MICHIGAN: FINAL BRIEF

1) Since we must have wheels up for North Carolina at 11:45 am, I suggest we start our morning activities at the Michigan Farm Bureau at 7:45 am rather than the current 8:10 starting time. This would permit us to firm up the schedule and assure us an on-time departure.

2) The Michigan Farm Bureau Breakfast will have approx. 75 attendees. Tom Guthrie has arranged a headtable of six persons. Thus far you will be seated at the headtable with Guthrie, Jennifer Murphy-Gast, Mr. W.J. "Wally" Moline (who will introduce you) and three other Farm Bureau members.

3) Mr. W.J. "Wally" Moline is the Director of Cooperative Extension Services at Michigan State University. He is also the Associate Dean of the College of Agriculture and Natural Resources at MSU. Moline is an agronomist who received his degrees from Wisconsin State, the Univ. of Minnesota, and Iowa State.

4) Farm Bureau members would enjoy a period of Q&A after your 15-20 minute talk.

5) Jean Muldoon is bringing two or three Michigan Right to Life leaders with her to your 10:30 am meeting. Muldoon listed the attendees as follows: Barbara Listing- President of Michigan Right to Life; Gordon Timmer- Treasurer of Michigan Right to Life PAC; Diane Gargala- Secretary for Michigan Right to Life; and of course Jean Muldoon who serves as chairman of Michigan Right to Life PAC.

6) Since we will not be able to make our meetings with Focus Hope and the Michigan Milk Producers, you may wish to call the heads of those organizations. Their numbers are listed below.

FOCUS HOPE--- Father William Cunningham, Director. 313-883-7440.
Eleanor Josaitis (Joe-situs) Co-director. 313-883-7440.

MICHIGAN MILK--- Elwood Kirkpatrick, President. 313-354-9780.

FYI----- Molly has informed me that Governor Martin will provide transportation for you and Mrs. Dole upon your arrival in North Carolina.

Matt Mulcahy

AGRICULTURE TALKING POINTS: MICHIGAN

Farm Exports

o The outlook for U.S. farm exports is an unqualified disaster. Export value has fallen from $44 billion in 1981 to an estimated $27.5 billion in 1986 -- a 38% drop. Volume in the same period is down from 162 million tons to 116 million tons -- down 29%.

o Last Friday, the Commerce Department reported that farm imports exceeded exports for the first time on record in May: Imports for the month totalled $2.2 billion compared to exports of $1.9 billion, for a net deficit of $350 million.

o Also on Friday, I wrote the President asking for a personal meeting on how to boost our agricultural trade. This request followed two letters to Secretary Lyng and a meeting attended by a broad range of farm and export interests and top Administration officials in the Capitol the previous week.

o I warned the President that failure to act could result in legislation in the next two-three months. I specifically asked him to consider the following:

--Use authorities in the 1985 Farm Bill to lower the effective loan rates or implement across-the-board export subsidies.

--Ensure that the Soviet Union adheres to the long-term agreement to buy at least 4 million tons of wheat and corn each year.

--Establish a special food aid program for the Philippines and Mexico.

--Implement an export credit program targeting traditional U.S. agricultural export customers that have been adversely affected by declines in oil prices.

--Take an aggressive stand toward eliminating unfair trade practices in any new round of GATT negotiations.

--Redirect foreign aid to avoid enhancing the ability of foreign countries to compete with U.S. farmers in third-country markets.

o The marketing loan concept -- where producers repay their loan at less than face value -- is already in effect for rice, and will be in place for cotton in August. The Administration has expressed opposition to using ther marketing loan for wheat, feed grains, and soybeans on the grounds it will result in an additional $3.3 billion in outlays.

o One way to avoid outlays is to make part of the loan -- say 20% -- in commodity certificates. USDA could then agree to forgive all or part of the certificate repayment. This is similar to the so-called "loan deficiency payment" idea which I included in the Farm Bill: Rather than taking out a CCC loan on their crop, farmers are given an option to receive a payment. The amount would have to be sufficiently attractive to get producers to forego participating in the loan program. Farmers who have already taken out a loan could be offered the payment as an inducement to repay it. The payment could also be made in certificates, so the net reduction in CCC outlays could be considerable. Some of these options may require legislation -- I have asked USDA lawyers to check them out.

