

Original of 2 copies

NATIONAL GOVERNORS' CONFERENCE  
1974 WINTER MEETING  
March 6 & 7  
Washington, D. C.

## AGENDA

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P R O C E E D I N G S

(Whereupon, the conference was convened for the opening Plenary Session, Wednesday, March 6, 1974, at 9:20 o'clock, a.m., Governor Daniel J. Evans, Washington, Chairman and Presiding.)

GOVERNOR EVANS: If the Governors will take their seats, others will do likewise. Please take your seats so we can begin this morning's session.

Good morning, this mid-winter meeting of the National Governors' Conference will come to order.

Mr. Vice President, guests, we are delighted to have you here in a time of some concern for the nation; some concern for the issues which face us and which we will deal with in the next couple of days.

We are delighted, also, to welcome some new members. I don't know if all of them are here yet this morning but I would like to introduce them to all of you. I can't see through the lights to tell whether all are here. I do know that we welcome back to our Conference Governor Mills Godwin of Virginia.

(Applause)

And the new Governor of New York, is Governor Wilson here yet? The new Governor of New Jersey, Governor Brendan Byrne.

(Applause)

Governor Vanderhoof of Colorado.

(Applause)

I have one brief announcement that will set the style of any



proposed resolutions so that all the Governors may be aware of it. I know that there are some resolutions, or concerns, about issues at this Conference and under the Articles of Organization it is intended that resolutions, and public policy statements, should be developed through our Standing Committee operation. We generally wait, as you know, for action by the full body at our annual meeting in June.

This winter meeting is not normally suited for the adoption of policy statements, although it may very well be at this meeting there will be issues of such urgency and concern that resolutions are desirable.

It is the desire of the Executive Committee that an orderly procedure be adopted at this meeting, and I urgently request that any individual Governor who seeks adoption of a resolution do so by submitting it to the appropriate Standing Committee.

In accordance with past tradition, we are operating under the Rules of Procedure as we last adopted them at the annual meeting at Lake Tahoe. Under those rules any Governor has the right to seek suspension of the Articles in order to consider an individual resolution and, as you remember, that suspension requires a three-quarters vote, and it is also required to distribute copies of the proposal to all Governors at least one session before the motion is put to a vote.

Therefore, please give notice either this morning or

tomorrow morning about your resolutions so that they can be voted on at the business session during tomorrow's lunch.

The motion to suspend, of course, is not debatable and requires a three-quarters vote to be before the body for consideration, and an equal three-quarters vote for adoption.

An even better way, of course, is to present resolutions to the Standing Committees and then they may be brought to the body if the Committees vote to do so, and in that case no rule suspension is required. But, of course, a three-quarters vote for adoption will still be required.

The Executive Committee of the National Governors' Conference has worked remarkably hard during the course of this year, and before we get into the remainder of this morning's program I'd like to bring you up to date for a few minutes on how I view the state of our States today, and particularly with what comfort I view the operation of our States.

The French have a saying that the more things change the more they remain the same. While few of us as Chief Executives who have plowed through the challenges of the past years would subscribe to the entire truth of that aphorism, as we approach the 200th year of our founding as a Republic one can be struck by at least some similarities.

I had a chance to look back into the early history of this Republic. March 6, 1774 was a Sunday. Happily, in those distant days, the business of the prior six days came to a halt.

Furthermore, on Sundays the citizenry was granted a respite from the blaring headlines, and no one was as yet exposed to the trumpeting of newsmakers disgorging their views on nationwide television, or that hourly jolt of the most pervasive addictive drug known to man today the radio news broadcast.

However the next day, Monday, March 7, 1774 brought things back into perspective. In a leading newspaper of the day, the "Boston Gazette and Country Journal" whose masthead declared it contained "The freshest Advices, Foreign and Domestic" the entire front page was devoted to the impeachment of a high public official for "High Crimes and Misdemeanors". The public official involved was one Peter Oliver, Chief Justice of the Superior Court of Judicature of Massachusetts.

Although the bill of impeachment passed the House of Representatives of the Massachusetts Legislature, the Governor refused to countenance the proceedings. When the British forces evacuated Boston in March 1776 Oliver, a Loyalist, left for England where he dies in 1791.

A far more common occurrence, however, has been the low regard in which state governments have been held in the past few years. They have been reviled, disparaged, ignored and discounted in both academic and political circles, not to mention by citizens generally. The "failures of the states" have been chronicled for years, most energetically since the 1930's when political scientists saw the national government as action oriented and state government

as reluctant and timid.

David Brinkley in 1967 said that "States are pretty much disappearing as a political force; they are almost through. I think in another generation they will be, politically speaking, just about insignificant."

The late Senator Everett Dirksen, in a characteristically orotund sentence, predicted in 1965 that in the not too distant future "the only people interested in state boundaries will be Rand-McNally."

Perhaps the saddest commentary on the state of the states during the 1960's came from former Senator Joseph Tydings who wrote--again in 1967--"For a hundred years, the states have been losing ground to the federal government and they have sunk into lower and lower repute in the eyes of the electorate. In recent years, they have been increasingly bypassed as federal funds to cure urban ills go directly to our cities. Unless the states act decisively to shake off their lethargy, and meet the challenges of this decade and the next, they will wither on the vine. This is, I believe, their last chance."

Not only have we allowed too many of these disparaging comments to go unanswered, but on occasion we have allowed the federal government to speed the states onward to that so often predicted oblivion.

I, for one, simply am not content to see the states or the office of the governor "wither on the vine." I am not content

to allow the federal government, the congress, or the administration to disregard the vital role of state government. We have, for too long, allowed others to take massive credit for domestic programs while the majority of funds have come from state and local tax dollars.

The Great Society Program of the 1960's capitalized on a direct federal-local government concept. Because it failed to recognize the necessity of statewide planning and coordination, many of the even conceptually valid programs have faltered. Since then the states have been in the vanguard in calling for inter-governmental coordination and responsibility.

In an effort to decentralize the federal government and return decision making to the people, the national administration announced the beginning of the new federalism in 1969. Heralded as a new era for state/federal/local government partnerships, the concept was vigorously supported by state and local officials who have utilized the theory and practice of revenue sharing for many years. In fact, of the 51 state and federal legislative bodies only one--the federal congress--seems to regard revenue sharing as anything out of the ordinary.

Although four separate general revenue sharing checks have been sent to each of 38,000 state and local governments, there have been only 68 cases where the expenditures of general revenue sharing funds by state and local governments have been questioned. No other federal program in our history can claim this

ratio of success.

As the states continued to call for a strong state role in federal programs and cited innumerable instances of program failure where state knowledge had been excluded, they strongly supported--and I think we all do--the Administration's streamlined approach to the federal system. Governors believe in the bloc grant concept behind special revenue sharing programs for education, criminal justice, manpower and community development.

We have been deeply concerned, however, that the apparent thrust of special revenue sharing was to shift problems from the federal to the state and local level without a commensurate sharing of dollars. As the governors continue their call for an intergovernmental sharing of responsibilities, and dollars, they will vigorously support statewide transportation programs including mass transit, and continue to seek full funding of the social services program which is one of the most innovative programs devised in recent years to aid our handicapped citizens.

Governors repeatedly seeking the release of impounded funds for economic development, transportation, water pollution control, and coastal zone management, played a major role in the final release of these impounded funds. Our concern over impoundment stemmed not from an effort to obtain easy federal handouts, but rather from a genuine concern over fiscal policies.

State legislatures and local governments had already allocated state funds based on anticipated federal matching funds.

Citizens had voted major bond issues on the promise of environmental and economic progress. When matching funds failed to materialize, the states were left with financial commitments and commitments to the citizens of the states which would not be met.

In our pledge of allegiance, we speak of "One nation, under God, indivisible." United we must be, but let it not destroy the diversity which is this nation's strength.

For more than a generation attempts have been made to poke and prod and mold us into a homogeneous mass. We have forgotten much of our heritage of fiercely independent states who gave part of their freedom to a common union. They retained, however, the ability to experiment; to blaze new paths, and even the opportunity to fail to try again.

The states and their people gave birth to the powers of cities and counties, and also gave birth to a nation. Few of us remember that the states, in those days, retained to themselves the ultimate authority of all and that was the collective ability never used up to now to call a new constitutional convention.

Our national progress must then lie in a shared experience. Fifty working models of representative democracy can develop new ideas. The success of one will spread to others. The failure of one will not bring national disaster.

Revenue sharing did begin first in the states, but it is not the only successful federal program concept to originate locally. Aid to education, land use planning, mass transit and

welfare benefits are all programs whose original concepts began within state government. States today are meeting this challenge of true federalism.

This is one reason governors have so often pleaded for time to talk to each other during National Governors' Conference meetings. The Conference provides us with the opportunity to share our experience, and glean ideas from each other. Unfortunately, in the past this sharing has been only a side benefit of our Conference and never one on which we fully capitalized.

The National Governors' Conference Executive Committee has discussed this issue repeatedly during the year, and proposes to you today that we begin a concerted effort to share the best of state government not just with each other but with state and local officials, the news media and others interested in better government.

We propose a new format for the annual meeting, a review of the state of the states. You have received preliminary letters on this subject asking you to present a paper to the National Governors' Conference detailing a program in your state of which you are particularly proud, and which concentrates on the states' leadership in the federal system.

Many of you have already responded with outstanding presentations. Papers you have submitted treat such varied subjects as land use planning, school finance, energy, emergency medical services, social services delivery, inmate education and



training, management improvement, productivity, volunteers in state government service, regionalism, tax relief and many others. Publication of the papers is contemplated, and they will be used as source material for the program at the annual meeting.

This concept stems from the annual meeting last year when David Broder of the Washington Post challenged us to show the media and the rest of the nation the best of state government. He also suggested that the chairman of the National Governors' Conference give an accounting of the state of the states similar to the President's state of the union message. I am pleased to announce that the Executive Committee has adopted this suggestion, and this will be done at our annual meeting.

Your Executive Committee, and your Chairman, believe the time has come--indeed is long past--when we should answer our critics. This answer must be strong and decisive, and will require the utmost support and outstanding contributions from each of you.

It is important that not only the people of your state, but the people of all our states begin to understand the vital force that is state government. It is time for us to tell the story of the states, and I think it is useful to look at some areas in which states have led and generated national initiatives.

Major land use proposals are pending before the 93rd Congress and appear to be hung up, at the moment, in the House Rules Committee after failing to become law during the previous session. Land use proposals are not new. Over 30 states have

laws regulating land resources, and at least five states have comprehensive land use laws similar to the major bill now pending before Congress. Not only are these state laws now in effect, but many of them date to the early 1960's.

No-fault insurance is another area which the states have pioneered. Federal action is still pending while 16 states have already enacted no-fault legislation.

A wide range of health care laws have been enacted by many states during recent years. States have been actively seeking to hold down health care costs long before the cost of living council initiated national efforts in this direction.

While efforts to reorganize the federal government languished before the last Congress, and are still pending before this Congress, 18 states have undergone complete reorganization since 1965 with two more scheduled to be completed this year, and another five reorganizing selected departments.

While Congress contemplates tax relief proposals for the elderly this year, some form of tax relief for senior citizens is now provided by every state in the union.

State concerns over use of information gathered in criminal data banks began several years ago when the use of computers created massive data banks in the states. At least one state, Massachusetts, has already implemented a law protecting the privacy of this information. In contrast, Congress just began hearings on the subject last month.

While the Federal Housing Program ground to a halt last year awaiting new directives, the states continued their activist role in the housing area. Housing for low and moderate income people was the object of legislation in at least seven states, with Louisiana and Utah appropriating \$3 million each to take up the slack from federal housing cutbacks. Some 20 states now have state housing agencies. Over 11 states have taken action to provide state funds to support mass transportation. At least seven states enacted substantive legislation in this area in 1973 alone.

States have led the way in reacting to election and political scandals over the past year. No less than 26 states have enacted legislation governing election reform, ethics and openness in government. "Open government" became more than just a figure of speech as governors moved out of the state houses to hold town meetings, and opened the doors of their offices to the public. Accessibility has become a byword in state government as states reacted quickly and decisively to public concerns.

States have been increasingly active in regulating power plant siting, tax reform, school finance reform, consumer affairs, and have in most instances led the nation in implementing energy conservation programs about which we will hear more on Thursday.

It was a governor who first initiated a program to alleviate lines at the gasoline stations. It was a governor who played a major role in resolving the February truckers' strike.

It was the governors who led the way in initiating major new programs to deal with the crisis and to alleviate its daily impact on the people of this nation.

Even in today's national crisis involving the Presidency, the states have provided for potential solutions. The powers of initiative, referendum and recall, common in many states of this nation allow a safety valve of direct citizen involvement in the governmental process. Uncomfortable at times, they are admirable restraints on the abuse of power.

While a federal budget deficit has become commonplace and the national debt soars, state and local governments have managed balanced budgets and faced the hard decisions on taxes when necessary. Federal expenditures, less defense and foreign aid, have climbed from \$63 billion to \$163 billion during the ten years from 1962-1972 while state and local expenditures have risen from \$74 billion to \$189 billion over the same period. Hardly a story of anemic or unresponsive state and local governments.

In short, the states are leaders in setting domestic plans and programs, and they should be recognized as such, and it is up to each one of us to carry this story of state success and state revitalization to the remainder of the nation.

In Webster's Third International Dictionary, one of the definitions given to the word "governor" is that of "commandant of a besieged fortress." On some days I suspect most of us would

concur with that view. In an office which is constantly exposed, and which is called upon daily to make the hard decisions, the electoral life expectancy is short.

There will be no end to this condition. The role of the states is expanding, the demands on governors are increasing. While the year 1973, in retrospect, was divisive and disappointing for the nation I believe 1974 holds great new opportunity. With your continued leadership, and responsiveness, the coming years may well prove to be the era of revitalization of state government.

A distinguished historian, Lawrence Henry Gipson, in writing about the events immediately prior to 1776 observed, "It is clear that all political communities in a free society--in contrast to a police state--are in the final analysis bound together by self interest. Therefore, only where this self interest is bound together by a sense of solidarity among the members can there be a real stability." This situation true in 1774 is equally true 200 years later.

The cry of student activists of the 1960's "Power to the People" is a thundering roar today but coming from different throats. It is coming from the average citizen of this nation who is saying bring government back home, and let us take part in the governmental process.

I believe it is through the states, and through the people who live in the states, that this community of interest; this sense of solidarity; this citizen participation so necessary

to the preservation of our union can best be restored.

Our federal system connotes a partnership, a partnership essentially of equals. When one element dominates any partnership, that partnership eventually fails. The years just ahead of us can be the years when the balance is restructed, and the federal system reassumes the form envisioned by the founders of our Republic. As governors, each one of us can contribute toward that great effort. May each of us have the commitment and conviction to work toward that end.

(Applause)

I am delighted, now, to present to you for his remarks one of the hardest working, most traveled, and most knowledgeable men in government today. He is now our Vice President, and has particular responsibility for contact with, and work with, those of us who represent state government in this nation.

We are proud to have you with us, Mr. Vice President, and we will all look forward to your remarks.

I am proud to present to the National Governors' Conference the Vice President of the United States, the Honorable Gerald R. Ford.

VICE PRESIDENT FORD: Governor Evans, distinguished governors and guests, at the outset let me say I appreciated the opportunity, Dan, to hear your able and comprehensive report as Chairman of the Governors' Conference.

Now this is the first opportunity that I have had to

welcome the nation's governors to Washington since taking on the responsibilities of being an instant Vice President. It is an honor and a pleasure for me to do so, and my wife Betty and I look forward to seeing all of you and your wives at the White House tomorrow evening.

However, I will say I am not or no Jerry come lately in the matter of meeting with governors. I have been doing it for years on my own initiative as well as at your own kind invitation, and I have never failed to learn from you or to benefit from exchanging ideas with you whether they had to do with defending your states from the outrageous intrusions of the federal government, or sharing with you an appropriate amount of federal revenue.

As a member of Congress, and as Minority Leader of the House, my door has always been open for the past 25 years and I like to think that my ears have been open and my mind has been open as well.

I admit, of course, to certain prejudices of long standing. One of those prejudices is that local people can solve local problems better, and with less waste, than the people in Washington, however well meaning, and whatever party the federal overseers may be.

(Applause)

I am here this morning not only to welcome you, but to reassure you that I have not changed that conviction now that I have one foot in the Executive Branch as well as one foot in the Legislative

Branch.

One thing I have learned since assuming this new job is that although most people think that the Vice President has major and prime responsibility in the Executive Branch, I want to assure you that I get my pay from the United States Senate.

I still believe that you governors can solve state problems better than any federal bureaucrat in Washington, even a half bureaucrat like the Vice President. So I still feel very much among friends. I have had the good fortune of meeting with a number of you individually--since taking my new job--either here or during brief visits to your respective states, and I appreciate your collective and individual hospitality.

After reading the election returns this morning, I obviously intend to give this bipartisan audience a thoroughly non-partisan speech. I only hope that your sense of hospitality prevents me or you, I should say, from drawing any conclusion from the fact that I have campaigned recently in Cincinnati but not in California.

Seriously in my conversations with several governors since becoming Vice President, I am very much aware that the uppermost question on your minds with respect to me is what my role, my responsibility, will be with respect to you and to other state and local officials. As far as I am concerned, I have always had an open door policy as a congressman, as minority leader, and my door is still open as Vice President.



Yesterday, before coming to this meeting, I sat down with President Nixon and we talked for some time about my future relations with the governors, and the importance we both attach to this channel for cooperation and communication.

During my confirmation, I told the Senate committee that I will always uphold the truth, and an intelligent compromise. I said that truth is the glue that holds government together, and that compromise is the oil that makes government go. I am determined that we should not experience even temporary shortages in either of these essential ingredients.

The President and I see eye to eye on the key role of governors in the federal system. You are closer to the people who elected you; you are the leaders we rely upon in our government of restoring power to the people and reducing reliance on Washington.

As he has, from the very first day I became Vice President, the President has reiterated that, "Jerry, my door is always open to you." The President went on to say that he wanted me to have the same access he has with the Domestic Council and OMB in keeping with my duties as Vice President, and Vice Chairman of the Domestic Council. He very carefully pointed out, in the context of any involvement in inter-governmental relations, that both of these staffs will be as fully accessible and responsive to me as they are to him.

I told the President that I propose to tell you that just

as his door is open to me my door is always open to you individually and collectively. My door will be open on a non-partisan basis. I welcome your ideas with regard to the region or the politics of the governor--without regard to the region or the politics of the governor. You, in the 50 states, are governing America and I hope and wish to be accessible to America.

I would hope we can discuss policies and their formation at their very earliest stage. The federal/state relationship must be a two way street. Just as I intend to be a ready conciliator, and a calm communicator between the White House and Capital Hill, I now offer you my personal attention and personal assistance.

It is true that I am new in this office, but I have had experience in tackling the problems of state and federal relations. I believe we can deal with directness and candor in the mutual awareness of our differences, but also in our common duty to the people of this great Republic.

As Minority Leader of the House, I supported the President's effort to achieve a new kind of federalism. I felt the time had come to reverse the trend toward a massive federal bureaucracy, and to start moving power out of Washington and back to the states, and to the people where they live, and work, and pay their taxes.

The new federalism, as you well know, takes into account the necessary federal functions required for a nation of 211,000,000 people, but just like the federalism of the nation's founders we seek new ways of letting people have a more direct say in deciding

the needs and the priorities of the 50 states.

When I was in the Congress, we achieved the passage of general revenue sharing, and I was pleased to hear Governor Dan Evans report on the record of general revenue sharing. In my opinion, this represents a major domestic legacy. General revenue sharing has already put \$11 billion of new money to work in the many units of state and local government.

I am proud of this achievement because I vividly recall the effective teamwork and support by you governors which was required to make Congress move away from the old categorical trend towards more flexible funding.

Fortunately for the 211,000,000 people, for the 50 states, and the innumerable local units of government, the new federalism is now a reality.

Now, if I might, let me discuss with you briefly another new responsibility that has just been given me that of Chairman of a special committee of the Domestic Council on the right of privacy. This has, I think, a special relevance to you as governors and to state government.

This committee is made up of the Secretaries of the Treasury, Defense, Commerce, Labor, HEW and the Attorney General. The six Cabinet offices most immediately concerned with privacy questions, plus the Chairman of the Civil Service Commission, and the Directors of OMB, Telecommunications Policy and Consumer Affairs with the Executive Office of the President plus myself.

The President announced this in a radio address two weeks ago.

He chose me as Chairman, I guess, because my own privacy has just been investigated more thoroughly than anybody since Eve ate the apple. I have never been one to duck debate, and since my right to debate has been sharply curtailed as Presiding Officer of the United States Senate, may I use this forum to express my disappointment that my old friend from Michigan, Senator Phil Hart, chose on the basis of equal time to make a partisan network reply to the President's privacy speech last Saturday on behalf of the majority leadership of the Congress.

I say this not on the basis of what the Senator said. He may be surprised to know that I have read his full speech, as well as the President's, and I find much in both that I can agree with. There is, indeed, a great deal of similarity but because in moving to establish common sense safeguards for the fundamental rights of privacy I don't think we have the time for politiking, or the leisure to look back and tally up abuses which have been perpetrated in the past during this administration or that administration, or by this or that official, high or low.

My privacy committee is not going to compile lists of privacy horror stories, and apportion blame over four year periods of post war history. Neither am I going to cover up or make smoke screens for anything or for anybody.

What we are going to do, as long as I am Chairman, is to try and put a stop to unwarranted future invasions of individual

privacy by the federal government or its agents, period. Our mandate is not just for another leisurely study. We have been given four months to come up with recommendations for action. I do not yet know enough about the subject to pop off with any profound conclusions but I promise you, here and now, this is going to be very serious business and by no means a narrow or politically partisan one.

The real bulwark of our privacy is, of course, in the Bill of Rights. These were added as the first ten amendments to the Constitution at the insistence of the governors and the legislatures of the thirteen original states as a condition of ratification. Thus it was from the states that the right of privacy, and other inalienable rights of individuals, came and it is still in the states that they must be safeguarded. So I appeal to you as governors to help me in this job in insuring the privacy of every American.

I do not want this to get started as a partisan venture. While the Domestic Council is composed, to be sure, of Presidential appointees I can assure you that a broad spectrum of views on the subject already exists there. But I intend to solicit an even broader expression of opinion as I do from you governors from city and county officials; labor unions; business organizations; the academic community and the news media. Yes, even from the ivory tower intellectual establishments, as well as from the western and southern and midwestern intellectual establishments.

Preservation of the right to privacy is not merely a federal problem. It has certainly been complicated by the immense growth of federal power, and its concentration here in Washington. The remedy will not be found by more federal interference in the guise of policing against abuse. Much of the remedy, in my opinion, must be found at the state level and in this I ask your help again individually and collectively.

Among my prejudices which I previously acknowledged is an old fashioned prejudice in favor of the decent law abiding, hard working, long suffering, taxpayer. We must be careful to insure that it is his and her privacy we protect and not that-- and I emphasize not that--of criminals, kidnappers and hijackers.

You governors, as the chief law enforcement officers of this nation, can help us maintain perspective in this regard. I am aware that much federal legislation has been proposed in this area. As a matter of fact, the Attorney General testified last week before a house subcommittee of the Committee on Judiciary on rather comprehensive legislative proposals.

There have been some excellent studies, one by the Department of HEW, and recommendations made in the past by this and other administrations. But I believe in looking forward rather than backward. I don't believe in replaying last Saturday's game, but in concentrating on the next one. I believe we must keep control of the ball.

One real danger lies in control of the computer system

that now contains the names of over 150,000,000 Americans in computer banks located across the country. Even the best intentioned government bureaucracies thrive on information collection. That information is now stored in over 7,000 government computers.

Since there is no way to install a conscience in each computer, we must develop safeguards that prevent computers from becoming robots that deprive us of our essential liberties. The record keeping systems, unfortunately, affect people more than people can affect the systems.

Our committee will build on the excellent work already carried out. We will seek responsible views from every quarter in our society, and I sincerely invite the governors to designate an appropriate liaison group to work with us.

I respectfully urge you as chief executives of your own states to consider instituting similar studies at the state level. Some states are already working on this project.

Key areas of concern are the collection, storage, and use of personal data. We will examine how the federal establishment collects information on individuals, and how that information is protected or not protected. Also procedures to permit citizens to inspect and to correct data held by private or by public organizations. The regulation of the use and the dissemination of mailing lists, and ways that we can safeguard personal information against improper alteration or disclosure.

When government must intervene in the lives of people, it

is the state and the local government which is usually in the best position to judge its limits.

As governors, you also amass data. That data brings with it a serious responsibility to guard against abuses, and I think this emphasizes the need for us to work together.

By mid summer of 1974, our committee will begin to provide a series of proposals of direct enforceable measures including regulations, executive actions, policy changes, legislation where necessary and voluntary restraints.

I welcome your cooperation in this agenda for action on privacy, and I look forward to working together with you in many other areas that have too long gone neglected. We must, together, harvest the resources and the skills, and the resolve of America, so that our public existence as a nation as well as our private existence as individuals will flourish.

I have faith in this nation; in its people; in its governors; in its administrators; in its legislators, and I hope that as our cooperation and our friendship develop I will continue to merit your trust. Thank you very much.

(Applause)

GOVERNOR EVANS: We thank you very much, Mr. Vice President, for being with us and for those remarks, and for the challenge which you have presented to this conference to join with you, and to help you in this most important endeavor, and I can assure you that as Chairman I will indeed appoint such a liaison and make sure



that this conference is actively involved in the issue you so wisely pointed out to us.

Now I'd like to turn to the two parts of the remaining hours of this morning's session. The first a review of the economy of this nation, and an informal discussion session between the governors and three of this nation's outstanding economists. We are very fortunate to have them here with us. I presume all are here and approaching the table.

I will take only one moment to briefly introduce these men, all of whom are familiar to you by reputation, and then we will begin our session on the economic outlook for the coming year. I will introduce all three, and then ask them to--in turn--give a brief review from their own viewpoint of the nation's economy, and then we will be open to the questions and the commentary of the individual governors.

First is Mr. Herb Stein who is Chairman of the President's Council of Economic Advisors, and formerly a senior fellow at the Brookings Institution.

To my right is Arthur Okun, senior fellow at the Brookings Institution and former Chairman of President Johnson's Council of Economic Advisors.

