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National Council for Low Interest Rates

Max S. Baucus
Instructions:
Prepare one form for insertion at the beginning of each record series.
Prepare and insert additional forms at points that you want to index.
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Record Type*: Speeches & Remarks

MONTH/YEAR of Records*: May-1984
(Example: JANUARY-2003)

(1) Subject*: Agriculture
(select subject from controlled vocabulary, if your office has one)

(2) Subject* National Council for Low Interest Rates

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* "required information"
SENATOR MAX BAUCUS
NATIONAL COUNCIL FOR LOW INTEREST RATES
MAY 2, 1984

Thank you, Bob (Mullins), for your kind introduction. I also want to extend a special thank you to Ruth Kobell of the National Farmers Union for asking me to be with you today. As most of you know, Ruth is a Montanan—and we are all very proud of the work she has done on behalf of agriculture and rural America.

I want to address the problems that high interest rates cause for farmers and the agricultural economy. If you did a nationwide poll of all farmers and asked what most frustrates them that they have little control over you would probably hear a majority say, "the weather." However, you would also find a number of farmers that answer, "interest rates."

Interest rates have become increasingly frustrating and devastating for farmers. Indeed, continued high interest rates have forced many long-time family operators out of business.

In my home state of Montana, where agriculture continues to be our number one industry, 51 percent of our 8,500 Farmers Home loans are delinquent. In fact, of the 24,000 FmHA borrowers nationwide, 51 percent are delinquent in their payments.
Secretary Block's recent announcement that 10 to 15 percent of America's farmers are in jeopardy because of financial "pressure" indicates the serious problems that low prices and high interest rates are causing farmers.

Commercial lenders tell us that farmers' problems are primarily caused by low prices, high interest rates and high operating costs. I submit that high interest rates and high operating costs are synonymous. Total interest payments now exceed 15 percent of total farm expenses. In the early 1970s, interest accounted for only about 7 percent of these costs.

The increasing burden of high interest rates on farmers is evident when you pick up any weekly paper from rural America and see page after page of farm auctions and ranches for sale. The burden has increased dramatically. In 1977, U.S. farmers paid $7.5 billion in interest payments on $102 billion dollars of debt. In 1980, $16.5 billion in interest payments were made on $157 billion of total debt. We now have over $200 billion in total farm debt--double the debt of 7 years ago. The interest payments on this debt exceeds $20 billion.

This means that farmers pay as much in interest as they see in net farm income. Experience with rising interest rates has shown us that every 1 percent boost in average interest rates on
NON-REAL ESTATE DEBT TAKES A BILLION DOLLARS OUT OF THE FARMERS' POCKET.

I BELIEVE IT IS CLEAR THAT HIGH INTEREST RATES HAVE A DEVASTATING IMPACT ON FARMERS. THE REAL QUESTION WE NEED TO ADDRESS IS HOW WE BRING INTEREST RATES UNDER CONTROL. I HAVE TWO IDEAS FOR REDUCING INTEREST RATES AND MAKING CREDIT AVAILABLE FOR FARMERS, HOMEBUILDERS AND SMALL BUSINESSES.

FIRST, WE HAVE TO REDUCE THE FEDERAL BUDGET DEFICIT. THE SAD FACT IS THAT WHEN THE FEDERAL GOVERNMENT CLOSED ITS BOOKS FOR 1983, IT WAS OVERDRAWN--BY 207 BILLION DOLLARS.

AT THE RATE WE'RE GOING, WE'LL ACCUMULATE A DEBT OF $3 TRILLION BY 1990.

THESE DEFICITS:

- Inflate the value of the dollar.
- Make U.S. exports more expensive.
- Make foreign imports cheaper.
- Drive up interest rates, and
- Worst of all, these deficits mortgage our children's future.
The conventional wisdom says that, in an election year, Congress won't act.

But the deficit is increasing by $22 million an hour.

The fact of the matter is that we can't afford not to act.

Congress must dramatically reduce the budget now.

Not a year from now.

The Credit Control Act:

The second step we can take toward reducing interest rates is to renew the Credit Control Act. Back in 1982, I cosponsored a bill authored by Senator Cranston that would have extended the Credit Control Act through 1985.

Since that time interest rates have come down—but only about four points—from 16 to 12 percent. We now face the prospects of interest rates edging back up.

I know that you are all very familiar with the Credit Control Act. The President is authorized to issue an Executive Order authorizing the Federal Reserve Board to take a wide range of
GENERAL AND SPECIFIC ACTIONS TO GET INTEREST RATES DOWN.

**The Credit Control Act would specifically authorize the FED to deny or limit credit for unproductive corporate takeovers. Not all corporate mergers are unproductive. Many are economically necessary to save jobs.**

But the unproductive takeovers we experienced in 1982 have ballooned in the last two years. During 1981 over $80 billion was spent on corporate takeovers. $34 billion in loans from banks were made to finance takeovers and $70 billion in lines of credit tied up other resources that could have been used more productively by other companies, farmers and builders.

No one could use these funds more productively than farmers. With lower interest rates farmers’ cost of production would be reduced. And farmers’ income would rise.

Farmers spend their income. They spend for new equipment. They spend on new construction. They spend at the businesses on Main street.

Every dollar that a farmer spends generates seven dollars in economic activity. This would provide a much-needed boost to our
SAGGING ECONOMY

In summary let me say that we can reduce interest rates. We can reduce the federal deficit. And we must control the use of available credit by unproductive mergers.

Our task is not an easy one. Reducing the deficit will take willpower and determination. Convincing President Reagan to use the powers of the Credit Control Act may be impossible this year. But Presidents serve four year terms. Whoever serves as our next President must be convinced that interest rates are strangling the U.S. economy.

I want to thank you all again for the chance to be here today. I will be happy to answer questions you might have. Thank you.