Agricultural Trade Issues

o Our farm trade problems with the European Community are continuing to grow. While the EC backed off of restrictions on oilseed product imports by Portugal, it still intends to impose duties on feed grain imports by Portugal, effective on Tuesday. Administration officials are trying to work out a last minute deal before our own restrictions on EC farm exports become active.

o The EC is also blocking efforts to include unfair trade practices in agriculture on the agenda for the proposed new round of negotiations under the General Agreement on Tariffs and Trade (GATT). Without agriculture subsidies on the table, I see no way the Senate could go along with a process that will stymie efforts to redress EC subsidies over the next 6-7 years.

o There is growing friction with the Canadians over corn trade as well as softwood lumber, pork products, and potatoes. The Ontario corn producers have filed suit against nearly every U.S. farm program as indirect export subsidies, which are driving down their prices. The National Corn Growers Association is complaining that Canadian corn is benefiting from the program we put in place in May to provide relief to small domestic ethanol refiners (one free CCC bushel for every two and one-half processed through September 30).

U.S.-Canadian trade, at over $160 billion annually, is the largest trade relationship in the world. Hopefully, we can defuse these issues or let them cool off -- we are good neighbors, and neither of us can afford a trade war.

Wheat Poll

o USDA/Farm Bureau and some state wheat organizations (Nebraska) and the AAM are in a pitched battle over the current wheat poll. Ballots went to every producer of record in 1981-85, and must be returned by July 7. The question on the ballot is whether the producer favors mandatory production controls which will result in market prices of 125% of variable production costs.

o Current domestic U.S. wheat usage is about 1.0 billion bushels. If wheat prices went up and feed grain prices remained where they are under the farm program, wheat feeding would dry up in the Great Plains states -- including feedlots in western Kansas. As a result, usage would drop to about 800 million bushels, compared to an average crop of 2.5 billion bushels.

In other words, mandatory production controls could require a cutback of between one-half and two-thirds in base or quota acreage. This may work for some producers, but not many. Some of the support for the poll in the Great Plains states will be a protest of the Administration's non-trade policies. If that were the issue on the ballot, I think the vote would be unanimous among farmers -- it could carry Capitol Hill by a wide margin.

Dairy Program

o We've just gone through the headache of launching the herd buyout program in April, and dairy farmers are already talking about what to do about the surplus after the program expires in September 1988. Some producers are pushing production or marketing quotas, and may start a "race for base" to reserve a high quota.

o I want to join the dairy leaders in the House (Coelho, Jeffords and Gunderson) in telling dairy farmers that we are not going to replace the dairy program in the farm bill before 1989, and maybe before it expires in 1991. We may have to modify the support price cuts if the surplus returns to pre-buyout levels.

General Farm Economy

o As we all know, the farm economy is continuing to falter, and represents a blight on an otherwise favorable economic picture. Land prices are stabilizing, but could fall further if farm income support payments are reduced under any new leigslation. The Farm Credit System has yet to take the need for substantive reform seriously: the Farm Credit Administration has its work cut out for it. Congress is not going to lean on the FCA or the Administration to use federal assistance under last December's credit bill until the FCS gets it collective act together in redistributing assets to its insolvent members.

o Farm program costs are in the new Budget Resolution at about $23.5 billion for FY-87, but the actual level in FY-86 could approach $30 billion and could remain there next year. If the economy sours even slightly, the FY-88 G-R-H target deficit of $108 billion could expose agriculture to a massive sequestration cut of 20-30%.

o Some Democrats are anticipating this scenario for 1987, and are dusting off last year's mandatory production and marketing control legislation. Clearly, some targeted savings may need to be considered -- the large deficiency payments being made to producers who have subdivided their operations into 10 or 15 farms should be corrected. These producers don't need the money and we don't need to spend it.

EFFECTS OF TAX REFORM ON AGRICULTURE

1. Limitation of losses for tax purposes

* "Passive" investors who have no material role in managing a farm cannot deduct losses resulting from the investment against other income. Thus, the investors can shelter all income from farm operations by using paper losses generated by the farm operations, but they cannot shelter any income from other sources such as professional income from a dental practice.

* Current law sets no such limits.

* 1982 farm proprietorship profits were $7.7 billion while farm losses for tax purposes were $19 billion - benefiting high income investors with large off-the-farm incomes.

* The provision would be phased in over a 5-year period, fully effective by 1991.

* This could impact persons who cash-rent land to tenant farmers, according to some. Those who rent land on a crop-share basis probably would qualify for the loss deduction.

2. Special farm debt restructuring

* Heavily indebted farmers could restructure debt with lenders without having to treat the cancelled portion of the loan as income subject to taxation. This means that a bank could write down the principal of a farm loan without the writedown being considered income to the indebted farmer.