Third, Mr. Alan Greenspan, New York based economic consultant and a member of Time Magazine Board of Economists, and senior advisor to the Brookings Institution Panel on Economic Activity.

With that I will be as fascinated, as I am sure you will be, to hear from these three most distinguished economists and then we will be open to your questions.

First let me introduce, then, to you the Chairman of the President's Council of Economic Advisors, Mr. Herb Stein.

MR. STEIN: Thank you very much; I hope you will not feel that you are getting too narrow a view of the state of the economy in light of the fact that the three economists up here before you are all--have some connection with the Brookings Institution. But that is a very ecumenical body, and I think you will find a certain amount of difference among us.

I hope you will excuse my sore throat. This is a problem confronting many in Washington these days, and please do not confuse the lugubriousness of my voice with the state of the economy. I can assure you that the American economy is, at this moment, healthier than I am.

I have often been accused about my optimism of the economy and that is a charge to which I plead guilty. I have thought about why it is that I seem so much more optimistic than other people, and it isn't usually because I foresee something different happening than other people but I believe it is primarily because I tend to evaluate things a little differently than others do, and I believe perhaps this is a result of taking a somewhat longer perspective and as a result very few things seem calamitous, which is no comment on the present situation at all.

In any case, I would like to avoid qualitative and editorial remarks about the economy and perhaps it would be most useful for you if I would try to describe, as objectively as I can, the way I look at the present state of the economy and its prospects.

We are obviously going through a period of some difficulty in the economy. We are going through a period in which unemployment has risen. It has risen from 4.6% last October to 5.2% in January. A period in which industrial production has declined a little bit in the last two months, in which total output after having gone through a period in which its rate of increase slowed down it probably slowed down even further, and may at some point in this half year go through a period in which it has declined, and which at the same time prices will go up at a rapid rate for the United States, and this is something about which I do not need to remind you.

Moreover as we look ahead for the next few months we do not promise instant relief from these difficulties, and do not foresee the prospect of instant relief from these difficulties. We expect that the unemployment rate will rise somewhat further; that the rate of output will be sluggish during the first half of this year, and that the rate of inflation will continue at a very high level for at least several months.

We believe that, to a considerable degree, this present state of the economy--or at least the intensity of the present

state of the economy--is related to the energy situation which reached a crisis stage last October with the beginning of the embargo on the sale of oil from Arab countries to the United States. The most immediate effect from the energy shortage is the forecast that industry across the country would find it difficult because of the shortage of gas or petroleum inputs.

However, that seems not to have occurred in any very large scale, and it has not occurred we believe primarily because of the decision that was made by the Administration that it would try, so far as possible, to insulate industry from the effect of the oil shortage which meant conversely that it would have to concentrate the effect of the oil shortage at the consumer end, and that meant primarily at the gasoline using end and this had an incidental consequence the shortage of jet fuel which we have now all experienced.

The main effect of the energy shortage on the economy, so far, has been through its effect on the demand for automobiles and especially on the demand for large automobiles, and as you all know all production has fallen quite substantially. The demand for small cars is very large, and the rate of production of small cars is increasing but the domestic industry is not able to produce all the small cars that are demanded under the current situation.

The energy situation has also made a very substantial contribution to the rise of prices in recent months and, indeed, the very large part of the increase in prices in recent months

can be explained, or at least is located, in the areas of energy and food and the recent 1% increase in the consumer price index in January about 70 or 75% was in the area of food and energy, and we believe that we will continue to see some more months of very rapid increase in food and energy prices, and some more months of sluggishness in the automobile industry, and in the construction industry which is also to some degree affected by the energy situation.

However we believe that this period of difficulty, this period of slowdown and inflation simultaneously which we are going through will change significantly by around the middle of this year, and that we will get a strong revival of economic activity accompanied by a slowdown in the rate of inflation.

There are, in our opinion, several reasons for expecting the revival of economic activity with a more rapid growth of output and an end to the increase of unemployment which we have been experiencing.

In the first place, as I have indicated, a very large part of everything that has happened to us so far on the production side has happened in the automobile industry, and we believe that that industry is at or near the bottom. That automobile production will not be falling much further and, in fact, being extremely more likely to rise for several reasons.

The most obvious reason is that the industry is becoming increasingly capable of producing small cars. It is converting

to the production of smaller cars during the '74 model year, and in the '75 model year will make quite a large step up in its ability to produce smaller cars for which the demand will be very strong.

We also believe that the gasoline situation will be clarified in one way or another. By clarified I mean that people will acquire confidence that they are able to buy gasoline, and this uncertainty about the ability to acquire gasoline has apparently been a major factor in the unwillingness of people recently to buy large cars. This uncertainty about the availability of gasoline will be corrected, I believe, in part by the increased imports which can be obtained in the United States as we relax our regulations which have made it unattractive to import high price gasoline, or high priced crude oil, and also as we improve our system for distribution of gasoline geographically and hopefully, although I am not in a position to offer any guarantees about this even though the embargo is relaxed, but it does seem to me that in any case regardless of the embargo situation the gasoline uncertainty will be clarified.

We also respect a rise in new starts of residential houses. We are beginning to see, or we have been seeing for several months, an increase in the flow of funds into the thrift institutions which are the main source of credit for houses. There has been some slight decline in the rate of interest on residential mortgages. The federal government has taken some steps to promote residential construction, and I believe there is a renewed feeling

in the industries closely connected with residential construction, and residential construction finances, that we are going to see an upturn there probably beginning in the second quarter.

Throughout our confidence in the strength of the economy has been based very heavily on the belief that business plans for plant and equipment expenditure would be strong throughout the year. That the initial estimates made at the end of last year that plant and equipment expenditures would be about 12% higher this year than last year would continue to be good, and every evidence that we have had so far is that this temporary slowdown in the economy does not disturb those plants and business.

Another underlying factor of strength in the economy is the continued rapid increase of government expenditures federal, state and local.

Turning briefly to the price side, our confidence that we will enter a period of less rapidly rising prices still remains, although we do not expect in 1974 to pass out of the period of serious inflation, but we do expect to enter a period in which inflation is much less serious than it has been for the last several months.

Our confidence is based primarily on the belief that the extremely big increases in food prices that we have been having will be behind us. That we will get increased supplies of meat, particularly in the summer and fall, and that this will slow down the rate of increase of food prices.

We have had extreme difficulty, and I guess we have been extremely unsuccessful, in predicting the course of the food prices as there are a number of quite unpredictable variables in that area. So one cannot make but estimates, and we think the best estimate of people who look at this with some objectivity is that we will have a considerable slowdown in the rate of increase of food prices, in which case we are convinced that we are doing everything that can be done by the government to increase the supply of food, and thereby to slow down the increase of food prices.

We also believe that the rapid surge of energy prices will have been completed by the middle of the year, and that we will not be in a situation in which prices are going to double every month and, in fact, there is a lot of evidence out there in the world that the prices of oil will go down.

We recognize, and nobody recognizes it better than we do, the uncertainties of the economic forecasting process. The President has directed us to be prepared to take further steps to stimulate the economy if it should seem to be necessary, if it should seem that the economy is falling below the path that we have foreseen, most particularly if we have reasonable evidence that we are not going to get the revival of the economy in the second half of the year as we have been expecting, but at this point we do not have such evidence.

We believe that the economy is on the track of a moderate



slowdown followed by a fairly strong revival, and that for us to embark on a course of pumping up the economy at this point after eight or ten years of irregular accelerating inflation, and in a world which is plagued by the danger of more and more acceleration of inflation would be irresponsible.

Therefore, at present we believe the course we have laid out will guide us as well as one can be guided in a world of uncertainty between the dangers of excessive sluggishness in the economy and excessive inflation. Thank you.

(Applause)

GOVERNOR EVANS: Thank you for those opening remarks, Mr. Stein. I would like to turn for opening remarks next to Mr. Okun. Before he starts, I would ask those who are standing on the sidelines and who are engaged in conversation to please conduct those conversations outside the room. It is difficult for those at the table here to hear what they would like to hear of the presentations. Mr. Okun, you are on.

MR. OKUN: I spend most of my time just a few blocks from here at the Brookings Institution, and I get a number--fair number--of press calls, and a fair number of them begin with the reporter saying, "Herb Stein just said," and then quoting Herb and then saying, "Do you agree?"

I have discovered that the Washington press corps definition of truth is something that Okun and Stein agree on, and I consider it a great tribute for an elder statesman that I have

become a half truth. I think there are a fair number of things that we agree on in the present situation. I do believe that there are some very good prospects for the rapid inflation rate we are currently experiencing to abate during the course of the year as the food and fuel price implosion gets behind us.

I certainly agree that what we are looking at is not a depression, not a cause for panic, nothing that is going to shatter the health of the American economy.

I also interpret the slump much as Herb does as resulting from the oil embargo, and the ensuing escalation of prices, not from unwise policies that put the economy through the wringer.

I also agree, as I should point out--and will cover further in a few minutes--on the basic character of the way in which the energy shortage has hit the economy. But I think we have some disagreement on just how we'd characterize the nature of the current slump and the prospects for it.

I think when all the returns are in we will call 1974 a recession year, probably in many respects similar to its predecessors like 1960, '61 and 1970. I think there will be some differences. Obviously, there are always differences. This one will have a bigger slump--automobile slump--and a far smaller business investment which is really your insurance policy against a major decline this year.

I don't see the likelihood of a second half upturn being so strong that one should bank on it. I think we need some help.

I think we need an insurance policy to make sure that doesn't begin to slide and continue longer than current prospects would suggest.

As I see it, the real issue on whether something is a recession or not is a recession is something you do something about, and if it is not a recession you don't do something about it. I think, in a sense, this is a recession meaning that we should be doing something about it; something to contain the damage that has occurred to employment and to the economy at the present time.

I think when one looks at the option policy, then the prospects of the economy does depend a lot on how one interprets the role of petroleum and its impact on the economy in recent months. Let me spend a minute or two on the oil story.

I don't think there is any mystery whatsoever about what happened to the supply of petroleum reaching the United States, and available for use by consumers and businesses in recent months. I cringe when I hear some of my best friends on the Hill waving their arms, and looking for a conspiracy, and engaging in a witch hunt. We have figures on oil. They are as good as our figures on aluminum, or bananas, or cigarettes, or most commodities, and they record our imports, and the Bureau of Customs is still capable of counting barrels of oil, and they show imports consistently running for the past two months about two to two and a half million barrels a day below the normal trend,

and that figure happens to correspond remarkably to the volume of imports that we would have expected to come from the crude oil of the embargoing country, which was expected to be in the range of two and a half million barrels a day. So we have had the embargo, and we are not getting that oil. We are getting some incentive to import other oil, but by and large the size of the embargo and the size of the short fall correspond remarkably.

The fact that people can turn this into a mystery story in a search for a conspiracy, the fact that an irresponsible statement by the Sha of Iran can trigger off a flurry as though they had a better count on oil imports than the figures collected by our government, these facts I think are a telling comment on the collapse of public confidence, and I think that is a tragic phenomena.

But dealing with the subject as an economist, I think it is quite understandable that we do have a 12 to 15% short fall in the supply of petroleum relative to our normal. This could reek havoc with the productive capacity of this country if it were spread over all users of petroleum and the utilities had to take a 12 to 15% cut, and we'd have worse unemployment and we'd have blackouts in the nation, and we don't have that.

In fact, contrary to nearly every forecast of ten weeks ago we have had no massive plant layoffs, store and school closing. We have had no blackouts. We have had only limited losses in the output of the airlines, and the petrol chemistry industry has not

had to close down because of the shortage in some areas of this country.

Even the regional pattern of this shortage is very understandable given the fact that it is the coastal regions that would be receiving imported oil, refining it, and hence the shortage shows up in these coastal regions particularly the East Coast.

What FEO did was to keep industry going. It kept the shortage a shortage in the gas tank rather than a shortage in businesses and industry. I don't expect a lot of people waiting in the gas lines, frustrated to get three bucks worth of gas, to shout three cheers for Bill Simon and remember how much worse it could have been if I had lost my job. But, in fact, that is the situation that if we hadn't had a gasoline shortage today we'd have one hell of a mass set of layoffs, and dislocation in business and industry, an increase in unemployment five or ten times the size that we have actually experienced.

Given the way the energy shortage has been managed, the basic impact on the economy has taken two routes. One of these is a collapse of demand for new cars, particularly big cars, and some other gasoline related items like vacation travel, demand for motel rooms, and so forth.

The second is a huge price rise that is going directly and indirectly to cost the American consumer for his gasoline, heating oil and electricity. The freight bills that are built into the products he buys, along with the other costs, will be something like

\$20 billion this year, a \$20 billion drain on the consumer budget to pay more for less petroleum, and that has to force him to tighten his belt in every other direction.

By the end of the year, you are going to see the impact of that drain on the consumer's budget in the form of restrained and reduced spending for virtually every other consumer commodity, and that hasn't happened yet. But if the evidence on the way the consumer responds has any significance, and if 1974 does tear up the record book as we expect, it will turn out to be a very bad year for spending and so forth.

The question arises as to how much this would change if the embargo ends? And there I think the big question is not whether the embargo ends but what happens to the price and production of crude oil in the world if the embargo ends?

If there is no increase in production by the countries that are embargoing us, if they don't lower their prices, then all the end of the embargo means is the right of the United States to try to bid away some Arab oil that Europe and Japan, and other countries are now getting. That is going to make the price of crude oil even higher.

If the price of crude oil available to the United States comes in at something like \$12.00 a barrel, I am not sure whether I should mark up or mark down my forecast for output in employment in the rest of the year. Obviously more gasoline would be available, the lines would be shorter, the frustration would be less, but at

the same time this drain on the consumer budget would be greatly increased by something like an extra \$9 billion. Two million barrels a day at \$12.00 a barrel would give you that on an annual basis.

In that case, I suspect if the price doesn't fall the end of the embargo could turn out to be one of the great non-events of modern times. On the other hand, if it does accompany increased production and lower prices, it would be a tremendous boon which would certainly make the case of standing pat on current policy a lot better.

In terms of the way I see the economy, there are two kinds of measures that I think we should be taking at the present time. One is a set of direct measures to deal with the fuel and food inflation that account for about half of our current inflation, and account for more than two-thirds of the step up in inflation from the nice good old days of 1972 when the cost of living was going up only 3%.

I think there are some things we can do about the fuel and food price explosion. One of these I think is to roll back oil prices part way. I think the Energy Bill helps. My only question on the Energy Bill is why Congress accepted at \$5.25 price on old oil rather than try to roll this back. There is another \$3 million that the American consumer could have by going back to four and a quarter.

The \$7.09 price for new oil might not be a perfect price,

but I would point out that the Administration has a tax proposal now that would leave the industry \$6.70 after tax on the present price of new oil, so \$7.09 can't be such a terrible number. I don't think the tax is an answer. I don't think we want to tax away oil profits, or oil revenues. I think we ought to leave the money in the consumer's pocket and not put it in the federal treasury.

I think the prices are high enough for a proper incentive. I think the oil industry has to be very profitable in order to encourage increased production, but it doesn't have to be fantastically profitable. We should be doing some changing of the rules on the taxation of foreign oil. We should be looking at the depletion in some other tax incentives. I think we should make it clear that we don't want an excess profits tax but we don't want, at the same time, to take punitive measures on oil. We want to give the oil industry an incentive to expand in an environment in which it pays to expand production, and to make the increased availability of the domestic crude oil highly worthwhile for them as well as for the country as a whole.

Secondly, we have to take some steps on food and there one wants to look back in history and the place to look is several months ago when the crops were coming in, and to the bountiful harvest of 1970 that gave us all the reasonable food prices, and so far as I can tell, this year that hasn't happened, and so far as I can tell the major factor accounting for this is the export



to foreign markets.

This country cannot stand to repeat the performance of last year at this time. In the last fiscal year, we had a 60% increase in the volume of farm exports by the United States at a time when less farm production was reaching the domestic market. You can't justify this by the balance of payments argument. You can't justify it by the farmer's increase.

This is not equitable to the American consumer. It is building inflation into this country, and we do have to take some steps to moderate the growth of exports of farm products.

The second kind of thing that I'd recommend as a help to the American consumer is in the area of unemployment compensation benefits, and the Administration is helping in the way of job programs and support for housing. But my experience is that you just can't pump very much money out through federal programs, or through grant programs, in states and localities that will really get into the spending stream when you need it.

If you try to do that, you will build up a lot of spending that will take place in this year or next which lends to inflation. The best way to get money into the economy would be to design a cut in payroll taxes at the federal level that would relieve lower and middle income workers by five or six billion dollars of their tax liability. That won't really solve the problem, it is no panacea, but it would be some offset on the squeeze on the real income and real purchasing power to the consumer.

This would be of far more aid to the consumer especially with excessive demands and inflation, and when unemployment reaches the 6% level, and that could well turn out to be an Administration proposal.

I think the time to act is now to do this preventive medicine rather than curative medicine, and I think it would go a long way.

(Applause)

GOVERNOR EVANS: Thank you, Mr. Okun, and now we will hear from Mr. Greenspan.

MR. GREENSPAN: Since we are running out of time, I will make this fairly short. I am afraid that I have a suspicion that the end of the recession, if there ever was one, is close at hand. I think the weakening in economic activities, which began last year in the wake of the oil embargo, is likely only to linger into the early spring months, and there is even a probability-- and I will grant you a small one--that the month of March may well be the low month.

I think there are very considerable signs of support for both production and employment. I think that when you have such extraordinary strength in the capital goods market, and a huge backing up of inventory demand, which I think is evidenced by the extraordinarily long lead times on production materials for delivery schedules, that what you have got here is an underlying push which I find wholly inconsistent with further deterioration

in economic activity.

I think that the effects of the embargo are, at this stage, rapidly diminishing and I would agree with Art Okun that it will be, when it is ended, if there is no significant increase in Arab oil production a major non-event. I think we can describe the effects of the oil embargo really in two ways.

One is the direct economic impact, and here I should say by direct shortage due to inadequate fuel, or electric power, and as has been pointed out there is just no evidence of any curtailment of those sorts, and the reasons become fairly clear when you look at the numbers.

There has been an absolutely extraordinary response to this oil crisis on the part of the American consumer, and American business, as far as oil consumption. In fact, energy consumption generally has undergone an absolutely unprecedented dramatic reduction since the embargo began.

Now this has meant that the effects have been limited to what I would call gasoline psychology. All of the impact reflects the attitude on the part of the consumers with respect to what they are concerned about, with respect to gasoline price, and gasoline availability.

But even here there is evidence that this has probably peaked out, and I should say that an adverse impact is beginning to come back even to passenger car sales which have deteriorated. The ratio of large car sales to small car sales since early

January has actually been increasing and so, in fact, have used car prices.

What this indicates to me is that the initial shock effect, while still substantial and lingering on, is in the process of unwinding and, in fact, I would describe the particular type of outlook we have in front of us not in terms of the conventional recession type of view, but rather one more analogous to what occurs in the economy when we have had a major and debilitating strike from which we then rebound, and I do think that this is what we are looking at.

I wouldn't like to use exactly the analogy of the steel strike we had back in 1959, but if I wanted to find something similar in history this is what is brought to mind.

Now it is not that I don't see a recession ahead, or weakening in demand. In fact, I do but it is not 1974 which is going to start picking up fairly significantly in the second half, and certainly not the first half or perhaps even most of 1975. But I think what is necessary is to unwind all of this extraordinarily backed up demand for inventory, and capital goods, and it is when we do that--which I think is late '75 or perhaps even early 1976--it is then not now when I think that the basic weakening which we are all concerned about I think occurs.

Now I agree with Art Okun, I think the retail sales picture is poor not only in autos but in general merchandise and there is no question that this has an impact on economic activity,

and as a result while I think the recessession--whatever it was--is sort of at an end. I am not looking to any major pick up. The shock effect of this sort of event is not one from which the economy immediately responds.

This has, as I say, fairly significant policy implications because if you take a look at the underlying inflation rates it is certainly obvious that if you expect, or get, anywhere near average yield on the extraordinarily heavy crop plantings we have this year we are going to have farm prices and food prices ending lower late in the year. In fact, on a seasonally adjusted basis and farm prices in both February and March will be actually edging lower, and when this ultimately passes through to the price level would start to bring food prices down just as when it passes through the retail price level.

Unfortunately, as you know, we do have fertilizer shortages. We still have a long period ahead of us of questionable estimates. I find somewhat early adverse reports on some crop prospects, and certainly irrespective of the heavy plantings if yield begins to fall away then we might find that the early evidence of an ending of the upward food price spiral could turn out to be false and premature, and that under those conditions we'd have an acceleration of inflation.

As it stands now I would agree with the general forecast that prices will ease in the rate of increase very significantly by year end. But I think it is a mistake to believe that we are

somehow looking at a return to the old frightful rate of inflation at 3 or 4% per annum.

Unfortunately we are treating this as high prices are likely to be merely a hiatus with regard to the longer term trend of inflation in the United States, which I think stems largely from overly expansionary fiscal and monetary policies over recent years. I think that the present level of federal government expenditures, and their rate of increase, are far in excess of the capability of our system to absorb without at the same time expanding inflationary rates.

As a consequence, I think that the policy measures which we must focus on are to get inflation rates down. Not now, we don't need to do it now because it will unwind automatically. The action we take today on economic policy will have very little effect in the immediate period ahead; that is, 1974-'75. I think we have a major potential inflation problem ahead in 1976, and if we don't get to work on that problem now we will never get single digit inflation in that period.

As far as I am concerned, I think that what we must begin to do, and this has not been unfortunately the thrust of economic policy in this country or, for that matter, in the rest of the industrialized world, is to stop focusing on short term immediate crisis problems going from one to another without recognizing that every time we allegedly solve one immediate short term problem the very process of solution creates a difficulty some time

in the future which gives us a still greater difficulty.

I think with the inexorable turning of the calendar, as we attempt to push the costs of the current benefit programs into the future, that invariably raises far greater problems for us and I hate to see this country get involved so as to keep going from one crisis to another, one getting worse than the preceding one, and find that we have in fact caught the British disease.

Thank you.

(Applause)

GOVERNOR EVANS: Now we will have an opportunity to question each or all of the participants. If you will raise your hand, and address the question to whichever of the economists you'd like. The floor is yours.

GOVERNOR HATHAWAY: My question--

GOVERNOR EVANS: Raise your hand so the sound engineer can discover which microphone you are at.

GOVERNOR HATHAWAY: I'd like to ask Mr. Okun in the event that foreign crude prices are not rolled back, how can we increase domestic production by artificially regulating the price of domestic oil?

MR. OKUN: I think it is a matter of incremental production. The question really isn't what foreign crude is selling for. We are already committed to export controls, of sorts, on petroleum. The additional petroleum extracted from the United States is not going to flow abroad. The question is

whether there is enough incentive to dig more holes, and drill deeper, use secondary recovery, and I think that does require a significantly higher price than what we have had in the past.

I think it is a matter of degree, and I think the Administration and the Congress have both expressed the judgment which nobody can be sure of. I don't think the difference between the limit implied in the Energy Bill of \$7.09 and the current \$10.35 price that I have heard quoted for new oil is getting us very many additional barrels of oil, nor do I believe that the industry can now make plans that are predicated on anything like a \$10.35 price for the next several years.

Somehow, somewhere, there are a number of judgments made by experts who really don't know a great deal about this who have said that \$7.09 is a reasonable estimate as a long run supply price which will give us the capability for some sufficiency in the long run, and I don't think we should price our incremental production any longer than the next decade.

GOVERNOR MANDEL: I'd like to direct the question to possibly all three, and I will start with Mr. Stein. I haven't heard much discussion here of the effect of the inflation and the high cost of living on salaries and wages. This is something that all of us I think are affected by in government. What will be that effect, and what effect will that have on the economy; do you think there is going to be a new round of demands for increase in wages in view of the tremendous increase in the cost of living?



MR. STEIN: Well that, of course, is one of the most worrisome problems before the country. We have been having an up creep in the rate of wage increases, and we expect that we will have some more in response to the big increase in cost of living that we have been going through.

Fortunately the extraordinary increase in the cost of living has not been consolidated in the rate of wage increase up to this point, and we think one of the major problems before the country is to get through the remaining months of this period of very high cost of living increase before this happens, and before we initiate a wage spiral at a rate that is anything like our, say, 10 or 12% recent cost of living increases.

Now I think that people have understood, the wage earners have understood, that the recent cost of living increases are not at a respectable rate in the country and they have settled for more reasonable increases. But I don't think that can go on forever unless we can bring the cost increase--increase in the cost of living down--and we think that will happen.

But when we look beyond the first half of this year, I think of what is the underlying rate of inflation in the United States, what is the tendency to accelerate the rate of wage increase--which concerns us very much--and we think this is one of the reasons for being cautious about pumping of the economy, and regenerating a situation of overriding of the boom such as we have had before which would, against the background of our recent

experience, be sure to set off a much bigger rate of wage increase and set a new high for the inflation rate which we find would be difficult to come down.

GOVERNOR EVANS: Do either Alan Greenspan or Art Okun have any comments?

GOVERNOR MANDEL: I will direct one more. There has been a remarkable restraint on behalf, I think, of both labor and government workers in view of the problems that we have had. But I think that restraint is just about broken its bounds right now.

If you sit in my office, or the other governors' offices, and talk about these problems it is hard to realize or understand how in view of the tremendous profits that are being reported every day in the newspapers that they should be restricted in the amount of increase that they can get. I don't think we are going to be able to hold that down much longer.

GOVERNOR EVANS: Okay, Governor Bumpers of Arkansas.

GOVERNOR BUMPERS: Mr. Chairman, I would like to make one observation directed to Mr. Greenspan in relation to what Governor Mandel said. You spoke about the cost of living going up 8.8% overall last year, and that begs one question--one point--which is that middle America has to spend a disproportionate share of its income on food which went up 20 to 25% last year.

The question, Mr. Greenspan, is--and I think it was mentioned a few moments ago--that food production in this country should ease inflation by decreasing the price of food, and it is

my understanding that the Administration is proposing increasing agricultural exports from 12 or 13 billion to about 19 or 20 billion assuming that we can produce that well.

By the same token, it is my understanding that foreign crude at today's prices would cost us roughly \$15 billion more than it did last year. How will an increase of something like six to seven billion dollars in exports, and an increase just in petroleum alone of \$15 billion, how can that ease inflation in this country?

