The situation just was not sustainable, and there is plenty of blame to go around: including blame to the government, which did not show a lot of foresight either.
- As everyone knows, farmers benefit more than anyone from a stable economy. Their greatest enemy is a volatile economy, with demand and prices swinging high and low each year--that makes it impossible to plan for production in a realistic way. If we want to reduce the risks for farmers, we need to reduce the deficit and restore some semblance of stability and consistency to our economy.