* Current law taxes as income cancelled debt if the taxpayer is technically solvent.

3. Limitation of "prepaid" expenses

* With certain exceptions, farmers could deduct no more than 50-percent of expenses such as feed and fertilizer not used or consumed during the year.

* Under current law, expenditures may not be deductible in the year paid if they do not clearly reflect income.

* Prepayment shelters are especially used in farming contexts such as cattle feeding since investers use "cash accounting" in figuring taxes; thus sheltering other income earned during the year.

* Committee bill makes no change in current rules covering eligibility for the use of cash accounting.

(more)

4. Slower depreciation for single-purpose farm structures

* Single-use buildings - such as chicken coops, hog confinement sheds, etc. - could be depreciated over a 10 year period.

* Current law allows for 5-year depreciation.

* Rapid depreciation as we have now is widely acknowledged to be a key factor in encouraging large-scale farm operations, giving a competitive advantage over family run farms.

* Example: Combined with the tax credit, rapid depreciation gives an investor in the 50-percent bracket who builds a 500 sow farrowing barn a federal tax break of nearly $8 for every pig sold; Kansas ranks in the top 10 states for hog production.

5. Limitation of industrial development bonds for agriculture

* No more than $250,000 worth of tax-free bonds could be issued for agricultural projects.

* Current law has no such limitation.

* Some express concern over the use of industrial bonds for large scale farming operations, again giving a competitive edge over family farms.

* Example: An Irish-owned corporation recently announced plans to use such bonds to build a 10,000 dairy cow operation in Georgia; another has used bonds to build a hog "factory" in Michigan.

6. Two-year extension of "Aggie" bonds

* Extends to 1988 the authority for small issue bonds, limited to $250,000, to help first-timne farmers.

* Current law authorizing such bonds is due to expire this year.

7. Health insurance deductions for self-employed farmers

* Farmers and other self-employed individuals not covered by company plans could deduct 50-percent of health insurance premiums.

* Current law does not allow such a deduction, although some farmers are able to treat premiums as a business expense.

(more)

8. Income Averaging

* Farmers would be exempt from the bill's repeal of income averaging.

9. Investment Tax Credit

* Unused investment tax credits could be carried back over the prior 15 years allowing farmers up to $750 in refunds in years when the taxpayers had enough tax liability to be offset by the credit. (This is a more limited version of the steel company rule.)

* * *

MICHIGAN FARM BUREAU
7373 West Saginaw Highway
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Lansing, Michigan 48909-8460

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The Wheat Poll —
THE REST OF THE STORY
(See enclosed materials for important facts about the Producer Wheat Poll.)

The Wheat Poll — The Rest of the Story

■ ***History shows that mandatory controls do not work.***

The number of farms declined from 5.6 million in 1950 to 2.9 million in 1970 when U.S. farm policy utilized mechanisms to achieve the greatest degree of government control to balance supply and demand.

■ ***Wheat exports will decline sharply under mandatory supply control programs.***

Mandatory control programs are based on the erroneous assumption that farm prices will rise in response to production cuts and that foreign markets will willingly take U.S. products regardless of price. Since 1979 the U.S. has already lost market share to lower-priced foreign competition. This program would cause farmers to produce wheat only for the domestic market, less than half of current annual wheat use.

■ ***Acreage set-aside requirements will be massive.***

Since the wheat acreage base will be an average of wheat acreage from 1981 through 1985, producers who did not grow wheat in each of those years will have a reduced acreage base initially. The large set-aside requirement would be applied to the reduced acreage base, cutting allowable wheat acreage by 75 percent or more for many farmers.

■ ***Because of reduced acreage and reduced demand, farm income would decline despite higher prices.***

Sales volume and price combine to determine gross receipts. Mandatory production controls will reduce domestic and export demand resulting in lower cash receipts for farmers.

■ ***Mandatory wheat controls are only the first step toward an agriculture managed by government bureaucracy rather than by farmers.***

Land retired from wheat production would need to be regulated to keep it from competing with feed grains, soybeans and other program and nonprogram crops. The only way to keep wheat users from substituting other grain products would be to control them also, leading to controls in livestock markets, and on and on. This would mean that farmers would surrender their rights to manage their own farms to the federal government.

■ ***Import restrictions would be imposed to keep out foreign competition.***

Several grain companies have begun importing foreign grain because of price competitiveness. Import barriers would only lead to foreign retaliation, hurting other U.S. exports.