MR. GREENSPAN: I think that in and of itself can't. I was merely indicating that the one major element which has an extraordinary impact on the consumer price index is the price of food. I think that if you take a look at the effect of the sharply rising prices for crude oil, what we find is that the full effect of the general increase occurs at the pumps in the United States, at the gasoline stations, and this will be probably in March or April, and it seems exceptionally unlikely that foreign crude oil prices will rise thereafter.

In fact, I think all the evidence is clearly that they are eroding at the moment, if anything, and what we begin to see is a peaking in gasoline prices strictly on the cost pass through basis which, therefore, leads to a lowering in price. Just like the issue of agriculture and farm prices. So while I am not trying to match one against another, there is an element of difference in timing here in the sense we have gotten most of the price increase in the crude oil so far as it goes into gasoline and home

heating oil, and what we haven't had yet is the depressing effect of the hopefully much larger harvest. So it is largely a timing question, and I would scarcely come to match point here but I think the broad overall impact of prices now is, unfortunately, upward and breaking the back of this inflation is the number one economic problem in this country.

GOVERNOR WILLIAMS: My question, I guess, is regarding unemployment. We have tried to keep a low unemployment rate in Arizona, down as low as 2.14 in one county. I know you have a 5.2 national figure. What is the forecast on getting the unemployment rate down below 5% again?

GOVERNOR EVANS: Do you have a particular one to address the question to?

GOVERNOR WILLIAMS: To anybody who wants to take it.

GOVERNOR EVANS: Okay, will Mr. Stein take it?

MR. STEIN: Well, as I said in my earlier remarks we expect the unemployment rate will be at the 5.2 level and that we will be running above five and a half percent, although not much above, during most of this year. However, we expect thereafter that the rate of unemployment will decline, and that we would hope we will see a more gradual reduction of the unemployment rate, and a more gradual expansion of the rate of growth of the economy after this slowdown than we have had after some slowdowns in the past.

I think that a point which has to be understood that is

running through all these discussions is that we have now reach an inflation rate, even if we take out the food and fuel components, in the United States that we would have thought intolerable a few years ago, and that the experience of the rest of the world is even more frightening, and that we are going to have to endure a period of some restraint in our programs if we are going to get out of this. So we have found, I believe, that the price and wage control system does not offer us any durable hope for a resolution of this difficulty.

I would like to say a word, if I can, about the export control business; the business of controlling the export of food. We are in a very ironic situation about this, of course. We are now confronting major inflationary pressure in the United States because a number of producers of oil out there in the world have decided to limit their exports in total, and particularly to us, and we are engaged in telling them in all kinds of ways that this is an improper way to behave, because it causes us and all the people of the developed world a lot of difficulty.

Of course, this is just what everybody told us last year when we limited the export of soybeans in an effort to hold down the price of food in the United States. We concluded that this was a game that was really not worthwhile. That we'd like to establish a system in which we can have open access to products that originate elsewhere, and upon which we are dependent, and I don't think we can expect to develop such a system if we adopt a national

policy of turning on and off the supply of food from the United States as it suits our short term domestic convenience alone, so that we have to think of that problem in view of that fact. And also as a big importer of many things that are very important to us.

GOVERNOR FORD: I'd like to address my question to Mr. Stein, and I think Mr. Okun addressed a portion of this. The projection as I understand it, from you gentlemen, is that we will have a rise in the last half of 1974. But should your projection be wrong and unemployment continues to rise beyond the point that you estimate it to be, what would your response be--and the Administration's response be--to a reduction of taxes for low and middle income people?

MR. STEIN: Well I think we would have to make a decision about that before we solve the projection, right or wrong. I think we'd make a decision if we become convinced that the projection is wrong, and that is a kind of decision that ought to be made in advance. If you wait until you see it, it is too late.

As we look at the options before us, we would not look at a reduction of taxes of any kind as being at the top of the list of desirable things, because we know--at least experience suggests to us--that is a very difficult thing to undo. That if you reduce taxes, especially on the low and middle income people it is very unlikely that we will get the backing and the demands on the federal budget are so strong for so many years ahead of

us that we think we ought to not make such a permanent commitment.

If we were to feel the necessity for stimulating the economy, we would prefer--so far as possible--to operate by advancing the timing of federal expenditures which are, in any case, likely to remain high. There is a certain list of such things which can be done. There are other measures.

There has been some talk, as you may know, of the possibility of revising the schedule of withholding in a way which put more money immediately into the hands of individuals without affecting their ultimate life time liability. We would rule out the possibility of a tax reduction, but I think we will have to consider it against the background of the probable desirability that the stimulants should be kept temporary.

GOVERNOR EVANS: I have one question, myself, that maybe Mr. Okun could take a crack at--you have been relieved for a couple of minutes. When we talk about at least moderately increasing the growth and rate of employment, are we necessarily talking about a shrinkage in the total number of people who are employed, or are we in a situation where we could have both an increase in employment and an increase in the number of unemployed at the same time, with the apparent immediate future years being one in which we add a substantial number of people to the work force over and above the number you were leaving in the work force?

MR. OKUN: The possibility of having growing employment and growing unemployment at the same time is very real. It has

happened before. I think that we have a growing economy, and with a growing labor force, and the performance of the economy has to be evaluated in terms of capacity to provide jobs that keep up with the growth of the labor force.

Merely raising employment without providing enough jobs to keep pace with the growth of the labor force is still a substantial short fall from ideal performance. I think that at the height of the hijacking problem it was probably true that the number of safe landings of airplanes was also going up along with the number of hijackings. We still thought we had a problem.

We can have unemployment even when employment is rising the same way.

GOVERNOR TRIBBITT: Mr. Chairman, I'd like to ask Mr. Okun a question on his point a few moments ago about reducing taxes at the federal level is good in order to put additional money into the consumer's pocket. As far as inflation is concerned, how does it work if you do that along with the fact that the states that are required to do so by their constitutional statutory requirements have to have a balanced budget?

The same people live in the states as live in the nation, and if we have to do this how does that offset your proposal at the federal level?

MR. OKUN: I think this is a serious problem, and it is precisely the reason that most of the burden of adjusting fiscal policy has to fall on the federal government, because the states



can't do it.

It seems to me that one way to look at this is that part of the benefit of a federal tax cut is eroded, or leaks away, from or through the higher taxes collected at the state level. Another way of looking at it is that higher taxes at the state level are going to take place anyway, and that is all the more reason to want to do something new to offset that further drain on the consumer income and that is by doing something at the federal level.

It seems to me I would interpret as showing the desirability of taking federal action and I think one can distinguish, if I may go beyond this federal level, between the step we took this year and the effect on the long run revenue potential of the federal system.

I think a careful review of the taxation on the petroleum industry is in order, also to look at the question of the efficiency with which we provide some subsidies in the form of depletion and immediate write off; the question of how we treated foreign royalties and profit taxes.

There are a number of these questions, some of which were raised by the Administration. The handling of certain kinds of capital gains, and what we want is something that will give us a package of tax reforms that we can live with over the next several years, and that would mean even with a cut in personal taxes that by 1976 or '77 you would still have the revenue capability of the federal system intact.

I think, at the present time, one does have to make really his bet on what is going to happen in the second half of this year, and it seems to me all you can do is assess the risk. I don't see much risk of a spontaneous large rebound in economic activity taking place, and it is on that basis that I don't think that we are taking much risk in providing some offset to the consumer.

I think the chances we will be glad that we did it are a lot larger than the chances that we will be sorry.

GOVERNOR O'CALLAGHAN: Mr. Stein, last May our truckers were paying 18 to 20¢ a gallon for diesel fuel. This January they are paying all the way from 39¢ a gallon up to 51¢ a gallon in our area. This is unfair to the truckers, and they made it well known in Washington. They were allowed a pass through rather than a rollback--at least a partial rollback--in these prices to help the truckers. In effect, it really didn't help the truckers, it just made it more tolerable and they had to put up with it. During the same period of time, the oil companies are making large profits.

With the pass through that has taken place and, incidentally, when you drive a big rig that uses diesel fuel 30% of the cost of the fuel is now being allowed to be passed on to the little lady that goes down to the grocery store. For instance, in my state most of the groceries are brought in by truck, so as a simple approach to it I see a tripling and sometimes a doubling the

cost of fuel making a large profit for the oil companies which is being passed on to the lady in the grocery store.

What is the purpose or why did the Administration become so hard nosed about considering a rollback either totally or partially?

MR. STEIN: Well the reason is, of course, we do maintain controls on the prices of crude oil--of most of the crude oil--produced in the United States. But the basic reason is that we think that you have a choice between low prices and adequate supply, and that it always appears that if more--that higher prices will not bring more output. The potential supply is all there, and given that you don't have to pay any more to get it, but in the end it always turns out that it is a mistake.

We are suffering, and have been suffering, for many years in the political process being able to face the simple fact that if you want more natural gas you have to pay for it. And our energy situation today would be enormously different if the price of natural gas had been freed for the last five years instead of being under rigid controls.

I think we will find, five years from now, that if we decided to make the price of crude oil a price determined in the congressional process this would just perpetrate the shortage of crude oil in the United States.

The question of the profits of the oil companies is really not terribly relevant to this situation, but the main

fact--important fact--is that a very large part of the profits earned by the majors in the recent quarter has been as a result of profits they have made on their sales outside of the United States, selling in the free and uncontrolled market in Europe and in Japan and, in fact, that is one of the reasons why Europe and Japan had an abundant supply of oil. That is also one of the reasons why our oil companies have made a lot of money in those markets.

In any case, by comparison with many other industries, the oil companies are not now making extraordinary profits and the basic point, I think, is that if you start out looking at the problem in a way of how do we punish our domestic oil companies here rather than the problem of how do we get an adequate supply of energy in the United States, we are going to do ourselves a great deal of harm.

MR. GREENSPAN: I would just like to supplement Mr. Stein's remarks. I think in terms of what the costs and benefits to this country are, whether we do or don't hold back prices in crude oil either at the present level or some other level, that it is important to recognize what our maximum gains are and maximum losses are if we are wrong.

I think, at this particular stage, it is fairly obvious that even if we go through the types of rollbacks which are being discussed in the crude oil area, the impact upon the gasoline price at the service station I think would be hardly observable to the

average consumer. So that in a sense, at best, the type of effect we will see will be marginal.

But if, in fact, we are wrong about what the price level has to be to significantly increase supply in this country we may well be in more difficulty. But, of course, one must realize that statistical estimates in an area like this are extremely unreliable and if, in fact, the price that is required to bring forth the adequate oil and energy in this country for the next five or seven years is not \$7.00 a barrel equivalent, but let's assume it is ten, the difference in prices at the pump level for diesel fuel oil is really quite small and what I submit to you is this that, to me, the rolling back of prices at this level I think is a gross illusion, and actually could endanger this country in an extraordinary way.

If I saw some large benefits from doing so, even in the short run, at least I'd understand what the real tradeoff concerns were. But all I see is a possibility of a very small impact at very considerable risk in the long term energy supplies of this country.

GOVERNOR EVANS: I think that we have time for perhaps one more question, if there is a question.

GOVERNOR CURTIS: I'd like to follow up on what has been said which runs contrary, at least, to what the industry in my state has been saying. It is not really so much the supply that is killing us, but the high basic cost of crude. It seems to me

that there is nothing more inflationary on the economy, and nothing that is contributing any more to the recession that we are running into, than the basic high cost of crude oil.

We get various figures which indicate anywhere from 75 to 85% of the crude is domestically produced, and I can't understand why we allow the domestic price to keep pace with the world price at the expense of most industries.

I find, in my state, where we have a tremendous investment in paper we will find a way to get along with the shorter supply. But what we can't keep up with is the tremendous price for what we get. So if you have got the world price running free and wild at the expense of domestic consumption, that doesn't seem right.

GOVERNOR EVANS: Perhaps we will have the opportunity to have the three panel members give a response, and sum up, and that will end this economic discussion. Mr. Greenspan.

MR. GREENSPAN: I think our choice is one of the fact that we don't have the possibility, here, of recreating a system which did exist when the price of crude oil in the Persian Gulf was \$1.80 a barrel. That is a fact of life, and it is no longer the case, and puts us into a difficult position from which our alternatives are quite limited. So I don't see that we have got any mechanism short of somehow returning prices to where they were, which will give us the type of thing we want, and will remove the difficulties to which you allude, and to which I am in full

agreement.

The question is if we attempt to solve the problem by rolling back domestic crude oil prices what I fear we are doing is changing the nature of the problem to one of exceptional difficulty which would undoubtedly lead to a major crisis four, five, six or seven years from today, and given that alternative I op for the lesser evil.

GOVERNOR EVANS: Mr. Stein.

MR. STEIN: Well I don't think there is much more to add to this question. The question is entirely one of whether you believe that this is an economic system in which you get what you pay for, and there is a good deal of evidence that it is. We went through the same kind of discussion a year ago about the price of beef, pork, and chicken and everybody told us well they are out there the beef, and pork, and chickens are all out there and why should we pay higher prices for them, put a ceiling on them and we will all have them cheap, but we didn't get them at all.

I think that in a more complicated way this is the essence of the oil question. I think we are better off to have oil than not to have it, and nobody has discovered a way to get it without paying for it.

GOVERNOR EVANS: Mr. Okun.

MR. OKUN: I agree with the question fully, so I don't have too much to add. I don't think one can take the price of oil determined in the world market, and coming from the formation

of a cartel and a monopoly, and as a political sanction against the United States as a good indication of where you want to have the supply and demand curves to cross and, therefore, use this as a criterion for what the price of oil ought to be.

I think that in the case of the oil crisis the market is inappropriate as a means of allocating and deciding prices, just as it is for allocating seats in a lifeboat.

I think we should be doing it the way the federal government has declared, and clearly agreed on, that it is not an allocation program and that it is not letting prices go where they want to go.

GOVERNOR EVANS: Let me join with my colleagues in thanking Mr. Okun, Mr. Stein, and Mr. Greenspan for their interesting and diverse series of responses to the questions the governors put. We appreciate very much your joining with us this morning, and joining in for this interesting repartee. Thank you, gentlemen.

(Applause)

GOVERNOR EVANS: We want to shift gears, but perhaps only slightly, to a more direct involvement in the financial affairs of the country and of the states, and I think the best way to introduce the Director of the Office of Management and Budget is to read some words he said not too long ago. He may not appreciate them all, but nonetheless I will read them. At a December 8th dinner at the Gridiron Club, Mr. Ash had the



following remarks to make.

"As every right thinking American knows, the effete, elitist, eastern establishment has for a long time--to be precise for five years, one month, and one day--twisted, mamed and mangled the facts. A right thinking American also knows that the nattering nabobs of negativism worship only at the altar of the radiclibs. The paranoid panderers of printed prevarication are surpassed only by the electronic ministers of mistruth. But this is generalizing. Let me be more specific.

Recently one of your colleagues, Milt Viorst, wrote an article about me in the Washingtonian Magazine. Now Milt Viorst is not exactly known for his zeal in supporting this Administration. In fact, he is probably the only man in Washington who thinks Herblock is soft on President Nixon. But one would at least expect from him an iota of objectivity, an ounce of sympathy and professional understanding.

But let me read you, if I can get through it without choking, his opening paragraph.

'In Richard Nixon's White House staff Roy Ash was the only super manager. Henry Kissinger a professor; Al Haig a soldier; Mel Laird a politician; Peter Flanigan a banker; Len Garment a lawyer and Ron Zeigler a flack. Of the entire bunch, only Roy Ash was trained to run anything as complicated as the United States Government.

Now I ask you, gentlemen, you who are steeped in the

tradition of fair and objective journalism how can you condone this distorted, biased, warped, vicious, inaccurate, heinous, guttership evaluation of a White House staff.

Perhaps worst of all, from a journalistic standpoint, he is inconsistent. I still can't understand how he could be so biased toward my colleagues, yet so objective about me.'

Let me introduce you to the only super manager of the White House, the Director of the Office of Management and Budget, Mr. Roy Ash.

(Applause)

MR. ASH: I am not sure how I should reply, Mr. Chairman, but to all the governors, ladies and gentlemen, I am not going to make a speech and the few remarks that I will make will be very brief ones, because I would much prefer that we have a discussion of the matters of interest to you.

In fact, in order to do so we have really closed the Office of Management and Budget today and brought them all down here, so that we can deal with the subjects that truly must be on your minds.

Let me introduce those that we have, and then after I have made a few remarks we can get to a discussion of the matters and issues that are of interest to you.

The Deputy Director of the Office of Management and Budget, Fred Malek; Mr. Ridgewater; Frank Zarb; Paul O'Neill, Dale McOmber and at the end Dave Bray.

We, at OMB, feel that we can be much more useful to you if we listen carefully rather than if we talk carelessly, so we intend to do some careful listening.

The plan, as I understand it, is to have a separate discussion this afternoon regarding Circular A70 with one of your own committees and so, therefore, we will for the moment put that off of the agenda.

I have received 51 letters, I don't know who sent two, but I do want to assure you that we haven't made a decision yet, and so it is especially timely that we do have the benefit of your thinking as we deal with this very important matter that relates to all of you, Circular A70.

One other comment, the proposals for this year's budget we have just completed. We did have some very, very, limited discussions with Governor Evans and with some of you but we acknowledged that they were very limited.

This year we want to do something different, and we hope this will be something that you will also assist us in. We want to build very considerably upon this plan, and will do so by arranging in late summer and early fall a series of meetings with you, and your staffs, with our key staff members so that we can have the full input that each of you would like to have taken into account when we deal with this year's federal budget.

In fact, we have a commitment toward relating ourselves more closely to your interests as represented by the fact that we

do now have within the Office of Management and Budget an inter-governmental division, and its purpose is to make sure that we relate to your affairs as we do with our own affairs.

We do want to reflect in our 1976 budget, especially since as you know the Vice President has said that the Administration is committed to the new federalism, and to decentralization of authorities and resources, to you and those in local government, this fact and it is certainly not only appropriate but it is essential to get the best thinking of all of us particularly those of you that have to live with the realities of the world into our budget formation. So this next few weeks we will be arranging a method to bring off this change this year.

Now let me go into just a very few comments about the 1975 budget, those matters that we believe are sufficiently significant in there that you should have in your mind. I certainly don't intend to recite the entire budget, in brief, but just to point out what we regard as significant so that you may see that significance as well.

Sometimes I tend to think we, in the federal government, are running hard to see if we can't make sure that our budget is higher than those of the aggregate of all the states, and local communities, and sometimes this runs us all up to some pretty high figures. The number now is \$300 billion up 11% from last year, and it does have in it a bit of a deficit. Not a very big one, but it also has in it--for the economists in the crowd--a

full employment surplus.

In fact, we are trying to steer a middle course that the economists were talking about here a little earlier. But let me make one other reference point as to what I am saying about being big. Federal government expenditures relative to the gross national product is certainly one measure of the ability of economic growth. It has been approximately 21% of that number now since about 1967, so at least we are growing at approximately the same rate as the economy is growing.

I don't know whether that is a good or bad statement, but this is a fact but, now, let me go to a third significant fact to us and I think to you maybe as well. Of the increase in federal government expenditures this year over last year, \$29 billion, \$26 and a half billion of those, in fact, 90% is uncontrollable. That is, we couldn't do anything about it at least this year. I was done for us in earlier years, in legislation of earlier years.

This is in the types of programs such as social security, medicare, medicade, the supplemental security and income program that we took over from long lead commitments, and all of those things accounted for 26 and a half billion of the 29 billion increase. 1% of the federal budget is inflationary this year, and this is in view of the fact that the federal budget--to a great extent--is a forecast of the inevitable, and already committed, than it is a set of Presidential programs for this year.

On the other hand, it is a set of Presidential programs that bear importantly in the future years and I suggest you read it from that point of view.

Now there are a couple of other significant points I want to make to put in perspective that part of the federal budget that doesn't pertain to you in the same way as others do and this is defense. In the federal budget, defense was up 6 billion this year but it is important to say that the defense budget was the lowest percentage, the federal government utilizes the lowest percent of the gross national product and has for 25 years, since 1950, and we are still gradually reducing the defense budget total against the cost to the American people to pay for this nation's defense.

Now the 29% of total federal expenditures for defense reflects the fact that if the defense budget ran at nearly the same average it did during the decade of the '60s, we'd not be spending \$85 billion but 125 billion, so we have taken \$40 billion out of the defense budget and are now using this in other domestic programs.

One other point. We are, as you know, moving toward a new federalism as fast as we possibly can, and through the congressional actions that have to take place. We now, this year, are spending more than one-half of our total budget--\$164 billion--where money through taxes is paid back to individuals, back to the states and local governments. In fact, we are paying \$113

billion to individuals this year, all forms of individual entitlement programs, and we are paying back \$51 billion to state and local governments and, of course, providing through that about 20%--as best we can estimate--of the outlays of combined state and local government activities of the country.

Well those are all the comments I want to make about the budget overview business. Now we'd like to get to the subjects of interest to you, keeping in mind the tax structure as we see it, and our substantial commitment to the new federalism, and to decentralization, and to find ways in which we can best work out the problems so that we are going to meet the country's needs. That is what we are here for, and that is what we want to discuss now, and we want to listen to your thoughts and to respond to them, and to make sure that we take into account your views when we go about our work. Thank you.

GOVERNOR EVANS: Thank you, Roy; I know that with your colleagues here we have the top management, top leadership, of the Office of Management and Budget. I know there are a good many questions from the governors as to the direction the federal budget is taking in its relationship to each of our states, and I will start with Governor Williams of Arizona.

GOVERNOR WILLIAMS: I have supported the Administration's position in past years feeling that what they were doing was a good curb on inflation. As we enter a period of low business activities, what will be your position on the subject of impoundment?

MR. ASH: The economists earlier, particularly Herb Stein, suggest what our position was to deal with the economy. But as to impoundments, themselves, we have made some changes from the policies that we had last year particularly in the health and educational areas to the point where all of those monies are now made available.

We do continue, however, the normal continuing processes that are going on--that have gone on for years and years--to reserve portions of those funds that are appropriated that we think aren't ready to be spend, because the programs aren't yet aligned for them to be spent, or there are some cases that we think it might not be the most prudent time and way to spend those funds.

We do believe we have not only the authority, but the responsibility, to spend them prudently and wisely and will continue to exercise that responsibility.

Now I think to put it in some perspective that I should say that the impoundment levels, at the moment, if we adjust out two or three very special ones such as the \$2 billion Aid for Israel Program, and some other defense ones, we are running about the same or a little less than have been the averages over the past ten or fifteen years.

We will, as a matter of policy, continue to reserve as a charge imposed upon us the spending of some of this money and, at the same time, make sure that we have reserved spending in the



right way.

GOVERNOR EVANS: Before I go to the next question, may I ask--once again--that those standing on the sidelines and having conversations take your seats, or please leave the room and have your conversations outside. It is becoming more and more difficult to understand and hear the questions and answers. Governor Judge of Montana.

GOVERNOR JUDGE: I'd like to follow up a little bit on Governor Williams' question with respect to impoundment. With the possibility of the serious loss of revenues in the state governments from the drop off of consumption in gasoline, does the Administration have any proposals to release federal highway monies to assist the states with respect to the loss of state revenues in gasoline, and so forth?

MR. ASH: We know clearly of the interest that a number of governors have and as I understand it, particularly because in some states they feel that it might be difficult to provide matching funds, that therefore maybe we should change the federal program to provide the total of funds and this, of course, would require legislation which is a somewhat tortuous process itself. There are pros and cons for doing this and we do not, at the moment, have either action in process to do so nor do we at this moment all agree that that is the best possible thing to do.

I think that it may turn out--as I read some of the information that I think was prepared for you here by the Commission

on Intergovernmental Relations--that it may turn out the way that was described by others this morning on the subject of energy. That the trend you have seen in February may turn and go the other way as we get later on in the year. So we feel it would be better to assess what might happen over the longer run, and not just extrapolate from February, before we decide finally what to do.

It is an open question, but we understand not only the point but the reasons for it and you know as well as I that there are pros and cons, and it isn't all one sided. But we should see another one, or two, or three outlooks before we come to the conclusion of what to do in the long run.

Certainly if one is to change the course of highway programs, it is not something that affects the months of March and April and May. It affects the years of 1975, '76, '77 and beyond in the longer term, and we believe that we want to address your point but in the longer term.

Paul, would you want to add anything further on that?

MR. O'NEILL: I have one point on that. In the unified transportation assistance proposal which the President sent to Congress about ten days ago we have, indeed, proposed changing the status of the funds that were provided under separate programs from 70% to 80% federal, so there is some movement in the direction you are suggesting under the aegis of a new unified transportation assistance proposal.

GOVERNOR EVANS: Governor Carter of Georgia. That was

my question, but I still don't understand the answer.

GOVERNOR CARTER: I'd like to ask the same question that Governor Judge did. My understanding of the answer is that in spite of the fact that the state revenues are dropping of very rapidly because our highways are financed primarily by gasoline taxes, that you do not intend at this time to liberalize your allocation of highway funds; is that correct?

MR. ASH: Paul O'Neill has just described how in the unified transportation assistance program this can be accomplished, but I am answer a broader question and that I guess is what you have in mind.

We think that one swallow does not a summer make, and we can't want to extrapolate just from February and make a big conclusion that relates to the next five years. Let's have a better view of what the total outlook might be when we look at February, March, April and May. We understand your point, we are considering your point, but we just haven't yet come to the conclusion what is the best possible thing to do, and we want to make sure that it is based upon data that will truly represent the years that these programs would relate to.

MR. O'NEILL: I am sure, Governor, as you know it is only since the enactment of the Federal Highway Act of 1973 that, in fact, for the non-interstate portion of highway trust funds that would be moved from 50% federal to 70% federal, so when we look at this we are looking at a substantial movement. So there

is a substantial movement in matching funds which has come about only in the last eight months, and as you know in the interstate program we are already at 90% federal and with a large amount of federal land up in the neighborhood of 95%.

We are looking at this data. We are also looking at some of the data some of your colleagues have supplied us with regard to what has happened to the tax take as a result of the energy problem, and we are trying to simulate and evaluate the data.

MR. ASH: You can be assured your point isn't going unnoticed, and you can be further assured that it is getting considerable attention. The federal government doesn't turn 180° in three days. It has actually been two weeks since we first discussed it, so it is a matter of attention.

GOVERNOR CARTER: Well there are two things that bother me still. One is you are not presently allocating as much highway funds to the states as the law permits; is that not correct? You are still withholding trust funds for interstate highways, and other highway funds, that have been already authorized by Congress to be expended.

MR. ASH: We are, at the present time, operating quite consistent with the aggregate of all legislative authorizations and directives, and have been operating about at \$4 billion plus a year now, so this is a continuing program at a level that it has been.

GOVERNOR CARTER: But just to summarize my own question,

you are not constrained now to wait until Congress passes a new law to let you release the money. You can make the decision yourself.

MR. ASH: We are constrained if we change the formula and on the basis of doing so. The proposal that was made was that we change the formula, the method, not change the amount and that is quite a proposition.

GOVERNOR CARTER: You are not doubtful about the state revenues continuing, but they will be less this year than a year ago, or two years ago, from gasoline taxes.

MR. ASH: I think they could be less, and the question is how much less and what consequences flow from it? We have had the experience of February, I notice that in the report prepared for you, and the data were generated by extrapolating from February through the end of the year and this is a fairly small base because we all know February was not a typical month. We all hope it was not a typical month, and we believe it was not a typical month.

GOVERNOR EVANS: Let me just kind of summarize it. Isn't it true that income from the federal highway trust fund is running at about 5 billion a year?

MR. ASH: Yes.

GOVERNOR EVANS: We have spent nearly 4 billion, and that has been level over the past several years. So presumably we could accelerate based on the income received at least to about a \$5 billion per year allocation.

MR. ASH: Paul, didn't you do a run-out that looked at this?

MR. O'NEILL: In answer to your question, Governor, I think that yes there should be some acceleration of the level of funds available for apportionment allocation under existing law. But I think Mr. Ash's point is a very important one, that under the existing law there is nothing that we can do to change the matching formula. It would require congressional action in order to change the matching formula. But there is a connection with the problem that is being raised about a reduction in the state tax rate because of a change in gasoline sales.

MR. ASH: If it requires matching funds that are not available, I am not sure what we'd accomplish by going to five rather than four.

GOVERNOR EVANS: That is what I was trying to get straight, and that is we do have a bigger pot of money based on income that would be distributed. The larger problem which we have right now is the inability with reduced revenues to match even at the present levels, and I think that has seriously reduced the ability--at least in the expectation of what we have in our own state--of getting a smaller pot, and we have rapidly increasing costs of maintenance and other bites out of that state highway trust fund, and the combination of lowered income and higher costs puts a serious crimp in the construction ability.

Let me only say one thing, and remind all of my fellow

governors, several weeks ago I asked in a communication to each of you that we respond to several questions that would be of enormous help in getting the total nation-wide viewpoint as to what is likely to happen. Unfortunately, we do not have responses from all states or all governors. It would be most helpful if when you return home you could insure that those questions are responded to promptly, because we don't have as much ammunition as we'd like when talking with Mr. Ash and his people at OMB.

We won't have it until we have all the responses from the states. Governor Dunn.

GOVERNOR DUNN: Thank you, Mr. Chairman. Mr. Ash, I was wondering as far as the national Administration approach to the housing problems, which we all face across the country, that we understand that there is a shift in that approach that the Administration is seeking to take in housing. But there has been a considerable diminution of resources available to promote the construction of new housing units over the past year.

I have read your projections, and hopes, for Fiscal Year 1975 as far as some nearly a quarter of a million new housing units with federal assistance. Do you plan to do anything in view of the time worn process of legislation, which is so slow, to assist housing between now and the period when we could hope to have new legislation as far as impoundments are concerned in the 235-236 program?

MR. ASH: Let me make a couple of comments on housing, in

general, and then we will get to 235-236. I think it is pretty well demonstrated that if we look at the housing industry, which is an important industry, one that we all want to make sure carries on at a reasonable level, that the main things that the federal government can do are not subsidized housing programs in terms of the whole industry.

It is in matters of variable interest rates, and money availability, and employment, and all of those things which most of all generate housing. We have had some turn-up in housing, although we don't read too much into that, so we are talking about the housing industry in the way of how best we can contribute to it.

Now to 235-236 as a specific program. As you know, a year ago we suspended them with the belief that they were by far a poor way to use the taxpayers' money in order to achieve the efficiencies and the kinds of benefits that were expected of them, that they were way beyond the costs that were expected.

I think most people, not everybody, but most people support us in that position that 235 and 236 is not the way to go and, as you know, in our budget we have Section 23 programs believing those are better alternatives, and believe that we should stick on that course, and try to make it work and succeed, and I don't believe that 235 and 236 are really the way to spend the taxpayers' money, or the way to provide benefits to those that would be the object of that benefit.



Now if you want any further discussion, Paul, do you want to answer further on that?

MR. O'NEILL: Governor, indeed we have approved legislation to the Congress to modify the base for the so-called Section 23 program. But while we are waiting for the Congress to take action, the Secretary of Housing and Urban Development has made administrative modifications to the Section 23 program and he is going ahead now on allocations under the program.

You may recall that it was last September 19th when the President sent the impoundment legislation to the Congress, and included were 200,000 units on a national basis for the Section 23 program, and the 1975 budget program would supplement and request an additional 300,000 under the appropriate of the Section 23 program so, indeed, we are going ahead.

GOVERNOR EVANS: Thank you. Governor Godwin.

GOVERNOR GODWIN: Well, Mr. Chairman, my question relates back to the discussion that was going on about the highway trust fund, and I am unable to understand even from the answers that have been given this morning as to the difference between the amount of money being received into the highway trust fund, and that that is being expended from it.

The impoundment of a certain portion of that money seems to be present, and we are unable to explain to our people why that money is not released, and I do not quite understand from the comments that have been made just why this is true.

MR. ASH: I can provide some additional piece of the answer, and it doesn't necessarily relate to this year and this moment but in general.

You know the problem that we have, because you all have the same problem, and it is one of trying to arrange priorities among all the claims against the limited amount of money that we have available to spend. We are trying to arrange priorities so that we can find the best possible mix of programs, and level of programs, and so that we make the minimum contribution to inflation in the process.

Those priorities as we have aligned them this year, last year, and the year before, have brought us to a level of highway financing that has been about this \$4 billion level a year. It is hard to say that there is some computer program in the back room that says \$4 billion is exactly right and some other number isn't. But the best possible job that we can do, given a sustained amount of money to spend, is to allocate it so as to get the maximum potential use of those monies.

When we spend it, then the question is what do we take it out of, and the program we take it out of might be the very next thing that we'd be talking about if we went to additional priorities. You have to use your subjective judgment, and on the subjective judgment thing as advisors to the President I think we have a fair amount of congressional support that the level is about the right level. That is really all I can say.

I can't put out the computer program by which we arrived at the best judgment. It's the best we can make given many constraints that we have to live within, and particularly the constraint of let's don't add to the inflation ourselves in the process of spending money that is available.

GOVERNOR EVANS: I think the difficulty for all of us is that most states have highway trust funds at least like ours where the income from the gasoline taxes is constrained in that it must be spent on highways, and we generally have a balanced budget between the income and the outgo with the fluctuations coming in the amount available for construction programs after the other necessary expenditures have been taken.

I think what you are really saying is that even at the federal level, though, we have technically a highway trust fund and that money is supposed to be available for highway construction; that the determination is to spend less than the income in order to keep the overall federal budget deficit at a lower level.

MR. ASH: We are charged with a form of responsibility. We can't just spend on the trust fund whether it is water pollution or a lot of things.

GOVERNOR EVANS: That is the problem. Governor Curtis.

GOVERNOR CURTIS: I'd like to ask one short question. If the unemployment gets into the high 6% figure, would the Budget Office recommend to the President that some of the impounded water pollution and abatement funds be released. You all know that there

is a great concern here.

MR. ASH: First of all, I want to record myself as not going along with the supposition that the employment rate will get into the high 6%, or whatever you said. I obviously join with Herb Stein's view that it wouldn't, but on the other hand let's not relate it to a particular number.

If there is any necessity for any governmental spending action to deal with unemployment, or other economic conditions that we feel would call for government action, we'd apply a certain criteria that should be met, and that includes dealing with the unemployment as directly as we can, as immediately as we can, rather than programs that have long term effect and, therefore, I will cut right through what we do and say that what you have suggested is possible.

That release of, say, highway trust funds; water pollution trust funds, would not be the ones right up in the front because they would probably be--as was said by those talking on the economy here--they would probably be out of phase; that is, they'd come into the economy at probably the wrong time at just the time you wouldn't need them.

We believe that there are other things that we can do first. I won't go into what they are.

GOVERNOR CURTIS: In my own state, they would have an immediate effect because the planning is done; the engineering is done; state money is ready, and we could award contracts just

as fast as we can get bids.

MR. ASH: That is a good point, and one of the criteria that we are using to look over all programs is what programs are ready if in need and these stand higher on the list for money release and also if, in fact, they should be done. High in the priority list is, first, the '75 budget itself which we think is appropriate to the economy, then the unemployment program and the legislative proposal we have before the Congress goes right quickly to the people that are unemployed and gives them augmented benefits. We agree with you and one of the criteria once we get down to the various kinds of public works programs is that it must be ready right now.

GOVERNOR CURTIS: We all know that unemployment is a spotty thing in the nation. If it goes to 6% nationally, my state would probably be up to 7.2% which is over the national average. Highway construction, water quality construction, put more people to work than a lot of crash manpower programs where you would simply have to go hire some people you don't need.

MR. ASH: The high energy consuming projects, that is a criteria. Let's don't add to the energy problem. Let's don't add to it by going and starting up programs and consuming lots of energy. Some kinds of public works even do that.

But there is one you might want to look at, the proposed unemployment compensation, and it has as its objective especially concentrating on the high spots and special attention is given to

those whose unemployment rate is either especially high, or has risen, and that might well fit the very kind of thing you are suggesting.

GOVERNOR EVANS: Let me ask one question, Roy. We have had with some of the governors and representatives of the cities and counties of the nation good discussions with the Office of Management and Budget in trying to develop a system where we can have a stronger input prior to the fact of the development of the national budget, and we think some good progress has been made along that line. Apparently we didn't ask questions precisely, and one question we should have asked at the last December meeting was can we be assured that when the decisions on impoundments are being made where they affect the states, and local governments, like the one on water pollution, that the national organization representing state and local communities be informed, and involved, and have some chance for input before these impoundment proceedings are made and decided upon within the Administration?

MR. ASH: You can, because we have indicated during this very year that we want to get out and move among you, and our people will be glad to talk to you, and I am sure one of the subjects you will want to discuss--and we want to discuss--are those two programs of pollution and highway construction that bear so directly upon you, and from our point of view contain the largest amounts of money. So we will be in among you this summer and fall, and that clearly is a subject that we want to have on our

agenda.

GOVERNOR EVANS: If we can get a shot at it before the impoundments are made, it would be a lot easier than after the fact.

MR. ASH: They have already been made.

GOVERNOR EVANS: Governor Hathaway.

GOVERNOR HATHAWAY: Mr. Ash, I understand the State of Missouri filed suit with respect to the impoundment of highway money. I understand, also, that as a result of that suit--which they won--they are receiving a full allocation of highway funds. If this is true, there is obviously discrimination against other states.

My question to you, sir, is whether or not other states should file suit and follow the State of Missouri to obtain their fair share of the high trust funds?

MR. ASH: I don't think that would help. My understanding is that Missouri had all of the money even before the suit was resolved and, of course, the suit hasn't finally been resolved in the Supreme Court anyway and will--in one form or another at least--will probably end up there so we all know where we stand with regard to impoundment.

During the course of this year, a number of things have happened resulting from last year's impoundment. It might be useful to you to look at them. Some indicated that the health and education areas were most important, and others concluded that wasn't the way to go, and so on. But we, and the Congress,

did agree that the objectives we were seeking were proper and correct ones, and either came down with new legislation that pretty well went the way that our objective was going, or sometimes just completely away from where we were going, and then there is a third set--a much smaller set--that are now being resolved in the courts, and I am sure we will all be guided by the outcome of those.

The net effect is that we are resolving all of those kinds of issues one way or another, and have largely resolved them from what they were just a year ago at this time. I think that we will be able to all work our way out to where we want to get, and as I said the other day this will gradually disappear but we will continue the normal process of looking at this because we are charged with doing that.

I think we are on the down hill side, and let's work together in dealing with specific issues that you still have, and we can sit down with you during the course of the year and see what kind of thoughts and ideas you have. I don't suggest another suit, that it will add anything constructive to what is going on now.

GOVERNOR EVANS: To follow up on what Governor Hathaway said if, for instance, in this case if the end result through the Supreme Court in the Missouri case were to authorize, or to award, to the State of Missouri a higher distribution of the gasoline tax than is the case under present policies for other



states, would it be the policy then of the Office of Management and Budget to voluntarily increase the allocation of other states to respond to that single court suit or would it, as Governor Hathaway said, be necessary for the states to individually file lawsuits in order to get the allocation?

MR. ASH: I don't know. I know there are many lawyers here, but as you know there are some issues particularly and some issues in general. So the extent that an ultimate decision deals with issues in general that will be something we will have to look at, but we are going to respond obviously to whatever comes out from that final court decision.

I would think that it is more likely to be an issue in general than to Missouri particularly, but I don't want to practice law because I don't know how.

GOVERNOR EVANS: Governor Ray of Iowa.

GOVERNOR RAY: I don't know if you can hear me or not. I don't quite understand what you just told us. We have not joined in a particular lawsuit because we felt if the decision was favorable, or unfavorable, we'd abide by the decision. We understood that once that decision was made there was no appeal to the Supreme Court. We are now in a corner, ourselves, on the same issue.

We have advanced state money because we had a program ready to go with approved programs by the Department of Transportation. So we really have our money invested, and we cannot get impoundment

funds without going to court, the same way that Missouri did, and we have been told the only way to get it is to sue.

MR. ASH: That is a good point. The issues of the Missouri case will be probably coming up through another case to the Supreme Court. We are talking about the issues rather than the case as such. The issue is still to be resolved at the Supreme Court level, and it will probably come up through another case.

MR. O'NEILL: Governor, I think on the specific case that you mentioned that, in fact, there was not an appeal taken to the Supreme Court with regard to the Missouri case. Our attorney, and the office of legal counsel at the Department of Justice, do not believe that given the facts in this case that we do have grounds for a general decision from the court that applies to all states.

If my memory serves me correctly, when we did try to bring a suit which we tried to get into the Supreme Court on a quick motion to get this resolved, it wasn't accepted. We were trying to get a suit up through the process to the Supreme Court that had general applicability, and I think Mr. Ash has indicated that when we have a decision that has general applicability we will file.

GOVERNOR RAY: It is a delaying tactic, because it would seem to us that Missouri reported out a good case but apparently someone saw fit to go ahead and make the payment to Missouri and then told us, in effect, the only way you are going to get yours

is sue also or get a repetition of what we have already had, and we don't frankly appreciate that attitude at all.

MR. ASH: The Missouri case may not have been a sufficiently general one to serve all purposes, yours and ours. There was one in Georgia that we attempted to move up to the Supreme Court in order to get a general rule, so that it can guide us for dealing with each and every other state rather than a particular case.

GOVERNOR RAY: How did the Georgia case come out?

MR. ASH: The Supreme Court didn't take it.

GOVERNOR CARTER: I hate to be critical, but this is the kind of thing that is extremely frustrating to a governor. We considered joining in the Missouri suit, and then the suit was decided in the Court of Appeals, and Mr. Ash's department or the Department of Transportation decided not to appeal. The Georgia case ended in a suit that went directly to the Supreme Court under the provisions of the Constitution which permits a state to sue the federal government, and the Supreme Court of the United States refused to hear the Georgia suit, and gave no reason for their refusal.

The present circumstances are that Missouri is being given their full share of federal highway funds, and other states are not. So the question is should we all jointly file a suit, a similar suit, against Mr. Ash and against the Department of Transportation or not? I think perhaps, from the discussion, that

we ought to go ahead and file a similar suit and get our money. Because the federal government has obviously payed Missouri as a result of the suit, and I think they have deliberately decided not to appeal the case to the Supreme Court in order to prevent having to pay the other states what they are paying Missouri, and that may not be a fair judgment on my part against Mr. Ash's decision, but that is the present situation.

MR. ASH: We are better off if we can get one that has general application rather a particular issue of a state.

GOVERNOR CARTER: In view of the fact that the Supreme Court refused to hear the Georgia case, it seems to me that we should follow the Missouri lead and go about filing individually or jointly against you to get the money that is rightfully ours.

MR. O'NEILL: To make the record full and clear, we joined with you, and supported strongly your petition because we wanted to get the case into the Supreme Court, and get a final decision, and I can assure you that there is no motivation in the Missouri case to try to slip by the issue.

GOVERNOR CARTER: Then why not appeal the Missouri decision?

MR. O'NEILL: We thought the lawyers were looking for a generalized case, and that they fully intended to go to the Supreme Court.

GOVERNOR CARTER: The Supreme Court has already said they are not going to accept it.

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MR. O'NEILL: I don't think they said that, they have said they wouldn't accept yours.

GOVERNOR EVANS: Maybe we should all try a generalized suit, and select from those which ones go to the Supreme Court. Is there any way we can do that?

MR. ASH: Let's figure out how to get one moving, because we certainly supported the Georgia effort, and this one didn't exactly fit their criteria so let's create one that does.

GOVERNOR EVANS: Will we get any information jointly or individually from the Supreme Court that would give us any clue, or will they just wait until something comes before them and then say yes or no?

MR. ASH: You are the governors and will probably have to take the initiative.

GOVERNOR CARTER: I have a good solution, simply treat the other states as you treated Missouri.

MR. ASH: That is not exactly resolving the issues in the proper forum. That is begging the issues.

GOVERNOR EVANS: Well, let me ask Governor Sargent who is Chairman of our Transportation Committee will you and your Committee during your activities, this afternoon and tomorrow, make sure we focus on this issue and try to get a way in which it can be resolved in the promptest fashion possible.

GOVERNOR SARGENT: We will be meeting at noon time with the Secretary, and we will bring up this matter and I think it is very

important that we do resolve it, because every state has the problem in one way or another. It differs with different states.

GOVERNOR EVANS: Governor Exon of Nebraska.

GOVERNOR EXON: This still gets back to the basic question of why is it necessary for Missouri, or Nebraska, or any other state to sue the federal government; why this court action; why is it that you joined in with Georgia in getting this tested in the Supreme Court? I don't think there is any basic need for court action, because the fact of the matter is that the impoundment of highway funds are simply an arbitrary action on the part of the Administration. By impounding funds, the taxpayers of the states have already payed in. Why don't we just do away with all this expensive court action and release the funds?

I am sure that is oversimplifying it, but I'd like to have your response.

MR. ASH: In any suit, no matter how well intentioned and meaningful on both sides, you find an easy resolution by just having the other side accept your view. Here there are two different views, they are both within reason. They are both believed by the people that are involved in the contention. This is why we believe that the court system exists to deal with this type of thing. Both positions are taken in a spirit of good will, good intentions, to do the right thing and the question is what is the right thing given the way the applicable laws are written.

That is really what you are trying to do is find an

answer, and that is why the courts are there.

We'd like to fight it just as well as you, but we are not sure that acceding to your view of how it should be constructed is any different than you acceding to our view of how it should be constructed.

GOVERNOR EVANS: In the nine years that I have been coming to the National Governors' Conference, the question of impoundment of highway trust funds has been at issue. Someday it would be nice to not have it an issue. Governor Hall of Oklahoma.

GOVERNOR HALL: I have a question directed to Mr. Ash also regarding federal revenue sharing. For the last three weeks we have had some legislators saying that the national administration intends to complete the five year plan. That between now and the next year there is going to be a recommendation that there will be a change.

What I'd like to know, definitely, from you is there any doubt about the fact that the national administration supports the completion of the present five year plan on revenue sharing?

MR. ASH: I am glad you asked that question, this is one that I really came prepared to answer. First, there is no doubt that it will be completed and we have been given a direction to do that. This is a subject that is very important to us, and we have given direct attention to it.

MR. ZARB: There is absolutely no doubt of our commitment

to fulfill the five year period, which we are rapidly approaching. However, we are also rapidly approaching the time of evaluation and measurement of what is taking place with general revenue sharing, and as you might know at the outset there were those in the Congress, and elsewhere, that felt that general revenue sharing just wasn't such a red hot idea, and I think it probably would be a good thing if we spent some time together over the next year in reviewing what is taking place within the revenue sharing framework, and help to make some determination as to where we go from here.

GOVERNOR EVANS: Governor Ford.

GOVERNOR FORD: Aren't you in the process of restructuring your budgeting process now? The House has now passed one bill where the revenue sharing language was left out, and the Senate is in the process of marking up the bill that would put the revenue sharing plan in. Is this getting to the point of a conference committee?

Most of the governors are not in a position to make a decision. My budgeting process was over yesterday as far as my state is concerned. Others are winding theirs up, and it makes it pretty tough for the governors to adjust to what you are telling us. Am I right in my assumption that these two bills are in the process now on the Hill?

MR. ASH: It is true that there are some forces in Congress who wouldn't necessarily want to continue general revenue



sharing, and I think it behooves us all to make sure that we have a good case that shows that it has been workable, is desirable, and should be continued, and that is a general comment. We must be vigilant; we must continue to work on that subject because at any time something can spring up. I don't know of those particular bills that would do that. Frank may, but this other is a manifestation of an attitude against it, so there are those who would turn it off.

GOVERNOR EVANS: Wendell, I think what you are referring to is the Budget Reform Act which would reform the congressional action on budgets. We, at the National Governors' Conference level have been active in working with particularly the Senate where there has been some major effort to reform that budgetary process, and I think we all join in a hope that that process will be reformed to the extent that federal budgets will be passed and in effect before the beginning of the fiscal year instead of, as is sometimes the case, after the end of the fiscal year.

GOVERNOR FORD: Am I correct, then, that the House has already passed a reform bill?

GOVERNOR EVANS: That is correct.

GOVERNOR FORD: Some are nodding their heads and others shaking their heads.

MR. ASH: The House has passed a bill, and the Senate has passed a budget reform act--I guess it is out of committee--and they are different in some degree.

GOVERNOR FORD: Particularly the revenue sharing.

GOVERNOR EVAHS: It is my understanding that the bill that passed the House would require an annual listed appropriation process for the continuation of revenue sharing, presumably beyond the first five year period or maybe even with the advent of a budget reform. But the Senate bill--at least the committee report which is coming out of the Senate bill--exempts revenue sharing and continues to allow revenue sharing to be calculated for a multi-year period. There are two proposals.

One has passed the House, and presumably it will go to a conference committee and it will be up to us to very strongly support--as I suspect we should and would--the Senate version. And there is some indication that there is increasing support from the House level for that version, and it would allow us to continue to have some confidence in the appropriations for revenue sharing over a multi-year period.

GOVERNOR FORD: That is a point I want to make, and my language probably wasn't to the point I wanted to make. I think this is what Governor Hall was referring to, that we are now in the budget making process, and when the governors prepare a budget; submit it to the legislature and it is passed, then we have to conform to that budget. We have to follow through on providing our income estimates, our revenue estimates, at the time we make our budget.

We are dependent on the cooperation of the federal

government, and our funding is based on federal programs. When the impoundment of funds occur, then our budgets are thrown out of kilter, and we catch the flack. We catch it because we see the people, and they are at our door, and we have to try to explain it to them; I think there has to be more feedback to the governors, and I support the Chairman that the federal budget should be out before we make ours, and anything that we could do as far as budget reform is concerned we ought to do it.

The states, the governors, are the pipeline and nothing works unless we work and I wish we would all get together and so we'd have more input into what is going on.

GOVERNOR EVANS: Let me see if I understand correctly, now, what the future is for general revenue shaing. That if no action is taken by Congress either to over turn general revenue sharing in a budget reform, that we would essentially be guaranteed the continuation of general revenue sharing under the present allocation process through fiscal year 1977; is that correct, through half of fiscal year 1977?

MR. ASH: Yes.

GOVERNOR EVANS: So that is the guarantee as of now. However, budget reform could change that process and our job, of course, is to make sure that in any budget reform that goes through Congress there is some protection for a continuation of general revenue sharing, but with no action there is no continuation through calendar year 1976 of general revenue sharing

monies.

MR. ASH: You can be absolutely assured that the Administration's commitment is to not only run it through the present program, but future ones and therefore together we need to make sure that others see it as we do.

GOVERNOR EVANS: Are there further questions? We have come pretty close to the end of the time we have available. I think you, Roy, very much and your colleagues for coming. We look forward to the ability to work closely with you both in the preparation of the federal budget where it impacts on the states and local communities, and also in the carrying out of the federal budget. As Governor Ford pointed out so well, the states to a large degree are the pipelines and we'd like to keep the pipeline open and flowing just as we'd like to keep the Arab pipelines flowing as far as oil is concerned.

Let me join, then, with my colleagues in thanking Mr. Ash and his colleagues from the Office of Management and Budget for their interesting and candid presentation this morning. Thank you.

(Applause)

GOVERNOR EVANS: Before we adjourn, let me just read the standing committee meetings this afternoon. The Crime and Public Safety Committee at 1:00 o'clock in the Lincoln East Room; Executive Management and Fiscal Affairs at 1:00 o'clock in the Monroe West Room; Human Resources at 1:00 o'clock in the Monroe East

Room; Natural Resources and Environmental Management at 2:00 o'clock in the Military Room; Rural and Urban Development at 2:00 o'clock in the Hemisphere Room and Transportation, Commerce, and Technology at 1:00 o'clock, Room 10200 of the Department of Transportation.

(Whereupon, the Opening Plenary Session was adjourned at 12:30 o'clock, p.m., to be reconvened the next day, Thursday, March 7th, upon call of the Chairman.)

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SECOND DAY

(Whereupon, the Plenary Session was convened at 9:50 o'clock, a.m., on Thursday, March 7, 1974, Governor Stanley K. Hathaway, Wyoming, Chairman, NGC Committee on Natural Resources and Environmental Management, Presiding.)

GOVERNOR EVANS: Will the govenors please take their seats so the morning session can start. The morning session of the mid winter meeting will come to order.