■ ***Rural communities would be impacted by mandatory controls.***

The loss of jobs through reduced demand for seed, fertilizer, equipment and farm supplies would reduce demand for commercial businesses, retail and banking services. When the crop is cut in half, farmers do not need as many services.

■ ***Enforcement of mandatory controls would require expanded policing of farmers' activities.***

A new layer of bureaucracy would be needed to monitor programs and issue penalties in the form of massive fines for noncompliers who sell outside of the marketing restrictions.

In June, wheat farmers will be asked if they favor the imposition of mandatory production limits that will result in wheat prices not lower than 125 percent of the cost of production (estimated to be $4.04 per bushel). It's an individual decision, of course, but we encourage you to make your decision based on as many facts as possible — not promises.

Given the current levels of carryover stocks, acreage set-aside requirements under a mandatory control program would likely be in the 50 to 60 percent range and could well be higher as demand shifts to other products and markets. Producers who did not grow wheat in each of the base years initially will have a further reduced acreage base.

A mandatory control program would cause farmers to produce wheat only for the domestic market.

In 1983, when U.S. farmers idled 80 million acres as part of the payment-in-kind program, foreign producers responded by planting an additional 50 million acres, largely nullifying the cutbacks.

The United States must become more competitive with foreign producers.

FIVE REASONS WHY U.S. WHEAT GROWERS CAN'T IDLE THEIR WAY TO PROSPERITY:

- ★ Australia
- ★ Argentina
- ★ The European Community
- ★ Canada
- ★ China

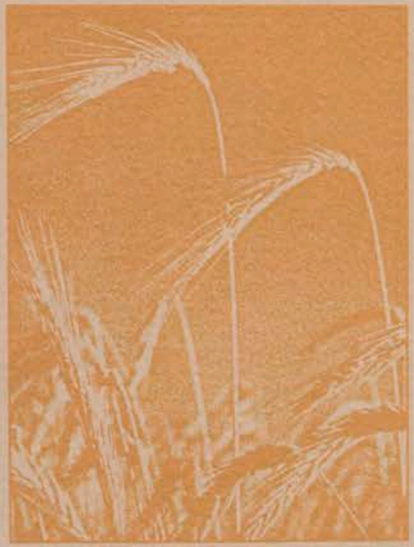
Vote NO on the Wheat Poll!

Wheat Poll Timetable

- Ballots mailed to wheat producers no later than June 18.
- If you do not receive a ballot, contact the county ASCS office to obtain one.
- When you have received your ballot, vote immediately. It is important that you **mail your ballot in the envelope provided.**
- Be sure to complete all questions on the ballot. Your ballot will not be valid unless all items are filled out.
- Your ballot must be postmarked on or before July 7, 1986.

VOTE "NO" ON THE WHEAT POLL!

Farm Bureau



Before you vote for wheat prices set by government, consider whether you can really afford a mandatory control program.

Farm Bureau

June 11, 1986

Dear Michigan Wheat Grower:

In just a few days you will be receiving a ballot from the U.S. Department of Agriculture requesting your opinion. The 1985 farm bill (Food Security Act of 1985) contains a provision requiring an apparently innocent poll of all wheat growers; in effect, asking them if they would like goverment guaranteed prices equivalent to 125 percent of the cost of production.

Who wouldn't like to be guaranteed a profit? Right? Wrong! A good price on severely limited production would mean reduced net income for virtually all growers. It is estimated that wheat production would likely be cut by at least 55 percent! We don't want to cut farm incomes!

These economic facts and more are presented in the enclosed brochure. The real danger of government supply-management lies in the possibility of bureaucratic control of our entire farm and ranch industry. Federal controls on wheat production and marketing would be followed by mandatory controls on feed grains, livestock, poultry and dairy.

Poll support for a wheat referendum will be used over and over by some politicians as evidence of "need" for a controlled agriculture.

The wheat poll is anything but innocent. It represents the latest attempt to downplay the market price system in favor of national, government-directed "control" of markets and supply.

Take a few minutes now to read the enclosed brochure, then exercise your right and vote as soon as you receive your ballot.

I hope you will agree with me and Farm Bureau: Vote "NO" in the wheat poll.

Thank you for your time and consideration.