Before we begin the morning session on energy, I do have a couple of announcements, and before those announcements I would like to introduce one additional new governor. We introduced the others yesterday. This morning I am pleased to introduce to my fellow colleagues the new governor of the State of New York, Governor Malcolm Wilson.

(Applause)

Now, for the record, let me acknowledge the receipt by our secretary of the following resolutions which have been referred to the appropriate committees and, of course, depending on the committee action will be dealt with at our luncheon session.

The first resolution is one on state revenue short falls due to the energy problems, submitted by Governor Shapp on behalf of the Mid-Atlantic Governors' Conference.

A resolution on public financing of campaigns proposed by Governor Byrne.

A resolution on announced inactivations of National

Guard Air Defense Forces submitted by Governor Shapp.

A resolution relating to daylight saving time submitted by Governor Hall.

A resolution relating to pricing of liquified petroleum gas submitted by Governor Hall.

A resolution on federal fuel allocation system submitted by Governor Shapp on behalf of the Mid-Atlantic Governors.

If there are any other resolutions to be considered, it is required under the rules that they be placed before all the governors at the session this morning.

Let me inquire at this time if any governor individually, or by committee action, plans to seek suspension of the rules?

GOVERNOR RAMPTON: From the Committee on Executive Management and Fiscal Affairs will come two resolutions to cover the same general area as the one here by Governor Shapp. Perhaps we can get together with Governor Shapp and see if we can adjust the resolutions so that they are consistent. But we are now distributing the two resolutions that will come from our Committee.

GOVERNOR EVANS: All right; fine, then I presume that you will get together during the morning to see if some merger can come about.

GOVERNOR RAMPTON: I think there has been some conversation on this already.

GOVERNOR SALMON: Mr. Chairman, the Committee on National Resources and Environmental Management has approved, at a session

yesterday, a resolution dealing with national land use legislation which is now before you, and I respectfully ask under the rules for the-proposed suspension.

GOVERNOR EVANS: All right; notice has been given, are there any others; any others from any governor? All right; if, during the morning session, there are others please inform the Chair and remember that distribution must be made to all governors before the end of this morning's session.

With that, I am pleased to turn the podium over to the Chairman of our Committee on Natural Resources and Environmental Management, Governor Hathaway of Wyoming, who will Chair this morning's session, introduce the speakers, and the reports from the various governors, and then conduct the question and answer period. Governor Hathaway.

GOVERNOR HATHAWAY: Thank you, Mr. Chairman. Our Committee on Natural Resources and Environmental Management has been a very busy Committee.

We have met three times since the National Governors' Conference at Lake Tahoe. We have had a task force active in working with the Federal Energy Office on the development of relaxations for fuel allocation.

I believe that our Committee was instrumental in changing a few things such as allocation for agriculture; to set aside percentages for the states, and I must say that we have had excellent cooperation from the Federal Energy Office. Bill Simon has



been receptive to the ideas of the governors, and although our problems continue in managing of shortages we feel--at least from the perspective of our Committee--that we have made some progress.

You, Mr. Chairman, and the Executive Committee and Governor Ford representing our Committee met with the Energy Office people a couple of weeks ago, again to review some of our concerns with fuel allocations, and the problem of moving fuel to the respective states.

Bill Simon has a very tough job. In fact, he wears two hats. Deputy Secretary of the Treasury and Administrator of the Federal Energy Office. You might say that in managing these shortages he has a tiger by the tail. But, fortunately, he also has a tiger in his tank. He works long hours, and has always been receptive to calls and complaints of the constituency of this country.

It is my pleasure to present to you, now, for an overview of the energy situation the Honorable Bill Simon.

(Applause)

MR. SIMON: Thank you, Governor; everyone always alludes to my long hours, and one man doesn't do everything. One man basically can do very little to cope with the problems that we have got in this country today in the area of energy.

I would just like to not only offer my gratitude, and display of same, by introducing just a few of my associates here this morning that are known to you already because several of

them, if not all of them, have helped you in a great many ways as far as your calls for assistance and they, indeed, have worked the same or longer hours than I have.

My Deputy, John Sawhill; on my left, Gerry Parsky, my Executive Assistant; Frank Zarb, who has been our good right arm from the outset of this new agency, and Rob Nipp who heads the Public Relations and Information Department and is responsible for getting out all of these mind boggling facts and figures that we put out, it seems, almost daily.

We have made such an attempt to get all the facts before the American people that I sometimes wonder if we haven't erred on the side of generosity with some of the numbers because it is so complex.

I am only going to speak very briefly, I hope, this morning because I want to have some time--and I know that you want to have some time also--to ask questions, and myself and my staff will be glad to respond to the many problems that trouble you and your constituents.

I thought, for a moment, that we could look back over the three months to where we have been and where we believe we are going.

The Federal Energy Office was born in crisis at a time when the newspaper headlines in November, and December, and the doomsday prophets were predicting that by February or March utilities would be shut off; there would be brown-outs nation-wide;

massive industry layoffs; unemployment would surge to 8 to 10%; the American people would be freezing in their homes.

We made a conscious policy decision, at that time, because we were absolutely determined that we would not allow this to happen but that we were going to minimize the economic impact on our economy.

We attempted, and I believe succeeded with the cooperation from the industry, to get the refineries to maximize middle distillate production which is the necessary feed stock for industry; the feed stock for utilities as well as heating oil for homes.

We did this at the expense of producing gasoline, recognizing and explaining all the time that we were going to have problems. We are concentrating the short fall in the area of gasoline. We are doing it because we believed the American people would rather suffer some inconvenience and hardship rather than lose their jobs, and this was our tradeoff.

We have believed, and we do believe to this day, that we can take care of the lines at the gasoline stations. But we can't get a man's job back through our allocations once he has lost it.

Now many of those same people are predicting, now, that that is behind us that the winter gave us a good break, as we all know, and the conservation that all the American people undertook, and we made it through and that is fine, so that is behind us.

Now these same people are predicting that we are going to have massive gasoline problems and critical shortages of just terrible proportions. Let's face it. We have a shortage, and this shortage isn't going to go away once the embargo ends. Obviously, the shortage would be reduced depending on the production levels but we do still have this problem.

Our refineries have shifted, about a month ago, to maximize the gasoline production because we have what I might define as a comfortable middle distillate inventory sufficient, we believe, to carry us through the refining process in particular for the utilities this summer for the peak demand.

Our conservation measures must continue to be an integral part of our program. Demand is not going to increase, as many people suggest, to the 7 to 8% level because through all our continued efforts I believe we can hold the demand down to 3%.

We have, as I have said right along, a manageable problem and as our allocation system matures, and we begin to equalize nationally the percentages of short fall, it is going to alleviate the situation I believe greatly. Again, it is not going to eliminate it and let's not suggest that it will.

From the outset of our Office, we have been plagued with a credibility problem which is a very popular word today. This is a very complex industry, one that, and one that fights great suspicion and conspiratorial thinking. We have attempted, and are

going to continue, to put all these facts that I spoke about before the American people.

I think our figures, if you will look back, have been consistent and I know that they have been the most accurate of all the figures that have been put out, and events have proven that. Each day our data base improves, and we believe that we have sufficient data now to manage the problem that we have ahead of us.

From the outset, we have worked with you--the governors of our 50 states--as well as your staffs. As you remember, you had a team in the first week of our operation to help us design our program, and also you have played and will continue to play a major role in the implementation of the allocation program.

I'd like to express my very deep gratitude from all of us in the Federal Energy Office for the outstanding cooperation, and understanding, and I emphasize understanding, because I recognize the trying times that you have had back home with the problems that your people were having especially at the gasoline stations.

This cooperation, not only from you personally, but from your staffs, as well as Charley Byrley here in Washington and his staff. Without your continued help, there is no way that we are going to be able to succeed.

We look forward to continued close working relationships, and all I can do is just guarantee you 100% of our cooperation

which you will get.

Let me now turn to our allocation program. You will be receiving a fact sheet which is being run off now, and will be handed out to you in the next little while which will contain our actions for the month of March and how we arrived at these actions, and some accompanying data which I believe will be self-explanatory although, again, in this subject nothing ever appears to be self-explanatory, and we will be delighted--all of us--to answer any questions that you might have arising from these sheets that we pass out.

The objective of our gasoline allocation program is to equalize the availability of gasoline to all users, given the physical constraints implicit in the gasoline distribution system. Perfect equality can never be achieved, but we are striving to insure that regional or state differences will be no greater than 5% from the national average.

Until equitable allocation can be achieved through normal operation, the Federal Energy Office will continue to take monthly action where necessary to equalize the distribution of gasoline among the states.

To arrive at a fair March gasoline supply for each state, FEO has adopted the following procedures, and there are three of them. First, we calculated the initial February '74 supply level. We increased it to recognize that there are three extra days in March, almost 11% more days. Also normal seasonal

increase in demand in March over February, as spring arrives, of 2.9% and we then compared this March '74 supply level to March '72 gasoline consumption, and we adjusted this for motor vehicle registration growth, and arrived at an allocation fraction.

This fraction was described in detail in a letter that John Weber sent to Governor Evans which will also be attached to your fact sheet.

Finally if a state's supply level, as arrived at, was less than 85% of the March '72 consumption and adjusted for this growth that state was allocated additional gasoline to bring it up to the 85% level. In other words, every state was scheduled to receive a certain amount of supply for the month of March as reported by your suppliers.

For some states this supply amounted to more than 100% of their March '72 supply adjusted for motor vehicle growth. We did nothing with respect to these states.

For all other states we made two comparisons. We calculated their initial February '74 supply level adjusted for the extra days and normal seasonal increase in demand in March, and we calculated their March '72 supply adjusted for motor vehicle growth.

We felt that we needed this month to take both comparisons into account, and we gave each state the greater amount. Further, if the greater amount for any state was less than the 85% of March '72 supply adjusted we gave the additional gasoline out of inventory

to bring it up to that level.

The following states, and you can read them, there are six of them had allocation fractions of over 100% above. We are going to be carefully assessing the supply situation in these states as well as others that might approach this level, and in April we are going to commence the equalization process and be squeezing the states down that are above the national average, and do it gradually over a period of a couple of months.

For those states that will have an allocation fraction above the 95% level, we didn't want to do it this month because we felt that it was fairer to have an early warning system, if you will, and if indeed you had some disagreement we could chat about it before it was put into effect. This action is a definite move toward state by state equality.

Orders to the oil companies to implement the allocations are currently being prepared, and will be sent by the close of business on March the 8th.

A score card to indicate the relative impact of the FEO action is included in the packet. Prior to this action, there was a wide range of allocation fractions ranging from a low of six one to a high of one one. The national average was 84.3 and our actions increase this national average to 89.6 then every state will receive a greater supply of gasoline in March than they did in February, even when the February emergency allocation is included.



Actions that are now being taken by FEO should eliminate the problems that developed in February, thereby precluding the need for additional allocations in March.

One point, if our allocation numbers that will be handed out in a few minutes differ from yours let us work them out. We will have a staff who will be personally at your disposal over this weekend to attempt to reconcile whatever differences we might have. We would also hope that where we have allocated a greater number than you have, that you will give some back to us, but maybe that won't happen.

Now over the next two months, as we equalize this percentage, naturally we are going to have to exercise value judgment to allocate in certain areas if hardships develop. But the states can do a great deal to prevent this. Our experience has shown, our limited one month experience, that our distribution system in this country is extremely complex nationally. The impact of the embargo falls very unevenly throughout the country.

In some areas, we have had to create distribution networks that really didn't exist. But a major problem in an area that you people can help is in the intrastate distribution, which we consider--and I know most of you do--who have experienced short falls the major problem. What can be done about it?

You have a 3% set aside and, hopefully, we can use it with a little more flexibility and use it a little earlier in the month as problems arise, if they do.

We'd like to offer you two options as far as intrastate distribution. As you know, today, the 3% set aside you are free to distribute in your states. It is the Federal Energy Office's responsibility to allocate above and beyond that. We would like to give you the authority to allocate intrastate. We will re-write the regs within the constraints of the law, so that you can handle your own distribution without any cumbersome proceedings.

A second option might be that we would, either by teletype or physical presence, have a Federal Energy Office man determine on a case by case basis the regional distribution. I must admit we favor the first option, because you are certainly better able to determine the problems in your particular states than we here in Washington.

The purpose of this suggestion is that we want to give you all the tools, and all the flexibility, to make this program work and any suggestions that you have we would welcome, and I would certainly hope that you could provide some during the period of Qs and As.

You have developed many programs in your states to alleviate your particular problems that are peculiar to your certain areas. I commend your individual efforts in the odd/even days, and the staggered hours; the minimum purchase plans, and most importantly your tremendous conservation efforts.

We are going to continue to stress, here in Washington, the need for conservation. The embargo lifting doesn't end the

problem that we have got, as you all know, and conservation must continue to be a way of life, not a temporary expedient.

I might add, at this time, that we are looking at eliminating the Sunday closings. We continue to be concerned with tourism in this country, recognizing that tourism in certain states is critical and basic industry as steel and aluminum is to others. But this action would not signal any end of your problem.

Short fall, I continue to emphasize, will remain and when indeed the embargo ends--as I have stated so often--one of our major problems is going to have everybody in the country focus on this important fact of life that we continue to do everything we can to solve our longer range problems.

All of the things that I have talked about really seem to obscure the real job of the Federal Energy Office, and ultimately a Federal Energy Administration when it passes the Congress, and that is our long term goals. I am not going to speak at any length this morning about these goals.

I am sure many of you, or most of you, have heard me speak of Project Independence and our ability for self-sufficiency and I will save that for another day. But there is a tremendous urgency on this task to get on with the job so that we will never, again, be subject to another experience such as this one we are going through right now.

We have the ability to do it. We, in government, are determined to provide the leadership to get the job done. Thank

you, gentlemen.

(Applause)

GOVERNOR HATHAWAY: Thank you, Mr. Simon; before we open the meeting to discussion on the part of individual governors, we are going to have an overview of the energy situation by regions, and I call upon the chairmen of the respective groups to make that overview.

First, Governor Dale Bumpers or Melvin Evans representing the Southern Governors' Conference, whichever you prefer, Dale.

GOVERNOR BUMPERS: Mr. Chairman, governors and distinguished ladies and gentlemen; first, I want to say that all of the governors with whom I have spoken since I have been here have indicated a very high regard for Mr. Simon, and the job he is doing. I think all of us have tried to be as judicious in our comments about the way the Energy Office has been operating as we can, and with recognition of the tremendous job Mr. Simon has to do.

Most of the governors have a difficult time remembering that being governor was a full time job before the energy crisis. As far as the South is concerned, I'd make this observation that economic growth in the South has, for the past several years, been between 9 and 11% as opposed to a growth rate nationally of approximately 5.5%.

This growth, of course, comes in different forms in different states. For example, in Florida, tourism is the big economic factor there and in some other states it has been manufacturing,

and some states agriculture or a balance of the latter two, or all three.

I'd like to make two observations on that. Using 1972 as a base year, as a flat basis which does not reflect a historical trend or historical basis of economic growth that, (a), as Mr. Simon pointed out apparently the Federal Energy Office is trying to compensate for that by using the increase of registered vehicles in a state as a reflection of the increased economic growth in that particular state, and I hope certainly this is a step in the right direction, and I hope it will work.

I fear that you are going to find some very serious inequities in it because, for example, in my own state where tourism represents 20% of the economy of our state by the same token we have not had a 20% increase in the number of vehicles. People come to see us, but don't stay and as Tom McCall says that is quite all right with us. In any event, I applaud your effort to do this, and to get at historical growth you have asked us for some additional information to reflect historical growth which we are not able to supply, because we do not keep the kind of information the Federal Energy Office has asked us for.

As far as tourism, and the states' role in the ration plans, I would say that if ration stamps were made good for a nine month period, or some longer period than the President proposed, or if 20% of all the ration stamps one received would be good at any time during the year, this would be a very significant help to those

states who are in large part dependent upon tourism.

The rule on agriculture, which supplies 100% of current needs, apparently is not working well particularly in the State of Tennessee, and Governor Dunn and I have had a little correspondence in this regard. We have found that the old pun going around the country that says because Simon says doesn't make it so. Many farmers in some areas of the South are complaining that they are not getting 100% of their current needs and, in fact, we have been forced to use some of our 3% set aside which is really not fair because the 3% set aside was designed to take care of unforeseen hardships, and causes us to use that for something that it is not to be used for which would be the case if the farmers, indeed, were not receiving 100% of their current needs.

On February the 9th, the Federal Energy Office announced that twelve states would receive an increase in allocation. Now in our state, and this is true of some of the other states--other eleven states--of the some million and a half gallons we were only able to identify, or able to locate, 40,000 gallons.

The point is orders come out of the Energy Office saying that you will receive this, or you will receive that, and we find no follow up nor has the Energy Office been able to identify anybody who can assure us that this order is going to be carried out.

Now so far as the refinery capacity is concerned, I happen to be among those who have strongly objected to the rampant increase in the cost of gasoline at the pump in this country. The

argument I always hear on the other side is unless you allow the oil companies to continue increasing prices you are going to curb exploration and, therefore, actually cut the supply and yet the Energy Office has now said that some of the larger companies who have more crude oil supplies coming in than is necessary to run their refineries at 76% of capacity must sell off that excess to other refineries, so we have a leveling process among the 250 or 300 refineries in the country operating above 76%, and they sent a telegram to the 50 governors saying they'd be selling over 130,000 barrels of crude oil a month to other companies such as even perhaps Mobile or Texaco.

It occurs to me that if you want to destroy incentive the best way to do it is tell people that the increased supply of crude oil will be handed over almost gratuitously to other companies.

I was told to speak for four minutes, and I have a few other remarks I'd like to make. My energy advisor told me in 1971 that this country would have a 5% short fall by 1973 without the Arab oil embargo, and that short fall would increase by 5% annually, and that this problem is with us for a long time to come, and for that reason I would strongly urge the President and Congress for that matter to set up implementing legislation, if that is necessary, to appoint a national energy policy council to decide on an energy policy for this country, because not only petroleum products but all fossil fuels, and all forms of energy, will be probably rationed within this country in the next four to

five years.

I don't see anything to indicate that refinery capacity is going to increase measurably in the next three years, and as pointed out by Mr. Simon lifting the Arab oil embargo will be helpful, but it is certainly no panacea, and so far as the Energy Office is concerned I have one final point and that is it is the governors to whom the Energy Office turns to implement their allocation orders, and all other orders that come down, and I strongly urge you to use the offices of the governors for release of all information.

This will eliminate serious breakdowns in communications that have existed in the past. If there is any problem in the country that must be addressed on a bipartisan basis it is the energy crisis. The governors are bipartisan, you are looking to them, and I strongly urge that they be the clearing-house for all the information whether it is bad news or good news. Thank you, Mr. Chairman.

GOVERNOR HATHAWAY: In the interest of time, we will wait for Mr. Simons' response to some of these matters until all five of the regional conferences have spoken. The next speaker will be Governor Salmon representing the New England Governors' Conference.

GOVERNOR SALMON: We have zero refining capacity in our region. The gasoline scarcity problem is compounded by our extraordinary reliance on the tourist industry as an essential



ingredient to our economic base. Our reliance as a region on residual fuel is grossly disproportionate to any region in the country.

We feel we have done our share as far as energy conservation, and have been told we were Spartan about it. The six state energy savings have run in the order of 15% since the situation started, and if we were to pick a culprit out of the federal allocation system to date--if there is, indeed, a culprit in the woodpile--I sense that in New England it would be the notion of an unquestionable redistribution of gasoline among the states, and the misallocations during the month of February tend to reflect the rather profound lack of knowledge as to present date and an allocation system based on new and relevant data.

Now the remarks here today, and the remarks of John Weber before our committee yesterday, the tone of this session in Washington this week, tends to indicate that life will get better.

Briefly, let me comment on some of the problems that rural America has had with the FEO regulations in their present form. We have had problems with the fact that regulations fail to regulate below the wholesale level, and they contain apparent discrimination against small business operations, the low volume gasoline retailers.

We have had difficulty obtaining satisfactory explanations to the recurring question of how one restores allocations lost through the closure of independent retail stations. The 30 day

advanced notice aspect has given us the problem in terms of suitable advanced planning for both the public and private sector. The most disturbing feature of all in New England is a recent study indicating that we, as a region, may be required to pay substantially more than other sections of the country for energy supplies in the years ahead.

I suggest that imbalance could be diminished by a nationally imposed acquisition price for fuel and other petroleum products, and reasonable rates for power from our electrical grids elsewhere in the country.

I note that our Title 5 Commission in New England, the Regional Commission, has undertaken a comprehensive action program impacting on the development of a regional electrical capacity, a regional refinery capacity, dealing with near term and long term implications of shortages, price increase components, and gasoline rationing if and when implemented, and we recognize that the national program has been plagued with frequent personnel and policy changes and tended to both confuse the public and impair the capacity of the state governments, and governors, to act.

Let me say, as a personal note, that we in New England have come to know and to respect Bill Simon as a decent Director; a dedicated guy who is doing quite a job against seemingly overwhelming odds, and anyone who will take the time to call a governor at 10:00 o'clock at night must be doing something right. So

energy reliant, conservation minded, politically independent New England is glad to see the winter of 1973 and '74 become a part of history, and the news of the energy crisis in our section of the country like the news of the death of Mark Twain is grossly exaggerated.

GOVERNOR HATHAWAY: Governor Milton Shapp of Pennsylvania, Chairman of the Mid-Atlantic Governors' Conference.

GOVERNOR EVANS: I'd like to depart for just a moment. We love our staff, and we love the members of the press, but for heaven's sake will those who are standing and having their own private conversations please do it outside or be seated, or we will have to find the sergeant at arms and clear the room, because the governors have complained they simply cannot hear what is going on. Please help us in the remainder of the morning session.

GOVERNOR SHAPP: On behalf of the Mid-Atlantic Governors' Conference, I have a few remarks to make. First, I listened to Bill Simon a few moments ago, and I am very pleased with some of the progress that is being made. So some of the remarks that I will make in my statement will refer to some of the problems that we have, Bill, that hopefully you are working on now and will be resolved.

I am delighted to see that you are going to have an increased allocation for March to all states, and that there is a real effort being made to reduce the bureaucratic paperwork and

delays, and the possibility of ending the Sunday closings.

I hope that these various things come about, and I want to take this opportunity before going into my remarks to thank all the governors who are here for the help that they have provided to me during the national truck strike. I was on the phone constantly with many of you, and your help was appreciated, and I particularly want to thank Dan Evans for the great work that you did. I don't know what your phone bill was on some of the phone calls we had between Washington and Pennsylvania, but your help was certainly great.

During the prohibition era, there was a quip that prohibition is better than no booze at all. Unfortunately, the same cannot be said for the gasoline allocation system which, right now, is so ineffective, unfair, and restrictive that the nation might be better off with no allocation system at all.

The federal gasoline allocation system is so inefficient all you have to do is walk down the street and talk to a few people to find that out, particularly if you talk to those lined up in their cars waiting at the pumps.

Now there are a number of difficulties that we have found in Pennsylvania, and checking with other governors I think this is quite general. First of all, let me say, speaking from the mid-Atlantic, there was a map in the papers the other day showing that it is the East Coast and the West Coast that are bearing the brunt of this problem of the gas shortage, and the

states in the mid West and Rocky Mountains apparently are not feeling it as badly as we are.

Part of the problem is that I don't think the data that the FEO has is either adequate or reliable, and Mr. Sawhill said a little over a month ago that the information we have to work with is inadequate, and the reliability should be checked. Today Bill Simon said the data that we have in the reports we are getting, hopefully, are going to be better.

But we have had a situation in Pennsylvania, just during the past week, where we have checked FEO data against the oil company data; against the dealer data, on allocations and everything else and none of these three reports jibe and I hope we get to a point where we have some data that will be reliable.

This inadequacy is true, apparently, because we keep talking about the fact that if we get the embargo lifted then there will be plenty of crude, and then there will be plenty of gasoline.

Recently the larger oil companies such as Gulf, and I believe EXXON, and others have been put on a 76% capacity at their refineries for crude oil and they have distributed to other refineries some of whom don't have the capacity for manufacturing gasoline. This has not only had the effect of reducing the gasoline supply that is available to the various states, but it has also had the effect of raising the price because when the refinery operates at 76% capacity but has the crude oil and the

ability to operate at 95 or 100% capacity, obviously it must raise its cost.

There has been inadequate protection for low income and small purchasers of gasoline. Mandatory allocations for certain groups gives gasoline, on the one hand, and takes it away from others.

It was mentioned a few moments ago about the farmer groups. The farmers, and other groups, are given priorities and a so-called 100% of current requirements. The fact is that priorities apply only to bulk purchasers who represent large users, and does not protect the farmer and others who are forced to purchase gasoline at the pump.

Furthermore, there is no provision for gasoline for unpaid volunteers to assist in the important role of social service programs such as "Meals on Wheels", and driving children to schools, and things of this sort.

I take very strong issue with some things you said on this, Bill. You talked about the governors and the states having a greater role to play. Well I think the states would assume a greater role to play if we had the information available, and some of the authority with which to play that greater role.

But up until now we haven't had the data to do much about it and, secondly, what happens is that the FEO sets up regulations but the problems exist in our states and we have to cope with those problems.

One of the problems you just passed to us about ten days ago, in the agreement with the gasoline dealers to get them to stay open, was that of customer preference. Here we have a situation which is quite clear. It is a federal law that is involved, and yet in your statement you said that you will leave it to the states and local authorities to resolve this problem, and this is quite typical of the things that, as governor, I object to and I think many of the other governors object to. That the problems are dumped upon us by the federal government, such as setting up your own allocation programs between the states when really it is the federal government that has whatever data there is available, and should be moving to set some kind of standards that are more uniform.

I believe, though, that you are moving in the right direction if you carry through the things you said this morning, and I can assure you that we will continue to work and do everything that we possibly can in Pennsylvania, and in the East, to help resolve this problem.

But I think it is incumbent upon the federal government, and FEO, to make sure that we have data and that we have the cooperation from Washington that enables us to resolve these problems.

GOVERNOR HATHAWAY: The next speaker will be the Chairman of the Mid-Western Governors' Conference, Jim Exon of Nebraska.