Sincerely,

Elton R. Smith

Elton R. Smith, President
Michigan Farm Bureau

P.O. Box 30960 • Lansing, Michigan 48909

To EKS
Please return to REB

The Detroit News
615 Lafayette Boulevard, Detroit, Mich. 48231
A Gannett Newspaper
Published Mornings, Evenings and Sunday

14A/Monday, June 23, 1986

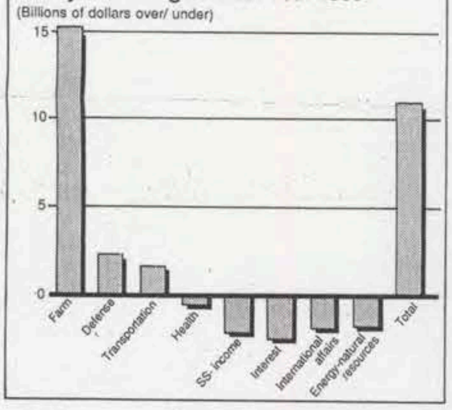
Editorials

Harvest of Shame

Sympathetic tears have been widely and copiously shed for the nation's "struggling farmers," and there are no doubt many cases where sympathy is warranted. But the plain fact is that the federal agricultural budget is soaring out of control. Compassion is turning into a bonanza of middle-class welfare — a veritable harvest of shame.

A special internal analysis for the Department of Agriculture that we have obtained indicates, for example, that so far 156 dairy farmers have received more than $2 million each under the "whole herd buyout" program — a misbegotten effort to reduce "excess" milk supply by slaughtering tens of thousands of cows if dairy farmers promise to stay out of the milk-producing business for five years. According to the USDA, one farmer hit the jackpot to the tune of $9.9 million in the taxpayer-financed slaughter of his entire dairy herd.

Outlays vs. Budget Fiscal Year 1986
(Billions of dollars over/ under)



Yet little is being done to reduce the subsidies received by farmers for producing more food. As a result, gluts of milk and other agricultural produce continue to soar — as does the bill for taxpayers. The Food Security Act of 1985 was supposed to cost a whopping $52 billion over three years. The cost now is estimated at $70-75 billion.

This is five times the level mandated by Congress in its 1985 budget resolution before the farm interests and big spenders got into the act in earnest. It's nearly quadruple the 1983 farm total of $22.2 billion.

The effect on the federal deficit will be substantial. Agriculture alone accounts for most of the budget overrun of $11 billion projected for this year. By comparison, current defense outlays are running only 0.8 percent ($2.4 billion) above budget, and only 6 percent ahead of last year. Defense budget authority is actually down $15.7 billion, or 5 percent below budget resolution levels. Most other major outlay categories show declines. (See bar graph.)

More troubling, the present level of farm payments means that the $23.6 billion already approved for fiscal 1987 is well below what will actually be spent. The 1985 act has made government subsidies so attractive that 85 percent of all corn farmers are now hooked on the government dole. "Deficiency" payments to corn growers could easily exceed $7 billion, three to four times the 1984 level. It's much the same story in wheat.

These skyrocketing subsidies explain why, contrary to the public perceptions, real per capita income in the nine grain-belt states has risen nearly 10 percent faster than the nation as a whole, with Nebraska having the highest per capita income rise in the country last year, 9 percent compared with 5.3 percent nationwide. In fact, since 1982 real per capita income in the farm belt has risen 9.4 percent, compared with 8.4 percent for the nation, and nearly three times as fast as it did (3.7 percent) in the last three years (1977-1980) of the Carter administration.

And why not? In Nebraska this year corn farmers will receive more than $750 million in deficiency payments, up from $206 million in 1984 and more than nine times the level of subsidies in 1978! In supposedly hard-pressed Iowa (whose per capita income has risen about on a par with the nation as a whole) corn deficiency payments alone could reach $1.5 billion, up from less than $470 million in 1984. In fact, in the Iowa congressional district of Berkely Bedell, one of the co-authors of the 1985 Food Security Act, corn deficiency payments could easily top $440 million, not to mention another $10-15 million in dairy subsidies.

This sort of thing is a disgrace. We have long opposed the efforts of Detroit and other cities to chisel ever-fatter subsidies out of the national treasury. We can't in good conscience stand by while the farm states do the same — with even less justification. It is absurd to be spending tens of billions on farmers, who for the most part are relatively affluent, while cutting back on welfare for the truly needy. It is even more ridiculous to be paying farmers to produce less, while professing concern about "hunger in America."

Farmers themselves should be concerned about this trend. Government handouts tend to produce dependency and pauperization in the long run. They also demoralize the majority of farmers who are making it on their own, through dint of hard work, intelligence, and risk-taking. What started as a well-intentioned move to tide people over some bad times has turned into a classic welfare boondoggle of monumental proportions.