GOVERNOR EXON: Mr. Chairman, Mr. Simon, my remarks with regard to the Mid-Western Governors' Conference will be short and concise. We generally agree with many of the other statements that have been made by the other governors representing the various conferences.

I would like to start out by saying, Mr. Simon, that as far as we governors are concerned your job is secure because none of us want your position. That might be of no solice to you.

There are five points that I'd like to make quickly. Number one, the governors in the Mid-Western Conference are for increased set aside which we plugged for very heavily when we met here in mid December with you, and the President and Vice President.

Number two, we are for federal financing of state expenditures in the area of allocating fuel. We are willing to carry out the program, and we do not think enough attention has been given to the expenses set aside by the states in this area.

Number three, we are all plagued of course--as I am sure you are--by the lack of information that comes down the pike. We are not sure where we are going in the future. A case in point in that particular area, the recent highway bid we have put out in Nebraska was overestimated in cost and in the past we have had a good history of estimating what those costs might be.

At least a substantial part of that increased cost, the



contractors tell us, is the fact that they cannot be assured of the fuel necessary to do this job nor can they be sure what the materials that go into highways will cost them to do the job. The lack of information and the lack of projections in the future is causing increased cost on our construction projects as far as highways are concerned.

We are very much concerned about the fourth point, which is tourism. I was glad to see you make some reference to that in your opening statement this morning.

Point number five, agriculture, and that is most important as far as the mid West is concerned. One of the things that we must keep in mind when we talk about increased allocation for gasoline is we understand that that is based primarily on the numbers of cars, and growth of the numbers of cars, in the states.

Suffice it to say that while we might not have hard growth in the number of automobiles in the mid west states, we do have an ever increasing demand for gasoline for agricultural production. That was agreed to by the Administration as one of the things we must take care of.

We would point out that too much of a base on the number of cars, and car growth, might be unfair to our agricultural sector and another point that we want to make that I don't know whether you can respond to or not is there is a critical shortage of fertilizer throughout the agricultural states of this nation. We find that the short fall of 5% on fertilizer, as predicted by

the United States Department of Agriculture is not accurate.

We are somewhere far short of that in Nebraska, particularly we are facing somewhere between a 15 and 25% shortage of meeting our critical fertilizer needs and then, last but not least, we are very much concerned about the increasing cost of all types of fuel.

Sometime ago you may remember we kicked around the idea I never subscribed to that we have a 10 to 15% federal tax on gasoline to raise the price, and that would hopefully cut down on the use of gasoline. Well the fact of the matter is it turned out we have raised the price of gasoline far more than the 10 to 15% tax that was supposed to slow this down, and maybe that is some of the reason that we are seeing decreased use of gasoline today.

Unfortunately, that 10 to 15% increase seems to have gone into the pockets of the major oil companies rather than into the saving on the part of the consumers or enhancing the federal treasury.

We generally endorse what else has been said here this morning, and we continue to pledge to you, Mr. Simon, our cooperation with your Office in the very difficult job that faces you in the future. Thank you very much.

GOVERNOR HATHAWAY: Last but not least the Chairman of the Western Governors' Conference, Bruce King of New Mexico.

GOVERNOR KING: Ladies and gentlemen, thank you Governor

Hathaway. I'd like to say, Mr. Simon, that we do appreciate the consideration you have given us in the Western states. The Western states have been deeply involved in the administration of the allocation program. Several of our staff members have spent quite a bit of time in Washington working with the National Governors' Conference, their energy committee, and Mr. Simon's Federal Energy Office.

We also had difficulty in staying current with the changes which have frequently been made. A program as complicated as the current petroleum allocation program does require refinement and interpretation from time to time, but it does cause problems to our several states' allocation groups.

We in the Western state suffer from the same problems that the rest of the nation has experienced in that we can not determine what the facts and figures really are, including the details of states' allocations. One most serious problem is the gasoline allocations. The rules state that priority users are to be supplied with 100% of their current requirements. The balance of the state allocation is to then be made available to the public at large.

We have been given figures such as 82% and 86% allocation for February, but these figures have--in the case of New Mexico and Wyoming--been reduced by 2%. The Western states then were notified by the majors that the monthly fraction for March is 65 to 71%, and we have difficulty in determining the basis of the

fraction.

We also do not know what fraction of the state allocation is designated for priority users. Each oil company seems to make its own interpretation of the regulations. It is extremely difficult to administer the allocation program when we do not have the exact amount of gasoline available by category.

Another problem which has been troubling the Western states is the secondary effects of the energy crisis. These are the direct and indirect effects it will have upon jobs and supplies of materials to our industrial complexes. We are attempting to look into these effects in order to predict and determine what might be done to minimize its economic impact on the Western states.

The repeated charge has been made that the energy crunch has been due to decades of inaction on the part of federal and state policy makers. We can not collectively afford to go through another period of inaction and wind up with a prolonged energy crunch or an economic recession caused by lack of energy at a reasonable price.

The Western Governors' Conference, as you know, is made up of thirteen western states. Several members are major producers of natural gas, oil, coal and uranium. We do have available a cross section of expertise necessary to look into the energy related problems and suggested solutions. We have repeatedly offered our talents and services to several committees of Congress and to the Administration.'

It is not true that the only expertise in the production

and distribution of oil and gas lies only with the energy companies. The western producing states can match the oil and gas industry talent for talent, and our state talents should be used for the benefit of our nation.

The Western Governors' Conference has created a staff advisory committee made up of senior staff members of the thirteen governors to work on a set of energy principles. The western governors hope to offer these principles as an input to the national dialogue on the establishment of a national energy policy.

The last point I would make is that there seems to be a number of allocation programs working, all independently and sometimes at cross purposes with each other. First, there is the federal program promulgated by the Federal Energy Office. Second is the allocation program which seems to be independently operated by the majors in terms of regional and state effects. Third is the allocation program dominated by the exchange agreement among the several majors. The fourth is the allocation program directed by the federal crude oil allocation program, which is under fire from both the majors and independents.

I would hope that we can come to a better understanding of the factors involved in the allocation program, and in addition continue to have a direct input into the FEO decision process so we, as governors, individually and collectively can act rather than react.

I think we can solve these things, and we certainly

will continue to work on them in the western states to see if we can't alleviate the situation and we, of course, have the same problems in the tourism oriented industry, and the same in the agricultural field. They are basically the same, and we certainly want to do our part, and we appreciate the cooperative effort from the Energy Office. Thank you, Governor Hathaway.

GOVERNOR HATHAWAY: Thank you, gentlemen; before we open the floor to general discussion, Mr. Simon would like to respond to some of the comments of the regional chairmen.

MR. SIMON: Thank you, Governor. I don't know that I was able to write quickly enough to respond to all the questions, but I am sure they will come up on the floor if I missed any.

Governor Bumpers' point on agriculture, there is no priority higher in the Federal Energy Office than the priority for agriculture. The problem of getting it there is something else again.

As far as the 100% of current needs is concerned, we have been meeting with the industry; that is the majors and minors, all the distributing elements, the jobbers, to do a better job to make sure that in the regions--the agricultural regions--that they recognize the critical priority for necessary fuel.

I also believe that a better intrastate distribution network that I spoke of briefly before will alleviate this problem to a great extent.

Many of you talked about price in your opening comments,

and I'd like to use this opportunity to respond to that briefly. 75% of the domestic production here in the United States is presently price controlled. We control, in barrel crude, to \$5.25 at the wellhead. The Cost of Living Council announced a year ago when the crude price was \$3.40 that it would, from time to time, to give the incentive for exploration and production raise the price, and make sure that that exploration was going on and remember it is not the big oil companies that do the exploration in this country. 75% of the wells that are drilled are independent. So this price has gradually gone from \$3.40 to \$5.25 where it is presently controlled, and all the components are controlled, the middle distillate being gasoline down to the end product.

Prior to the embargo, we were importing 38% of our needs in this country. We all know that the world price has literally exploded over three times what it was a year ago, and it is today \$10.50, and this obviously has a price effect--a rolled in price effect.

We are, today, importing 5,200,000 and that is a four week average for the last four weeks and if the embargo were to be over and unconstrained, and depending on your demand, we would be importing 7.7 million barrels a day. I believe it would be certainly below that number, a reduction in demand, once the embargo ends but it would certainly be above the five million two and, unfortunately, the world price is a good deal higher and therefore it gets rolled in, and it gets rolled in inequitably

because there are certain parts of our country--the New England area in particular--where they rely on 80 to 80% of their needs on imports, and the price impact there is going to be greater.

The independent gasoline stations talk about the profits that go to the oil companies. 90% of the gasoline stations in this country, regardless of the sign they have out front, are independent and if they had domestic supplies traditionally they are going to have a cheaper gasoline per gallon. If they had a supplier that has traditionally imported, obviously, they are going to be a good deal higher. So we have these variations.

Most of you criticize the crude allocation program, and I am tempted to say you are right. I started to criticize it four months before Congress passed it, and I begged them not to put these rigidities into the law that would create an economic disincentive for the importation of what we need.

Well these rigidities are there, and with all the flexibilities that we could put in it still has a great economic disincentive. We have made certain changes that skate a very fine line legally, and have appeared in the Federal Register today, to make the changes to remove a portion of the disincentives so that people wouldn't have to give away everything that we bring in and we can, indeed, take advantage of the world-wide reduction in demand and bring in additional products.

Remember it is going to be a higher price, but this is the rigidity and we have asked Congress legislatively and we have



legislation on the Hill awaiting passage to take care of the crude allocation program.

The same is true and I believe Governor Shapp--who I will get to in a second--in his comments said the Federal Energy Office is always the one, and that is okay. There are a lot of things that you can rightly blame us for and here, again, we have got a program that is one month old. Let's not bury it yet. We are doing something in this country for the first time, and we have never experienced shortages before especially in a commodity like petroleum.

We had to put out, a month ago, a definition of discrimination. The Mandatory Petroleum Allocation Act that was passed by Congress clearly mandated what we could do as far as--what the industry could do--as far as discrimination is concerned. We attempted to design this just as broadly as we could within the constraints of the law, so that people could operate in their various communities. I won't, or we won't, be abrogating any responsibilities because that isn't my want to you people in the states.

We counceled long and hard with our people to set what we call the home town solution, where you people could define the classes of priorities in your states and the only thing that couldn't be done--and this is very strict in the law--is to discriminate within the class. The gasoline stations could take care of the farmers as a class, or they could take care of small

business as a class.

I found it would be much easier for the states to do this themselves. Not every state is an agricultural state, not every state has the small businessmen, the traveling salesmen, every state is different in its makeup. So you'd be much better able to set your priorities and have your people live under them. If you'd rather have us do it, we'd be delighted. All we are attempting to do is put something into place that will work.

We have had a great many complaints, I am tending towards saying a thousand, but I don't know the number, from people all over this country to the Internal Revenue Service who drive into a gasoline station and were refused service because the gasoline station operator didn't know them. The individual probably just moved there, and there are a lot of people that move around, and this was the purpose for the law that Congress passed.

As far as information is concerned, we never had comprehensive information from the petroleum industry. There is lots of data in the country with regard to demand, and so forth, and so we have put in a comprehensive mandatory reporting system and this data from the well to the end user is now becoming available to us which is what I meant when I said that we believe we have the ability to manage this problem.

It is a very difficult thing, as Governor Shapp alluded to, to get verified information and here is the credibility problem again. Now we haven't dip sticks, and we haven't commenced refinery

audits which we are going to do four times a year, but that will be done all in time.

We have data, and I must admit that people who say well it is from industry where the hell do you expect to get information. That is where the government gets its information is from the industry. They are the people that have it.

Well if the American people feel that it has to be verified, fine. We have asked for mandatory reporting legislation which is going through the process on the Hill now, and we would expect that that would be passed in the very near future, and have punitive enforcement measures if indeed the figures are mis-reported.

Governor Salmon, as far as the information made public to the states where we are not bound by any statutory legislation we will, indeed, make all the data public that we can to everyone. But there, again, don't look for instant success in a program that is a month old, or instant numbers, on a first time basis any more than many of the states have been able to collate all of their sales tax numbers as far as gasoline. They are incomplete. Propane is mixed in, and other products are mixed in.

We have to continue to work together to recognize the areas where we are deficient, and continue to attempt to improve them over the next couple months while we are attempting to put a formula into place that is going to work for everybody, and in the interim--as I say--we will take care of the hardships, if you

will, with a flexibility that we believe we have right now in our inventory draw-downs, and take care of this.

I think I answered most of the problems as far as discrimination, and station closings, and our regs as far as their clarify, and as Governor Bumpers said just because Simon says someting that doesn't make it happen as far as delivery of gasoline is concerned. But we follow it up just as we followed up the emergency allocation, and given the end of February where it was physically impossible to deliver the gasoline in February, it will all be delivered into your areas to the best of our ability during the month of March, and this is over and above what was delivered already.

The allocation system I have already commented on, and as far as Governor Shapp is concerned let's give it some time to work and we will work together in making sure that we formulate a single uniform system that will be easily understood, as easily understood as any system can be. There is never going to be a perfect allocation system.

The priority for small farmers there, again, the industry is going to do a better job. The intrastate distribution will also help and, again, in reiteration to Governor Shapp we don't want to turn over anything to you--the governors of the states--realizine, as one of the governors said, that you have many other duties to perform other than energy, and we recognize our responsibilities and we will even do it on a one to one basis.

We will operate with all the flexibility that you desire, not the flexibility that we desire, that is what we are here for.

Governor Exon, as far as the set aside is concerned we have hesitated to raise the set aside for the states because, obviously, that creates a larger short fall and that is why I suggested the option of giving you the ability to distribute intrastate, and this could remove the need and also enable you to use your set aside a little more flexibly and perhaps a little faster, and I would welcome your suggestions about that.

As far as federal financing, we have asked Congress for \$50 million in Fiscal '74; \$75 million in Fiscal '75 to alleviate the financial burden of carrying out these programs for your states.

The tourism, as I said in my opening comments, is one of our most perplexing problems other than the solutions which really are not lasting solutions. We'd love any suggestions that you might have within the context of equity, and recognition of the shortage that we have in this country.

It is sort of like helping the auto industry when the consumer changes his mind about buying a big automobile, or one that gets less gallonage, you don't know how to change his mind and that is an industry that obviously has suffered disproportionately with the rest of our economy.

The consumer decides that he'd like to take a trip somewhere, but he is worried about getting gasoline so maybe he

decides to stay closer to home, and any way that you can suggest to assist us we'd sure love to hear about it.

Governor Exon, you mentioned something about a tax that we proposed of 15%. We have never proposed a tax here in this Administration, and I have commented already on the pricing aspects of the issue.

Governor King, you suggested about the governors' conference working closely. From the first week that we were in business, you had a team here to help us develop these very complex regulations for allocation. You have a man, Dean Conrad, who is stationed in our Office who has not only the output and access to all your policy decisions, but a great deal of input.

I talked to Dean this morning, and he continually is making suggestions on how we can do things so that your states can function better in these difficult times and so we feel we have this mechanism in place, and if you have suggestions about ways to improve it we will sure do it.

We are going to continue to work with industry, and you, and put in this system that is going to be more easily understood and uniform. I repeat that we are only a month old in this program, and let's not bury it too quickly because we are determined to, within the constraints of any allocation program, to have one that works for everybody in an equitable fashion.

That is about all I caught, and I am sure John Sawhill would like to make a comment.

MR. SAWHILL: I might just--

GOVERNOR EVANS: Just for one moment, I know that these fact sheets and the analysis--I guess they have been distributed to everyone or are in the process of being distributed--Frank Zarb told me that if there are any further questions, I know that some of your staffs are already up here asking questions about the details of the formula, any further questions on state allocations the staff at the Federal Energy Office will be available for the remainder of today, and tomorrow, and through the weekend for any governor or any members of your staff who wants to get further information or background.

Gerry Parsky, sitting here, can be your contact and I will give the phone number to make for the contact. I think that would be a lot more orderly procedure than attempting to get a lot of questions answered here during this session when they don't have the background information, the backup material, that goes with the sheets you have in front of you. The telephone number is 964-8741. Gerry Parsky will be available to get that help to you.

Let me just say, before we get to John Sawhill and to further questions, Mr. Chairman, that during the course of the last several months I have had an opportunity as your Chairman to work with the Federal Energy Office on the many perplexing problems that we have had. Governor Shapp mentioned the problems during the truckers' difficulty, and they performed admirably I think in

providing some significant help during that problem.

We had close contact during the difficulties of the service station operators, and their problems, and I can't remember a time since I have been Governor where we have had a closer and better working relationship, and a more open door, and a seeking of the states' opinions, and the involvement of governors in the states than in my relationship here with the Federal Energy Office and, Bill, I know there are plenty of problems that you and your staff have and there are going to be continuing problems between the states and the federal government as we all grapple with a most difficult problem.

But I want to say right now, in front of everybody, that you really have my gratitude and I assure you that is shared by the other governors in the openness, and willingness, of your Office and you personally to be always available and to always try to respond to difficulties as they come up. We are grateful for it. We only wish that was the case with every agency, and cabinet office, of the federal government.

GOVERNOR HATHAWAY: Mr. John Sawhill, Deputy Director, has a few comments before we go to the questions.

MR. SAWHILL: I will just respond very quickly to a few of the points that the regional governors made. First, as far as the problem of tourism, we certainly do recognize that. Perhaps the way we have tried to adjust to show growth and demand by using the motor vehicle registration increase needs to be



modified to insure that we take into account those states like Florida, for example, where we recognize that lots of cars coming into the state aren't registered vehicles in that state and, frankly, we'd be happy to have suggestions from the governors on how we might do this to maintain an equitable allocation program.

As far as the problem that was raised by the industry, and the inability of the governors to determine whether, in fact, the industry was complying with the orders and when we made an energy allocation whether the industry was really putting additional supplies into the states, we are meeting with industry today--as Bill mentioned--and we are continuously meeting with the industry to insure that our directives are complied with, and if necessary we will go beyond just meeting because we intend to see that when we order additional supplies into a state, or into an area, that that directive is carried out. So we will make sure that that happens.

As far as Governor Shapp's comments are concerned, as Governor Evans just said we are continually available to the governors to review your information with you; to check and make sure that our information and your information is computed on the same basis. Clearly this is a problem because the industry and the government, and the states for that matter, have never collected information on a state basis before. They have worked on a regional basis, or national basis, but now we have got to work on a state basis and we will do that, and we will work just

as hard as we can to make sure that you were getting accurate and reliable information, and that we agree on the information, and if there are disagreements we will be available all weekend to make sure that this--these disagreements--will be ironed out.

As you know, we sent teams out into the states to work with your state energy representatives and we will continue this program of having teams of our people from our regional offices come into your state; sit down with your state energy people and conduct training programs for them; work with them on the interpretation of regulations, because this is the way we intend to run the program.

As far as some of the other points that were brought up concerning the small farmers, this is a problem which I think is unique in some states, and it is somewhat of a local problem. We certainly don't have any objections to a state adopting a plan whereby gasoline stations have certain pumps, or certain hours, available to small farmers or other classes of people as long as there is no discrimination within the class, and we will be glad to work with you on setting up these plans. We are delighted to offer our assistance in this regard.

As far as the numbers, I know some of you have come up to me and asked me questions about how we computed the allocation fraction. One of the components of that allocation fraction, the actual sum of the form 1,000, the total amount of gasoline that the industry was initially going to put into the states prior to

the adjustments that we have made, is not on this sheet.

The actual amount that you are getting is on this sheet, and we will be glad again to sit down and review this material with you because we regard this as our job. Thank you.

GOVERNOR HATHAWAY: The floor is open for discussion, now.

GOVERNOR WEST: We have been checking the March figures, and they look a little erroneous. But I am not sure I follow your formula and I question this. The next question, I think, is a rather basic one and it, frankly, comes to this. How much politics do you want to appear to enter into this?

What happens in our state is each time there was anything good to report, to announce, the republican senator or congressman did it and if it was anything bad it had to be us. This, frankly, has undermined the credibility of the program throughout South Carolina. It convinced me to the extent that on February 26th, because of the desperate straits that I called my Republican senator saying, "Please put pressure on Mr. Simon to get us some relief."

It goes further than that. This is a small matter but are you going to use the governors, or are you going to use the senatorial or congressional offices for this? For example, you sent into South Carolina--and we were grateful for it--a team of--four teams--to explain how to fill out the forms but actually we knew nothing about it until we got a call from the filling

station operators' group asking if we could furnish a room in Columbia for a meeting.

- We had already planned a state-wide TV program to do just that, but we were not notified--our energy office was not notified--about this so the whole thing had a political tinge to it in South Carolina, and I regret that it does. I just want to know what you are going to do about it.

MR. SIMON: I have been, and will continue to be, in political hot soup here for a lot of the reasons you describe. We have an absolute rule that we are going to give the governors' offices, Republican or Democrat, we don't give a damn; give them the information. That is the only equitable way to do it. We get pressures, and they are resisted. But you can't guarantee this because one thing that happens, not only in the federal government but everywhere, are what are called leaks and we keep these numbers very close as we get down to the final.

But as close as you can keep things in a bureaucracy as large as this, sometimes these things occur. But to the best of our ability we work through the mechanism of the governors.

GOVERNOR WEST: Do I understand you to say that if there is any news about additional allocations you are going to call the governors first before you call the senators and congressmen?

MR. SIMON: That is correct, and let me say it wasn't February 26th, Governor, it was February 19th or 22nd. It was a Friday night, and I remember that Frank Zarb and Gerry Parsky and

I started this program ourselves, and at 2:00 o'clock in the afternoon the three of us contacted every single governor personally until 10:00 or 11:00 o'clock that night. I got a few of them out of dinners, and so there were no legislators contacted until after the governors of the states had been told exactly what was going to occur.

GOVERNOR WEST: It didn't happen that way in our state. I was notified by the United States Senator, I was not notified first. He announced it first, which is all right, but it just puts a political tinge on the whole process and undermines the credibility.

MR. SIMON: I understand that problem but, as I say, this is our system and I am not going to say the system is going to work perfectly but that is what we are trying to do.

GOVERNOR MANDEL: Mr. Chairman, Mr. Simon, I have got the figures and I have done some very rapid calculations. In Column E your fraction is 89.6 and there are 31 states that are under that figure. It would take about 4% to bring them up to that figure; 4% of the gas that they had been allocated again, roughly, would be 237 million gallons additional to bring them up to 89.6 if you did that immediately, and if you did that immediately I don't think any of us could have a complaint if we are getting the same as the national average.

Now out of the inventory of 9 billion gallons, 237 million gallons is not going to be a great reduction in the

national inventory, and I think puts all of us in a position where we wouldn't have that complaint. But, again, we are going to be below the national average by close to 5% and we are going to have problems.

MR. SIMON: There is one small error there. If we bring everybody up to 89.6--

GOVERNOR MANDEL: You are going to say it is going to raise the national average, but the point is that if you bring the 31 states that are below your figure of 89.6--as you have on this chart as a figure--and bring those 31 states up to 89.6 I think, then, we would all be in a position of saying we are being treated equally, and it only would take 237 million gallons of gas to do it based on your own figures here and out of this, as I said before, out of a 9 billion gallon inventory it is not going to depreciate to the point where there is going to be a great amount of trouble, and I am not saying that it will.

I am not saying that it is going to increase this national average. You are establishing a national average with these figures at 89.6, so just bring us up to that and everyone of us will be treated the same.

MR. SIMON: Governor, what we are trying to do over a period of a couple of months is have a national average that is going to reflect our shortage in this country, and recognizing that it can't be done perfectly--as I said within five percentage points--85 to 90% and bringing those who had been

inequitably treated under the 85% up at least to that number, and we are beginning to move and put out a warning that the ones that are above we will gradually move them back down.

Now we have moved the average up. Last month the national average was 84 point something, and this month it is 89 point something. We are going to continue to compress this, I guess you would say. We could use any number of methodologies to do this. We thought this was a fair way to do it, and recognizing that you were going to get increased gallonage from motor vehicle registration, and demand from that growth, as well as the 10% longer month that March is over February we thought that would be fair.

GOVERNOR MANDEL: Well all I am saying is you are asking each one of us to visit you if we have any complaints, and if we have any problems, and we could eliminate all of that if you would, I think, bring us all out to the 89.6 where we are all being treated at least on the national basis fairly, we can handle our own problems.

MR. SAWHILL: May I comment briefly, Governor Mandel, that prior to our actions for the month of March the national average was approximately 85%, and so what we did was bring everybody below the national average up to 85%. This, of course, raised the national average so we did exactly what you are saying.

We took the national average and brought those below the national average up to the national average, and that is the

way we brought it up to the 85% figure.

GOVERNOR MANDEL: I repeat the statements that have been made that there is a 10 to 11% shortage in this country, and this 89.6 points that out.

Now 31 of us states are below that shortage. Now just bringing us up to 89.6 by using 237 million additional gallons of gasoline out of 9 billion, then all of us are being treated fairly and we can't complain.

MR. SAWHILL: Basically, we have been saying all along that this shortage was in the range of 15 to 20%. We did compute the national average, it was 85%, and we brought the states below that up to the national average.

GOVERNOR MANDEL: At a meeting last week you told us it was 10 to 11%.

MR. SAWHILL: I think our public statements have always been--

GOVERNOR MANDEL: Not the public statements, the statements you made to us.

GOVERNOR HATHAWAY: Governor Carter.

GOVERNOR CARTER: Bill, I have a question not on gasoline but on LP gas. We have about 300,000 low income families in Georgia who heat their homes with LP or propane gas, and almost all of our agricultural products--peanuts, tobacco, soybeans, corn and cotton--are all dried mostly with LP gas. The components of propane, I understand, are about 5% imported crude oil and about



65% natural gas which is at a fairly stable price, and the rest is domestic crude.

In spite of that, we have had a tremendous problem with our very low income families who have had the price of LP gas go up in an exorbitant fashion. We ran a survey the first part of February among 54 of Georgia's LP gas suppliers, and found that the lowest increase in the wholesale price of LP gas was 194%, and the highest increase was 310%.

I don't see any justifiable reason why the price of this product should go up that much, except that it is not included in the consumer price index which would probably be a political reason to let the price escalate and, secondly, because the users of this product are so politically disorganized and isolated one from another.