Career Advice From Liberals

Two weeks ago the New Republic, a well known neo-liberal rag, which happens to be our favorite magazine, published a letter from a reader, Michael C. Sloan of Bloomington, Ind., who had taken TNR's recent yuppie bashing to heart. Mr. Sloan wrote:

I am a 22-year-old college graduate with a degree in English Lit from a "major, private university." I have noted with alarm your recent disparaging articles on both the law and investment banking professions. So I ask you, what should I do with my life? The Placement Center has been no help, and — sorry Mr. Barnes — I don't look good in uniform. Your speedy reply would be appreciated.

So this week as many editors, copy editors and contributing editors as could be rounded up offered

And Robert Reich, famous for inventing the crackpot theory for full employment for economists know as "industrial policy," echoed advice given to another graduate once. "Look inside yourself. Focus on your values, on what brings you satisfaction and gives you meaning. If you find nothing, consider plastics."

One editor made an argument for the teaching profession; a brilliant foreign policy analyst who was, himself, trained as a doctor told Michael that being a doctor is a sure way to do good; a professor told Michael to go to graduate school because the Ph.D. glut is ending. And TNR publisher Marty Peretz, who married big money and so collects art, suggested that Michael become an artist.

An editor who tirelessly tirades against conservatism in general and President Reagan in particu-

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So this week as many editors, copy editors and contributing editors as could be rounded up offered Michael three solid pages worth of career advice. Herewith a few samples:

"Freedom to try and fail is the distinct virtue of American capitalism. ... You might as well take advantage of it. The best way to do this is in some sort of entrepreneurial venture, where you can create jobs, fill a need, and make a living too. ... What America needs now are smart people to rebuild our industry so we don't cede that whole economic sector to the Japanese and Southeast Asians ..." from West Coast editor, Mickey Kaus

Experiment, Dorothy Wickenden suggested. Work in the Silicon Valley, in Detroit making cars, volunteer in a shelter for the homeless. Work on an oil rig, as a coal miner, a farm hand or a cook in a roadside diner. And Leon Weiseltier recommended "a wakeful sojourn in a foreign land. There you will be taught by strangeness about yourself and about things outside yourself. A more intelligent decision about your life is sure to result."

You can make a fortune by opening a truly honest chain of auto repair shops, advised house conservative Fred Barnes. Or, become a minister without a political agenda — offering real help to people (in both cases).

TNR editor Michael Kinsley reversed field and told Michael to go into investment banking after all. "Better a mediocre lawyer than a mediocre poet," he said. Making piles of money at a young age is a good way to set yourself up to do something idealistic or arty later, with "no drastic effect on your lifestyle."

And Robert Reich, famous for inventing the crackpot theory for full employment for economists know as "industrial policy," echoed advice given to another graduate once. "Look inside yourself. Focus on your values, on what brings you satisfaction and gives you meaning. If you find nothing, consider plastics."

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An editor who tirelessly tirades against conservatism in general and President Reagan in particular advised Michael to become an investigative reporter and expose "right wing pork barrels..." The Washington editor of Newsweek suggested science and medicine as a first choice and using entrepreneurial talents to distribute the benefits of science and research as a second choice. "But if you don't have a scientific or business-oriented bone in your body, then journalism is an honest profession." (That's how we got here.)

One thing stood out by omission in all of this exhortation to help society, to help himself, to learn a few things about life and to do something he will enjoy. Not one of the thinkers at this "neo-liberal" magazine, whose entire raison d'etre is to scrutinize and analyze politics and the Washington policy debate, suggested that young Michael go into the dirty field. This is that much more astonishing considering that the neo-liberal credo on government is, roughly, "If good guys (i.e. people like us — bright, idealistic, clean cut, Ivy League types), went into politics big government would work well."

Can we assume from this that even these hard-core big government fans now believe that government is big enough? That business or academia is a better venue for talent? That idealism will be thwarted irredeemably in politics? That real change and innovation comes from the private sector? Now wouldn't that be something for them to come out and say. We're not holding our breath, but we are reading between the lines, and we couldn't have said it better.

Postscript

Literacy and Voting

The Philippine electoral tribunal asked a commission drafting a new constitution to disqualify illiterate people from voting. Ramon Felipe, chairman of the tribunal, told Reuters that "from our past experience, we found out that illiterate people are not really interested in voting. And often they are manipulated by politicians." True, but we seem to remember certain Southern states in our own country using literacy requirements to manipulate themselves into power.

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