We made this information public, and subsequently you stated that the price would be rolled back substantially. This past week we made a survey, and found that the maximum that any price changes was 7%, and the minimum two and a half percent, and my question to you is why should LP gas prices be up anything more than, say, 50% at the most at the wholesale level and what can be done to bring these prices down for the people who are most dependent upon every office of the Congress to protect them, and who are the least able to fend for themselves in this very sensitive realm.

We need some help from you, and I would like to know

what we can do to work with you to bring about the correction of this inequity.

MR. SIMON: A year ago the Cost of Living Council said that the propane shortage was because it was selling at such a low price that it wasn't, (a), being produced and (b) was being used by the refineries to be burned rather than the farmers in their potential needs, and heating homes. They allowed the price to rise by a mechanism in the price control system. I wasn't part of that discussion at that time.

That allowed the inordinate price increase for propane to stimulate the supply. This price went completely, in our opinion, out of line. We called these people in three weeks ago, the distributors of propane, and they have through our investigations, rolled back the prices 25% up to date from roughly the 40¢ to the 30¢ level.

We intend to continue to put the pressure to get these prices back to the reasonable levels that you are suggesting.

GOVERNOR CARTER: Well, our question is is it an appreciable amount? That is a very recent action that hasn't been demonstrated.

MR. SIMON: It won't be felt in detail until the prices are reflected in the people's tax, but it is going to be reflected now; yes, sir. We are going to continue to make sure of that, and I promise you I will give you an answer on Georgia. We have the national average, but we will get you up to date figures.

GOVERNOR CARTER: Thank you.

GOVERNOR HATHAWAY: I have several names on this list, here, and as soon as I see your hand I will recognize you. Mr. Simon will stay here and will take questions. Governor McCall.

GOVERNOR MCCALL: Very quickly I want to refer back to something that John West mentioned a moment ago, and that is the manner and notification of governors of news developments coming out of Washington, D.C. We worked diligently to get an additional allocation, and we were notified by Mr. Simon's office which has treated us extremely fairly, and is doing a heroic job.

We were notified that our first supplemental addition would be so many gallons, and that news was embargoed until noon Pacific daylight time on that day. They told the press that we received the information, and to watch what I call the mousehole to see when that story would start popping up, and a radio station called us at 9:18 about the announcement that they had just heard from a member of the congressional delegation with that information, and then three more stations followed in the next ten minutes, so that this embargo was violated by the congressional delegation on an average of two hours and 42 minutes.

We were prepared for a news conference with the Navy that afternoon on the removal of a bombing range from our state to Washington opening up a whole nuclear development of four plants. I had all the information on my desk as of the 7th of February, with a notation from the Secretary of the Navy not to release that information until he wrote me April 1st.

In both cases, it was given to the congressional delegation without any restriction attached, and this was released in in a story that long. We could have had a news conference, and that is mighty impactive on the whole development of the eastern part of our state. It is not that we want to eliminate the congressional delegation, because they handle the purse strings. We are not asking that. We are asking for a somewhat even break, and a better job of setting it up so that the guys out in the states where they have had the problems--and I am talking about the governors--have an opportunity when some good news comes forth that they can crawl out of the trenches for a change and say we don't have to raise the white flag, we can raise the American flag for a change. So I am not running for anything, because my mother has got me fading as far as that is concerned, but I wish you'd instruct the PR men generally in the federal establishment that a lot of governors feel this is a bad habit, and the place to start is to have them break that habit themselves.

MR. SIMON: I agree with you, Governor.

GOVERNOR HATHAWAY: The Governor of Oregon doesn't get scooped many times. This was discussed at great length in our committee yesterday. I hope that will change. Governor Byrne of New Jersey.

GOVERNOR BYRNE: Mr. Simon, you told the Governor of South Carolina that all you want to do is come back to New Jersey. I have got some bad news for you. The per diem allocation to

New Jersey for the month of March is less than it was for the month of February, and the month of February was a crisis month in New Jersey.

My question is do you have any program at your level to make empirical judgments, and adjustments, to this formula in the event that you find out that that formula or those allocations to a state are unfair?

MR. SIMON: Absolutely, and as Governor Evans said where we have differences in numbers we want to sit down with you today, tomorrow, over the weekend, and reconcile our numbers. We absolutely will be glad to do that. We urge you to do that, Governor.

GOVERNOR HATHAWAY: Governor Melvin H. Evans of the Virgin Islands.

GOVERNOR MELVIN H. EVANS: I'd like to pose a few questions. I recognize that a great deal of effort has been made on the part of the Federal Energy Office to satisfy the regional differences in fuel requirements. But I wonder if there is a realization to the differences in the offshore areas. Because of climatic and other conditions there isn't the problem of heating oil, but because of distance there is the problem of transportation.

Their life blood is related to the fuel which powers the freighters and container ships that bring goods, and the cruise ships that supply them with tourism which is their main livelihood.

There is also the matter of jet fuel. We have a situation where despite efforts to improve the economy it is tied to the fact

that the jets can't get enough fuel, and we can't get the passengers there.

. There is a third thing involved and that is the question of propane. Many of these offshore areas use propane for cooking, the big hotels do, and we had a ridiculous situation where at one time it was reported that the hotels were considered non-priority and they were having difficulty getting propane to cook meals for the guests. Can you explain what the concept is now, and what is being done, and I am not only referring to the Virgin Islands but Puerto Rico, Hawaii and the offshore areas which are having a similar situation.

MR. SAWHILL: I am not quite sure I understand your question. I gather you are asking what we are doing as far as jet fuel.

GOVERNOR MELVIN H. EVANS: Especially for offshore areas.

MR. SAWHILL: We will be glad to meet with you and discuss your individual problem. I don't think we have a blanket policy covering offshore areas, but we will certainly be glad to review this with you as we have with Puerto Rico and Hawaii, and other areas that aren't in the continental United States, and the special problems that you have.

GOVERNOR HATHAWAY: Governor Edwards of Louisiana.

GOVERNOR EDWARDS: I'd like to say, first, I agree with the comments that Mr. Simon has done a commendable job in a very difficult task. Secondly, it appears to me that any state to get

a decent pro rata amount of gasoline to that indicated in February and March they'd have to get 10% more, which only Louisiana and a few other states are below 2%. So there must be an error in the calculations.

I have been talking to your staff about it, and I was wondering whether you had given any consideration at all in your formula to some kind of factor of depreciation of the producing states, or some kind of a factor of depreciation on the East Coast, for those who sit on huge reserves of oil.

The gentleman from Vermont indicates that there are no refineries in the New England States, that should be a factor to be considered. If these people don't want to suffer the environmental consequences of the production of oil, which is where the action is, then I think those states who are willing to deplete their resources and jeopardize their environment to produce oil, and gas, should be given some kind of depreciation factor in the distribution.

In my state alone, we produce over 10% of the nation's domestic oil supplies because we are operating at maximum efficient rates. But that is not in the interest of the overall depletion of our reserves. By a stroke of the pen that can be reduced to 5% instead of 10%.

I think a state who undertakes the environmental consequences and risks to produce the needed supplies for the American people should get some benefit from that particular activity as compared to the states that have that capability but just refuse to avail

themselves of the opportunity to help the country, and I was wondering whether I should give any consideration to that that you would be encouraging us to continue what we have been doing over the past 40 years.

MR. SIMON: Governor, we have a mandate from the Congress in the Allocation Act that requires us to allocate equitably without regard to the other factors such as the ones you mentioned, sir.

GOVERNOR EDWARDS: We might be required, then, if we are going to be forced to produce all of the oil and end up on the short end of the allocation measures to take some action. But, of course, that is not your problem. I recognize that, and I know you have been asked to solve your problem by sharing the burden rather than providing the production.

MR. SIMON: There, again, what we have tried to do is share in an equitable way and as I said in my opening comments that anyone who has over 100% we leave that alone, and Louisiana has been over 100%. That is the way we attempted to do it in Missouri.

GOVERNOR EDWARDS: We end up with less fuel per day in March than we had in February, and yet we are producing 10% of the fuel in the country. How am I going to explain that to the people. It doesn't seem to be an explainable factor at all.

GOVERNOR HATHAWAY: Governor O'Callaghan of Nevada.

GOVERNOR O'CALLAGHAN: Mr. Simon, you wanted additional suggestions in regard to helping tourism. I think you have already



taken some major step forward. One is improving diesel fuel allocations for tour buses, and no Sunday closing, and so on. The states that have a large number of tourists will be back in touch with you. We now have a tough job, but I find you to be very fair and I am one of the Democratic governors who was called to my office at 6:15 in the evening before the Republican congressman. You have a very hard working office, and a very good one.

MR. SIMON: Thank you very much.

GOVERNOR HATHAWAY: Governor Rampton of Utah.

GOVERNOR RAMPTON: When we get our allocation from you of so many gallons at the first of each month, we get it from the companies within the state. The amount which they propose to deliver. Now we add that up and it doesn't equal your figure. How do we identify who is holding out on us, and what do we do about it?

MR. SIMON: If you are not getting the actual deliveries, that is what our job is to make sure that what we allocate when we tell the distributors that is what is put in your state. The distribution should be there.

GOVERNOR RAMPTON: The figure shows for March 44 million for my state. I have got figures, composite figures, of 37 million. Now I think I have got all the companies that produce and distribute there. Now do I bring this composite figure to you and you tell me where to go to make up the balance?

MR. SIMON: I said in my opening comments that the

allocations are being drawn up for you to distribute, and to direct the areas for distribution. There may not be agreement with the preliminary numbers that the industry has given you.

GOVERNOR RAMPTON: There will be a distributor or producer in each state with a quota to deliver in that state.

MR. SIMON: It is done by region, Governor, and that is what we will work out with you. Give us your numbers, and the specifics, and we will make sure it gets done to the best of our ability.

GOVERNOR RAMPTON: One additional thing, maybe we have some more detailed figures on your allocation quota and the factors that go into it, and the weighting that goes into it, than we have on this sheet. I have been trying to go through it, and I don't think I saw it from this sheet. I wanted to check your figures to see whether you had made a mistake.

MR. SIMON: It is possible, we make a lot of them.

GOVERNOR RAMPTON: I'd kind of like to know.

MR. SIMON: Let us sit down, say, over this weekend. For the next four days we will be at your complete disposal to make sure that we can reconcile these numbers with yours.

GOVERNOR RAMPTON: I think if you just put out a sheet to all of us giving your allocation formula in detail, and not just the summary formula, it would help all of us and maybe we wouldn't have to bother you.

MR. SIMONS: Of course, the letter to Governor Evans

we believe spells that out in some detail, but if you have further questions we'd be glad to answer them. We don't consider this as bothersome.

GOVERNOR HATHAWAY: Governor Williams.

GOVERNOR WILLIAMS: This may have been partially answered, however, the question is--and, incidentally, I too want to pay my great respects to the entire handling of the national energy problem by the Federal Energy Office. The question is how does the system work when a town with five gasoline stations operated by different oil companies loses three of the five stations, and the remaining two stations now do not get enough gas for the entire town.

MR. SIMON: Governor, our regs specify--and, again, it goes back to what Governor Bumpers said if Simon says it maybe doesn't happen--that if you have four gasoline stations, and two of them close down that doesn't mean you get half the supply into that region. That region will still be supplied with a percentage depending on the short fall that it received before.

Now it is up to us to make sure, and fast, and that is really the start of the intrastate distribution problem and, hopefully, we are going to be able to solve that as we give you the greater flexibility to distribute it intrastate. We are working with the distributors, the oil companies, to make sure that the same volume goes into these regions regardless of shutdowns.

GOVERNOR WILLIAMS: That would be very helpful to do it

intrastate, at least in our state, with the Governor doing it because we know these small communities some are very, very isolated, and they are suffering great hardship.

MR. SIMON: I think it would be very much better intrastate, but we will not force this upon anyone.

GOVERNOR HATHAWAY: Governor Askew.

GOVERNOR ASKEW: Mr. Simon, I think all of us recognize the massive job to take on something in a very short period of time and one that affects almost everyone in the country. At best, it is difficult to administer a program like this and I recognize that.

I received your call at night, personally, and I appreciated it. You have been very prompt in returning my calls, which I have been grateful for. On the question of notifying the governors, it isn't just a matter of political egotism. It really becomes a matter of minimizing the confusion as to what is, in effect, a decision. That is why I think all of us recognize that the public is demanding some answers from public officials all the way up along the line, many of whom have absolutely nothing to do with the initial outcome. So that, I think, there is enough credit and enough blame for everybody.

But from the standpoint of just minimizing confusion, I think it is imperative and, now, I'd like to go back and just touch on what Governor Mandel talked about. Does the figure 5 billion--excuse me--does the figure 9 billion represent an accurate figure

in terms of the report which I assume to be a reserve figure?  
Governor Mandel, do you follow me? That 9 billion we are talking about is that figure, in effect, our gasoline reserve now?

MR. SIMON: Our gasoline inventories are approximately, and I haven't seen the latest numbers, approximately 220 million barrels. We are going down to meet these additional allocations that we have given each state this month 11.2 million barrels.

GOVERNOR ASKEW: Would you translate that to me in terms of gallons.

MR. SIMON: 42 gallons a barrel.

GOVERNOR ASKEW: You are talking about a reserve of 500 million.

MR. SIMON: That isn't a reserve. That is what we have given additionally to all 50 states.

GOVERNOR ASKEW: The question I am asking you, and evidently it is semantic in terminology, how much do we have that we could draw upon the reserves in order to do what Governor Mandel suggested?

MR. SIMON: The number that Governor Mandel suggest, I believe, was 237 million. That is another 6 million barrels. We have to pay very close attention to the fact that we are managing the short fall based on the premise that the embargo is going to remain with us, and if we draw down inventories too rapidly at this time of year it is going to come back and bite us in the spring and summer when demand normally increases, so we have

to do this very carefully.

GOVERNOR ASKEW: Well do you agree or disagree with the statement on the 9 billion gallons? Mr. Chairman, I'd appreciate it--and this proceeding might be a little awkward--but I'd like to have Governor Mandel pursue his point. Because really my concern is that if we can draw upon some of the inventories without a great deal of danger, it would appear to me we could accomplish two things.

First of all, Mr. Simon, I understand we are moving closely to parity--hopefully--and we are at 85% now. That is what is set for March.

MR. SIMON: John Sawhill has pointed out, Governor Askew, that 220 million barrels times 42 gallons is 9 billion so if that is the problem Governor Mandel was referring to, fine, we could draw it out of those inventories.

GOVERNOR ASKEW: I pose this question because we are talking about 85%, to assure everybody 85% for March. Well now if, in fact, we can use 237 million gallons and move us that much closer to where you say we are going to be in April why in the world don't we go ahead and do it now if you are talking about 237 million as opposed to 9 billion and, the second question, when you talk about leaks I assume that lots of leaks in terms of lifting the embargo emanate from the Administration itself.

MR. SIMON: I haven't heard any leaks about the embargo being lifted. I have seen no comments in the newspapers that the

Federal Energy Office made some comment about the embargo being lifted at all.

GOVERNOR ASKEW: Of course, Mr. Simon, I said the Administration. I didn't mean FEO, because sometimes there is a difference in feeling between the Administration and the FEO.

MR. SIMON: As far as other leaks are concerned, I must admit I wouldn't know where else the numbers leak would come from other than FEO, so I accept the responsibility.

GOVERNOR ASKEW: I'd like to address another question that if, in fact, the embargo is lifted and there is an indication that there will be increased production or lowering of prices--as the economists made reference to yesterday--I think your Office has indicated that they would anticipate at least a four week lag time before we could really start feeling it.

MR. SIMON: Four to six.

GOVERNOR ASKEW: My question is that if we don't go ahead and use the 237 now, which certainly appears to me to be prudent if we have a 9 billion inventory, that all we will do is just help ourselves move closer to parity for April. If the Arab embargo is lifted, and you can anticipate a reduction in your short fall, I understand we will continue to have problems with this type of short fall in gasoline even after it is lifted; is that correct?

MR. SIMON: Obviously if the embargo is lifted we will all, and me in particular, breathe a great sigh of relief.

GOVERNOR ASKEW: Don't you think if that is lifted, and let us say increased production is indicated, that we could then go into our reserves and pick up what we'd otherwise lose as a result of the lag time?

MR. SIMON: We are in the process of making sure we look at that entire picture right now, not only in gasoline but in the middle distillate area for industry, and jobs that have been cut back rather substantially, and this will give us a great deal more flexibility--there is no doubt about that--depending on how the production levels are set.

But I wouldn't comment until I saw all the numbers and was assured that, indeed, we'd have adequate production before drawing down inventories, and 9 billion gallons that sounds like a lot of gasoline. But we need a lot of gasoline to just have the system run. The gasoline that is in the pipeline, that is in the refineries, the system that keeps the gasolining moving throughout the nation. So with 220 million barrels, you don't want to get down to zero, and the effective rate where we have experienced fairly good shortages in this country is about 165 to 170 million barrels. So we have to treat this very carefully.

Let's hope the embargo is lifted, as you suggest, and give us the additional flexibility. But I wouldn't comment as to exactly what we'd do at that time, there are just too many variables.

GOVERNOR HATHAWAY: Governor Waller of Mississippi.



GOVERNOR WALLER: Mr. Simon, we would first like to compliment you and your Office on the job that you are doing, and assure you we are not jealous of any congressional delegation.

I have three questions, one in the area of the deep water ports, and I'd like to ask this question. We have waited, now, for eighteen months for legislation authorizing deep water ports. My state has several hundred thousand dollars invested in a deep water port authority, and we are unable today to say when federal legislation will be enacted and, two, what role the state will have in the licensing authority, and I'd like you to comment from your vantage point on the big deep water port legislation.

Question number two, Union Oil Company of California refused to honor your February set aside order. Rather blatantly, and rather decisively, they said they would not listen to FEO. I think they also made this same statement in Alabama and other mid-Southern states.

We'd like to know how we can get quick response when the oil companies refuse to obey your regulations.

Question number three is this, in the case of military installations or some military organizations, we expect to have approximately 50,000 reserves in my state this summer for training. Who will handle allocations related to military organizations of a temporary nature?

MR. SIMON: Your first two questions we share your disappointment not only on the deep water port legislatislation that

we have had on the Hill, and testified to quite a few times, going back to--I believe--to last June or July, if I remember correctly.

. Right now it is going through the legislative debate in Congress as to how much authority the various states should have in the licensing of the deep water ports, and we are pushing it from the Administration point of view just as rapidly as possible.

As far as the oil companies, Union Oil, I am not aware of the specifics of their refusal to do what the Congress has mandated by the law. But we obviously are the implementing agency of the law the Congress passed, and where they say no we won't do it it is our function to come in and say you must do it, and the courts and the Congress would back us up.

Now as far as the military installations, I am not sure I understand that, Governor.

GOVERNOR WALLER: I am talking about the additional build-up for the summer, the period of about 60 days or maybe 75 days in my state where we have units coming in from adjacent states, and mid-Western states, to train and the additional demand on local supplies with these people driving automobiles, and they bring their families for a vacation. I am talking about the military input and its effect upon local demand.

I just wondered if this was handled through your Office, or if you had any provision for set aside for military activities of a temporary nature in one state.

MR. SIMON: I am going to have to check the specifics as

to what the Defense Department does or does not do relative to this problem and I will be in touch with you, Governor.

GOVERNOR HATHAWAY: We have five or six governors that want to be recognized, and we are running out of time. Can we be as brief as possible in our questions. Governor Shapp of Pennsylvania.

GOVERNOR SHAPP: Mr. Simon, I would like to comment on some of this. I am very much confused, and I think the confusion that exists at this table is due to the fact that--as I said before--lack of accurate data.

You said the Congress had given a mandate to allocate equitably, but a look at the Chinese math--I call it Chinese math because you are taking something in Column A, and Column B, and arriving at something in Column F and I don't know how you are getting it.

But I do know that when I look at these figures that Pennsylvania certainly is not getting what it is supposed to be getting. In the first place, you are predicting that the per diem prices will go to a per diem of 12.2 in February to a per diem of 11.7 in March, and that certainly doesn't jibe with the fact that there'd be equal or more gasoline available in March. It certainly isn't available as far as our people are concerned.

More importantly I agree completely with Governor Mandel that if we are going to have some equitable allocation, then I think Governor Mandel's proposal can accomplish this. I don't

see what you are doing with all those columns--Column A, Column B--and everything else except when I get down to the bottom line, which is a follow-up, I find out that Pennsylvania is now scheduled to get 355.8 which is exactly the same as the initial March supply in Column B which is 355.8 despite the fact that we had 344 million and not 313 when you add in your special allocations, and that is mentioned over in Column A. So we are not getting as much as you even have in Column D which is 417.7 which is the adjustment for motor vehicle growth, and when I compare Column D to Column F I find that seven states are getting more allocation in Column F--which is a final March '74 supply--than you show in Column D which is the adjustment for motor vehicle growth.

Pennsylvania is getting considerably less from 417.7 back down to 355.8 which is a very substantial reduction, and I don't see how you can say when you look at this sheet that you prepared that you are carrying out Congress' mandate to allocate on an equitable basis.

MR. SIMON: I wish, Governor Shapp, that we could simplify and put one column of numbers down. We worked long and hard last night to attempt to clarify this. I recognize the complexity of this completely, and that is why I said we will be delighted and we urge you, and want to sit with you over the weekend to go over this step by step as to exactly how we arrived at this and find out if, indeed, you have a difference of opinion.

We don't claim to be perfect in this solution. We will

change these things because we want to get a uniform formula that everybody understands and can live with. We are not trying to make life more complicated, or just disagree, or be inflexible.

GOVERNOR SHAPP: I would go back to what Governor Mandel is trying to achieve, because it would at least eliminate the problems for the month of March and most of us into April where you can accomplish what you want to accomplish, and I think the upper percent--whichever it may be--of using reserves to accomplish that purpose is certainly going to be a much better solution than having a lot of confusion, and a lot of angry people waiting at the pumps again in many of our states.

MR. SIMON: We believe that through this allocation, even if we have made errors this month, that we have removed the problems as far as March is concerned. A good deal of your February emergency allocation that is being delivered right now is not included in your March numbers, so this is going to alleviate the problem greatly.

GOVERNOR HATHAWAY: Governor Lucey of Wisconsin.

GOVERNOR LUCEY: We all have staff people here, and I am sure that you had staff help in preparing this report. It seems to me the key numbers are all in attachment one, and you have six columns of numbers there. I wonder if you couldn't give us the name of the staff person responsible for each of the six columns, so that our staff people can deal directly with the appropriate people on your staff, and I think we'd get a lot more done this

weekend and probably save us time and save you time.

MR. SIMON: Governor Lucey, as Governor Evans announced Gerry Parsky here is the focal point to set it up. He will announce a room at the Federal Energy Office where we will go into this until all you people are satisfied, or at least get some great understanding of how we arrived at this.

GOVERNOR HATHAWAY: Governor Vanderhoof of Colorado.

GOVERNOR VANDERHOOF: Mr. Simon, we in Colorado appreciate the efforts of your office. We are in a new ballgame as far as Colorado is concerned and many of the other Rocky Mountain states. This spring there will be, again, a tremendous tool-up for the production of energy and the exploration for oil shale and so forth.

We have, therefore, a need that is going to arise above and beyond what has been the past usage. All that we are interested in is can we anticipate some help in anticipating higher allocations as these industries begin to tool up? We are already in difficulty with environmental problems, and so forth, so that if we run into another crisis situation we will hinder our abilities to begin the production of these necessary fuels.

Is there cranked into the system some way that we can work with you so that we can anticipate the rise before it comes out of your pipeline, and we get into a jam, and then we get public reaction against production of this nature?

MR. SIMON: Yes there is, Governor. As far as production

of energy fuel, that gets 100% of current requirement and we will be delighted to work with you to make sure you get what you need.

GOVERNOR HATHAWAY: Governor Godwin of Virginia will have the last question.

GOVERNOR GODWIN: Mr. Chairman, Mr. Simon, I think the thing that concerns me is that as we look toward the months ahead this year to try to encourage our people to conserve gasoline, as we approach what you have indicated a while ago a period of parity come April or May, what do we say to the people about what the gasoling situation is going to be so far as the year 1974 continues to go on into the summer and fall?

I am fairly conscious that you don't have a crystal ball, and that you can pull the answer out, but it seems to me that we have to do something to close up the gap if there is one--and I believe there is--as to whether or not people believe there is a gasoline shortage and, if so, how much; how soon it is going to be over, and what is the best information that you can give us now that we can tell our people as to when the situation may improve so far as having more gas is concerned, and some way of approaching at what point the shortages may be extended.

MR. SIMON: Governor, we put out a weekly petroleum situation report that gives you up to date information, and I am delighted you said that we can't forecast the future. We have our assumed demand growth, as far as all the products are concerned, and we go on product by product; what the imports are weekly, and

what the production levels are, and this goes to your office each week.

Any additional information that you need as far as facts and figures to give the people in your state we will be delighted to supply it, because we have--as far as the short fall in gasoline is concerned--we are just short of 15 million barrels a day in refinery capacity in this country today, and if the embargo were lifted the demand would be slightly in excess of 20 million barrels a day based on the demand for gas. So this gives you a dimension of the refined product short fall. So every week we can give you all of these numbers and all of the data that you require.

GOVERNOR HATHAWAY: Thank you very much, Mr. Simon, and members of your staff for spending the entire morning with us. We appreciate your openness, and your willingness to discuss these difficulties. We hope that we can find a way to work with you, and solve this national problem.

(Applause)

GOVERNOR EVANS: There are a couple of important announcements before we adjourn. Let me extend our thanks to Bill Simon, and to his staff, for coming and for being as patient as they have been in responding to questions.

Let me make a further announcement on the location of the FEO staff to help your staff, or yourself personally, in better understanding the formula and to working with it.

From 2:00 to 5:00 this afternoon, and from 9:00 until



3:00 tomorrow, in room 3140A of the Post Office Building. They will be available to help you. And, again, you have got the number of Gerry Parsky to call and to make arrangements.

I think that in the allocation formula, which has been the subject of much comment this morning and much concern, there may very well have to be some adjustment as we go along. But it seems to me this represents, for the first time, an effort to get to that illusive but necessary answer as long as we have a shortage, and that is how we can best and most equitably share that shortage.

There is no question that each state will view it a little differently depending on their situation. I can thoroughly understand and sympathize with Governor Edwards' concern over the supply situation in his own state, the fact that his state could contribute to so much of our national supply.

But I would only suggest to him that we produce and use a very substantial portion of our electrical energy in the State of Washington to supply the nation with aluminum, but I wouldn't suggest that we would cut out aluminum foil from the State of Louisiana as a result of that effort.

Each state has its own production, and its own contribution to the nation, and I think we should recognize that.

The Executive Session luncheon is a very important one. We will take up the future operations of this National Governors' Conference. There are a number of proposals for change in the bylaws. They will be proposed at the luncheon, and we urge all of

you to be there and be prompt in attendance.

That will be a closed session with one aide each in addition to the governor, and will be held in the Jefferson ballroom which is on this level of the hotel. Luncheon is due to begin at noon, or as soon after adjournment of this session as you can get there.

When we get through with the future operations, and turn to adoption of proposed resolutions, the meeting will then be open to the media and to such other guests as choose to come in.

Are there any other questions from any of the governors? If not, this session is adjourned.

(Whereupon, the Thursday, March 7, Plenary Session was adjourned at 12:05 p.m.)

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EXECUTIVE SESSION

(Whereupon, the Executive Session was convened at 1:15 o'clock, p.m., Thursday, March 7, Governor Daniel J. Evans, Presiding.)

GOVERNOR EVANS: I know that the luncheon is only about half served, but please continue eating. There is a pretty extensive and very important agenda this afternoon, and we do want to get a chance to get to it all before you feel you have to get to other things.

It is my intention to bring the end results of our Executive Committee actions on future operations of the National Governors' Conference to you. We will propose action on a number of bylaw changes. After that is completed, I will ask each of the committee chairmen to report on what actions they have taken and what proposals they would make for resolutions to be taken up by this body during this session.

We will then call on any governor who has a proposal to suspend the rules for further resolutions, and by that time unless there is other business we will be through with our agenda.

Before going into the future operations portion of the agenda, I would like to introduce Acting Governor George Ariyoshi from Hawaii who is with us. George, would you like to bring us a message on how Jack Burns is getting along?

ACTING GOVERNOR ARIYOSHI: I want to be brief because I travelled all yesterday afternoon, and all of last night, and I am

not really sure I am all here this morning.

I think most of you know that Governor Burns was operated on for cancer in October, and he is coming along very nicely, and the Governor wanted me to extend his warmest and best wishes to all of you, and his thanks for the services and favors that you offered to him. Thank you very much.

(Applause)

GOVERNOR EVANS: I think it would be appropriate, in fact, I would ask if either Charley or Jim Martin--someone around the office--would draft an appropriate note to Jack which we would pass around the table here, and all sign, and add whatever we might want to so George can take back to Jack our best wishes. So if someone will prepare that during the time we are here, fine.

Let me then, very briefly, try to cover some of the history of what your Executive Committee has done during this past year leading up to the proposals which are now in front of you.

In 1966, the then Chairman of the National Governors' Conference--Governor Guy of North Dakota--initiated efforts to expand the ability of the Governors' Conference to deal directly with the federal government and with its activities, and with the legislation being prepared and presented to Congress.

We felt at that time which, as you remember, was during the rapidly growing stages of the Great Society programs that we needed a Washington, D. C., office; we needed to have closer working relationships with Congress and with the administration.

Prior to that time, we did not have a Washington, D. C. office as such. All of the staffing came through the Council of State Governments. The dues, as I remember them, for the Governors' Conference were \$500 per year, per state, which did not do much more than open the doors at each National Governors' Conference.

We met once a year in conference, and had no meetings at all here in Washington D. C., and did not even have continuing standing committee reports.

With that major step forward, we developed what I would call a reactive capacity here in Washington to the events which are rapidly taking place. A reactive capacity in terms that we have built a staff which can keep up pretty generally with the major programs of Congress, and of the administration; analyze them; try to get the information to us; give us the chance to appear and help coordinate these appearances so that we can be of some influence in what is happening at the national level as it reflects on state operations. So we have made some progress.

We made some progress with the limited manpower we have, and that manpower is limited. I think that perhaps not many of you realize that the total staff in Washington, D. C. is small, but that it is not only the staff of the National Governors' Conference, and I guess maybe I didn't even realize that until I became Chairman of the Conference that about half of the staff is National Legislative Conference staff. It reports directly to, and works directly with, the National Group of State Legislators

and so a good share of the staffing in Washington, D. C. does serve the legislators and, obviously, serves the states' interests as well generally but does not, and can not, serve solely the interests of the governors.

Over the years we have had, I think, a dedicated and good staff. Their present pay scales are far short, terribly short, of Washington, D. C.

Now some proposals to bring those up to par for Washington, D. C. may seem out of line as they relate to our own states, or to our own community, and I expect that all of us feel that way. But we are working in Washington D. C. and in this atmosphere, and in competition with other groups, and with the federal government itself, and if we are going to have the capabilities we need and the staff we want, and to keep the good people we have already, we simply have to respond--in my view--to those pay shortages.

Now during the past year, at the same time we were working toward a change and an expansion of our operation, the three separate legislative groups--or groups of state legislators--have been meeting in an attempt to merge their three separate organizations into a single legislative group.

Those three organizations--the National Legislative Conference, the National Conference of State Legislative Leaders, and the National Society of State Legislators I think is the name of the third group--they all have different leadership. They have different perspectives. It is really the legislators who are

interested in those particular bodies, but they are apparently just about to merge and form one organization.

What they are suggesting, and what we are suggesting, may have an impact. In fact, I am quite sure it will have an impact on the future of the Council of State Governments. To give you some indication of what the legislative group has suggested, they are proposing that a budget set aside be made from the dues paid by each state to the Council of State Governments, and that those dues go to support the effort in Lexington; the Council of State Governments Regional Offices, and some of our efforts here in Washington, D. C. What is the total budget per year, 1,600,000?

MR. CHIHFIELD: That is correct.

GOVERNOR EVANS: The staff for 900,000 for a total budget for the Council of State Governments of 1,600,000 per year for all of the operations I have mentioned.

The National Legislative Group wants to insist upon taking \$900,000 from that to staff their own separate operations.

Now we have been meeting--a group representing this Conference--and the legislators groups, and the Council of State Governments, have been meeting together to attempt to iron out some of these inter-organizational problems, and it seemed to our Executive Committee that the work we have done over the past year that it is important for us to make some of the changes we are now suggesting in order that we continue to support, and strengthen, the basic idea of the Council of State Governments. Otherwise it

seems to me there is real danger unless we are strong, and unless we hold fast, that the legislative group will act to--in essence--gut the Council in two and to prevent it from continuing its most important role that of bringing together the various organizations representing state governments.

Ken Olson may talk about this in more detail in his report, but I was struck by an analogy he made, and I think it is a very important one, that the Council--in its inception--was looked upon as an umbrella agency over all of the constituent agencies--the Governors' Conference, the legislators, the attorneys general, lieutenant governors--and others who make up and are members of that Council of State Governments, but that perhaps what is needed now is to tip the umbrella over and decide to recognize that there are only two bodies representing the states and that have general responsibility within the states.

Those are the governors through the Governors' Conference, and the legislators if they can ever get together into one organization, and it really ought to be those two organizations leading and guiding the activities of this base organization the Council of State Governments which, hopefully will provide the basic research, the staffing, the regional representation--which has been much of its function in the past--and which I believe should continue to be in its expanded function.

I might in passing and, again, I am sure Ken will get into this in detail point out to you that while there are, what,



nine organizations in the Council we have identified already 127 separate organizations of state officials, of one kind or another, which exist in this country and I think you will be astounded when you find out how many organizations you have represented in your state, and how much you are paying in dues to those various organizations, and I will wager that not one of us has any idea or any concept of just how many there are.

We find that those organizations nationally, even though they are top officials and their representatives of those organizations report directly to the governors and are appointed by the governors, are often taking national positions in direct opposition to the national policies we, as governors, have taken and I think the time is far past that we can allow that continued separateness and proliferation of all those organizations. But that is really a step beyond what we are suggesting today.

Without today's step, however, I think we have little chance of corralling and bringing back the true concepts, in my view, of the Council of State Governments which would encompass and bring together all of these other organizations who represent one facet or another of state government.

The proposals, then, really relate to about four separate items and your Executive Committee has worked hard during this past year. The Executive Committee has met more often, I think, than any executive committee in the history of this Governors' Conference. They have put in long hours, and I am grateful to each member of the

Executive Committee for the work they have done in debating and working, and changing, and modifying, the proposals we now bring to you.

We also have had some, I think, pretty good private enterprise initiative through the Executive Committee and let me speak to that first, and that is the development of what will be a significant endowment fund for this National Governors' Conference. At the beginning of this year, the representatives of the Franklin Mint came to the National Governors' Conference and indicates that they were putting out an issue of state flags and that they--I guess the original offer was that they would like to make available to each governor of the United States a set of these flags as they came out.

The Executive Committee, understandably, was not very excited and didn't think that was either proper or a very good idea. But we did talk with them about the potential of an endorsement, or a statement, about the state flags which could be put in the limited circulation brochures of the Franklin Mint.

After considerable discussion, we felt that this would be proper and that it could be done on the basis of a royalty payment to the National Governors' Conference for its future operations, that issue plus another one which has come along since, and let me emphasize that both of these issues would have been put out under any circumstances whether we agreed or not.

The statements we have added to their brochure, I think,

are well within proper limits for this Conference and its members. The royalty payments, over the next several years of two issues, should total about \$1 million so the National Governors' Conference will have what we hope will be--and what we strongly recommend to the Governors' Conference--an endowment fund to remain not to be utilized for continuing operations, because it is a continuing source of income, but rather to be initiated as an endowment fund to be utilized for research purposes; to use the interest income each year as a potential for matching with other foundation revenues, and to embark on specific research purposes which will be to the benefit of the nation's states and the nation's governors.

We turn now, then, to continuing operations. The questions, and I think they are several-fold, of proper staffing of the National Governors' Conference; the location, the clear location of the headquarters and the management of the National Governors' Conference; its relationship to the Council of State Governments; the duty structure necessary to carry out the activities as we propose they be carried out and those represent, I believe, the major policy decisions which we hope will be made today.

I mentioned earlier the reactive capacity which we have developed. The next stage, and the essence of what is now being suggested is that we build a staff capacity so that this National Governors' Conference can shift from reacting to initiatives of the federal congress, and the administration, to a position where we can initiate action and present the results of our ideas in

finished form, and at times even in legislative form, for the use of the administration--any administration--and the use of the federal congress.

I found a long time ago, at least in my operation and in our state, that if you supply the piece of paper; if you have people start to negotiate off your initial proposals, you have a lot better chance of ending up somewhere close to where you'd like to be than if you start with someone else's proposals and try to modify them to your own needs, and that is precisely what I think we should build is that capacity for the states to provide the initiative, and I can think of no better time in recent years in our nation's history for the states to assume a larger role and greater leadership than right now.

With that as a background, I'd like to call on Ken Olson for some background on his report, and then we will go through the proposals which are being made. You each have the same documents in front of you so we will be able to identify the working copy, and what we are working from, and we will be open then of course for your action on these proposals.

We hired Ken Olson at the beginning of this effort. He is a fine consultant representing Olympus Research. He has a long history and background with state government, and we feel he has done an outstanding job in presenting this report to you. Ken.

MR. OLSON: I think that Governor Evans has given quite

a substantial background in terms of explaining some of the reasons why the Executive Committee has adopted the recommendations that they have and present them to you today. There are just one or two things I would add.

One of the clear-cut thrusts of the recommendation is to provide for a direct line of accountability, both as to relationships between the staff and those charged to carry out the implementation of gubernatorial policy back to the Executive Committee which acts for the Conference in the interim, but also within the staff to assure the governors that there are, in fact, staff personnel specifically charged to carry out the operations of the National Governors' Conference without having competing demands to undertake work on behalf of the National Legislative Conference, or on behalf of other affiliates of the Council of State Governments.

That is not to say that there are not opportunities for having support staff serve all three of those organizations, but rather to say that principal staff--senior staff--who have some expertise, or who work closely--say--in federal/state relations ought to be working almost solely, if not solely, for the National Governors' Conference.

The net effect of the increasing activity of the National Legislative Organization has been to diminish the total staff effectiveness available to the governors in the last couple of years. So what we have seen, since 1967, has been a curve

which has risen fairly sharply and then in the last few months started to tail off in terms of staff effectiveness.

A second point, and one which was mentioned by Governor Evens, in the interviews that we conducted as part of this study was the feeling that the governors of the 50 states of this nation collectively ought to be able to have a greater impact in national policy formulation than they now have, and yet there is a sense of frustration that other organizations of elected officials oftentimes seem to do a better job.

Part of that, I think, and I believe the Executive Committee has determined relates to the fact that the staff needs a sharper focus and greater accountability continuing on in terms of other backgrounds. There is not only a lack of staff role clarification at times, but there is a shortage of staff. A feeling, for example, that the Washington staff ought to have the capacity to formulate legislation or amendments to the proposals of the administration, so that rather than dealing with the relatively general policy statements at all times that there will be opportunity to take policy statements and turn them into legislation, or amendments to proposed legislation, and have a very specific action program that can be taken up on to the Hill.

Finally I'd just mention as one other background point that there is a feeling that the acceptance by the Council of State Governments, and by the National Governors' Conference, of a number of federal grants in aid over the last few years has, at

times, resulted in the situation where those grant programs have started to turn the priorities of the Governors' Conference around a little bit. Where the funding of those action programs has resulted, say, in a large number of staffing focused on very narrow policy areas, and the view is that there ought to be a different kind of management structure to tie into those programs.

Now giving that background, the recommendations in the report which is before you essentially begin on page 3. Those recommendations relate either to amendments to the Articles of Organization, or to the need to develop additional sources of revenue.

The first recommendation which was adopted by the Executive Committee is the recommendation to establish organizational identity. There is a view that the National Governors' Conference ought to be in a position to manage, in certain respects, its own affairs and perhaps to be able to sue in the courts of the District of Columbia in certain matters; to be able to handle any liability matters which might arise, and to function appropriately in terms of tax liability and non-taxable status specifically with the Internal Revenue Service.

The legal counsel of the Governors' Conference is now beginning to look at that question.

The Articles of Organization propose the addition of a new article, a final article, covering dissolution which seems to be required in the formulation of tax exempt applications; priorities

for distribution of assets of the organization in the event of dissolution, and that is the only formal action relative to the Articles of Organization which is proposed in dealing with this particular recommendation.

The second principal recommendation suggests that the time has come for the Governors' Conference to establish in its bylaws, in its Articles of Organization, the position of Executive Director who would function as the principal staff officer of the National Governors' Conference. He would be accountable to the Executive Committee and hired by the Executive Committee and he, in turn, would hire and direct the work of all other staff who would be responsible to the Governors' Conference.

Accountability would be provided very clearly through the language in the Articles of Organization. Again, those Articles are attached to the report and I will go through these one at a time, and perhaps we can respond to questions dealing with each one.

The third recommendation essentially says that once the position of Executive Director has been established, that there needs to be a staff restructuring; the hiring of some additional staff; a careful examination of salary patterns; compensation outlines, and the building of a staff to carry out the principal purposes of the Governors' Conference. Those are first and foremost.

An enhanced and strengthened capacity in the field of



federal/state relations, the view being that the time has come for the governors to build upon their past successes and strengths in this area; to go on to a more vigorous and assertive program of policy development and implementation at the national level. But in addition to that there is a view that there ought to be some staff time focused upon state services.

As you are aware, there have been requests made to the states this year to begin telling the state's story through gathering information on exemplary state programs. I think there is a very strong feeling among the members of the Executive Committee that much can be done toward state policy; policy that might be adopted by the National Governors' Conference which will require implementation, at least in part, on a state by state basis and a view that there ought to be staff specifically charged to help in the carrying out of those resolutions.

For example, if a policy position is that it ought to be the state's responsibility to develop no fault automobile insurance tailored to the particular needs of each state, and where the governors are trying to move the Congress away from adopting a national program, then there ought to be staff resources focused on assisting--where requested--to help implement that kind of activity; provide information, and resources, and so forth. So that is the type of suggestion that we are referring to there.

One other matter that the Executive Committee has felt to be of importance is the notion that a better job can be done in

terms of public relations. This would be a relatively smaller function, but one that can be important, to work closely--for example--in coordinating appearances with national news sources, and tying them to appearances before congressional committees; aiding governors as they come to Washington, D. C.; help carry out the programs of the National Governors' Conference; making the communication contacts that need to be made, and to express the views that the states have, and to move on things that are happening. The view is that all of the action is not to be found in the Congress or in the Executive Branch of the national government.

Those recommendations are almost, principally, to be implemented in terms of additional funding and that is covered in the attachment which relates to a proposed dues structure. I would just suggest there are a couple of technical amendments in the Articles of Organization which define, and emphasize, the points that the Governors' Conference will focus on; emphasizing the state's role in the federal system.

The fourth recommendation suggests that the NGC, as an organizational entity, ought to continue and clarify its relationship to the Council of State Governments. It is not proposed that NGC be a self-sufficient organization in terms of staff. There is no reason for them to carry out an independent program of research and fact gathering information, and newsletter dissemination, and publication and so forth.

Rather those types of services ought to be provided as

they now are by the Council of State Governments, and to keep that tight linkage between the National Governors' Conference and the Council of State Governments it is recommended that two things happen.

First, that the Council be asked formally to continue to provide those supportive services which they have very clearly offered to do and, secondly, to formalize the relationship between the Executive Director of the Council of State Governments and NGC by amending the bylaws to provide that that Executive Director serve as Secretary Treasurer of the National Governors' Conference. That item is further covered in recommendation number 5. I don't think it is necessary to elaborate beyond that.

Currently the Secretary Treasurer, who is the principal or sole officer mentioned in the Articles of Organization of the Governors' Conference, is elected at the national meeting--at the annual meeting--of the National Governors' Conference. By tradition, if you will, not by anything formal the Secretary Treasurer has been one and the same as the Executive Director of the Council of State Governments, and the bylaw changes proposed would formalize this relationship, and provide that he would serve as Secretary Treasurer ex-officio without election.

It then goes on, in the Articles of Organization, to spell out the same duties which are now provided for the Secretary Treasurer in the existing Articles of Organization.

The sixth recommendation is to establish the headquarters

of the National Governors' Conference in Washington, D. C. To provide that there be an organizational location where the Executive Director would sit and work, and from which he would serve.

The 7th recommendation outlined on page 6 is one which Governor Evans explains, and relates to the Franklin Mint. Here the suggestion is that there be direction to continue on in formulating plans for a research foundation, or research organization, which would draw upon the proceeds of the investment of the endowment funds received by the Governors' Conference from whatever source, and attempt to match those proceeds with federal funds such as the type which are now offered on a monthly basis, if you will, to the Governors' Conference to carry out research which is desired, and to put it in the context of a research program that the governors can give priority to and, secondly, to establish a management framework within that research organization to clearly separate implementation processes which ought to be handled by the National Governors' Conference staff from research functions.

Such functions clearly ought not to be involved in lobbying activities, or activities which might jeopardize the receipt of federal funds. Obviously a number of these details remain to be clarified.

GOVERNOR WILLIAMS: On the Franklin Mint matter, I have always been a little concerned about the Franklin Mint. I think it is a fine organization, but they have proliferated and grown to

a great extent, and every time these things happen unless somebody is watching them you never know what is going to develop out of it, because it has grown so vast.

I am always getting commemorative coins, and protocol gifts, and I scatter them around the office. I received a brown box with all the commemorative coins in it from the Franklin Mint, and I didn't pay much attention to it until reading something in the material you sent. I discovered it was valued at \$870.00 and it is probably going to go up.

Now this came to the governor, but this becomes a matter of fiscal responsibility for all of us, and I wondered if anybody except me is concerned. Stan told me he was. What is the story on that?

GOVERNOR EVANS: Let me turn that over to Governor Noel. He sometimes feels that he is known as the governor for the Franklin Mint, and that is not true. He has turned out to be the best and the sharpest negotiator of the Executive Committee, and has looked into this very thoroughly, into their program, and I think we all have the same concerns about things coming directly to governors, and that was an original proposal of the Franklin Mint and rejected by the Executive Committee, and subsequently this other proposal was made and--as I said--adopted by the Executive Committee. But I know Governor Noel can explain it in more detail as to just precisely what our situation is.

Ken has just one more comment, one more element, in his

statement and then if we can open the floor to your questions on whatever element of the statements and of the proposal you'd like to get to.

I would like to get everything on the table, and iron out, before we turn to the formal action which we will go through article by article in terms of amendments of our Article 3 organization. Ken, do you want to talk to the last one?

MR. OLSON: The last recommendation, gentlemen, is probably the least developed to this point. But there has been a lot of concern expressed by members of the Executive Committee relative to the proliferation of organizations of state officials, and with a view that something ought to be done to bring them under some different management framework.

To this point what we have done is to identify where these organizations are. The list is some 125 and climbing, and we are trying to find out which of those are real organizations in the sense that they actually do meet, collect dues, and have a staff.

In the last two weeks, we did a sample survey of thirteen such organizations which have headquarters in Washington, D. C. We found that those thirteen organizations received about two and a half million dollars in state dues annually, and will probably expand another \$500,000 a year in direct travel costs simply going to annual meetings.

We don't know what the total magnitude is of state dues,

but we anticipate that the only way to find out is to go back to the states, on a state by state basis, and ask the individual governors to assess this in an effort to identify agency by agency what is happening, and then attempt to decide which of those organizations ought to be brought in perhaps under the Council of State Governments which might be tied in some way to the National Governors' Conference.

I guess what I am saying as to this point is that recommendation 8 is a recommendation that we go forward with. That we continue to work on this problem to see if we can't develop a strategy perhaps under the state services section of this National Governors' Conference staff, and to pull in these organizations of executive branch officials and change the framework under which they operate.

I am not optimistic about that being easy. Some of the organizations are relatively small, and relatively easily handled. An example there might be governors' traffic safety coordinators whom the governors directly appoint, and who are funded largely by federal funds as a national organization effort. But there are other stronger organizations like the American Association of State Highway Officers that may be more difficult to bring under a common tent with those obvious qualifications.

This seems to be an area where perhaps a lot of cost savings could occur by eliminating the duplication of the Secretariat Staff Conference, Planning Staff, and what have you and tightening down that organizational area.

Governor Evans, that really covers the matters in the

recommendation. Attachment B, which is fastened to the report, is essentially a discussion of the dues structure. I think we might want to address that as we get to it a little bit later.

GOVERNOR EVANS: Okay, now to Governor Noel, and he will respond to the first question.

GOVERNOR NOEL: I am a soft spoken fellow, Governor Evans, and I will be very mild in my remarks. I don't know why you should have any concern. I'd like to explain this. I have explained this somewhat to the democrats, although maybe not in a rational way, but for the edification of my republican colleagues at the first meeting of the Executive Committee which I attended, and which was to look at the proposal that was already before the Executive Committee which was to vote on an official designation of this series of coins that was going to be issued.

The Franklin Mint representatives were there, and they simply said that we are going to issue these coins. We have already had them struck, and we are ready to offer them to our subscribers. We'd like to have the governors vote that this is an official issue of state flags, and the proposal was that each governor would receive, or the state, it wasn't clear which a box of these medalions.

This gave those of us at the Executive Committee meeting a little bit of concern, because we recognize that these were coins of value. So we deferred the matter, and I did some investigation. I suggested to the Chairman that I would personally



investigate the situation, and see what I could come up with, and come back to the next meeting.

I didn't know anything about the Franklin Mint, I had never met them, and I found out that they were a very successful group who strike coins of the realm, and they have got associations with the United Nations, with the White House Historical Association, and with other agencies. They are very first rate operation.

I came back to the next meeting and said there was a precedent for negotiating a royalty contract with the Franklin Mint, and I simply said as a recommendation that we should not take any action, and certainly not take action to accept these coins if they were not going to be identified as either state property, or personal property, and that the alternative would be to negotiate a royalty contract and make it very explicit that this was an above board operation; that this Conference would receive royalties as a result of the issue, and that any coins that came to the states one set would be the property of the people of each state. That is clearly defined in the minutes of those Executive Board meetings.

My personal recommendation was that this was a good opportunity for this conference to receive some operating revenue that would be used for some explicit purpose.

The Executive Committee, after a lot of deliberation, decided to go ahead and enter into this relationship with the Franklin Mint, and that we do this on a contractual basis at

twelve and a half percent royalty from the sales and we directed that there will be no solicitation on a nation-wide basis outside of the list of their collectors who were going to be solicited anyway for this one series, well, actually two series of coins and that is all in the Executive Committee minutes.

We have recommended against anyone receiving any personal coins of value as a result of this relationship, and those coins that are delivered to the states are to be used by the states as the people's property.

We, in Rhode Island, will put them in the state archives and display them for a while in conjunction with the bicentennial program, and then we will put them into the archives. I seem to have become identified with this, sort of like a Noel proposal. I just want to assure you that I had never known of the Franklin Mint. I had just heard of them casually, and I don't know of anyone involved in the operation, personally. But at the direction of the Chairman I accepted the assignment, and brought the fruits of my research back to the Executive Committee, and made a recommendation which was adopted.

GOVERNOR EVANS: I might say that, in our case, anything of that nature would go directly to our state capitol museum, and would be on display. I might say that the Executive Committee, in their wisdom, decided to go with this thing, and decided that 10% would be a good figure, and sent Phil out to tell them that, and he came back with twelve and a half which proves he was the

man to pick for the job.

GOVERNOR WILLIAMS: It might be wise, since all the governors aren't here, to so notify them because you do get a bunch of stuff and you don't pay too much attention to it. Put it aside and leave it, and when I saw the value of that thing it really concerned me.

I think that everybody ought to get the same explanation as to just the fact that it belongs to the people of the state, although the address was to the governor.

GOVERNOR EVANS: That is a very good idea, Jack, and we will make sure that is done. That sufficient explanation from the minutes of that meeting is presented and sent to the governors.

MR. CRIHFIELD: I prepared a letter citing the Executive Committee action and sent it to them, and the thing that surprised me was they told me these had not been sent to any governor with this letter describing the whole thing, the fact that this would be going into the archives through the governor, and they keep saying they haven't sent them; that they are going to send that letter with the package that Governor Williams says now he has got, and Governor Hathaway has, and perhaps others.

GOVERNOR EVANS: There is some confusion here. Were the ones you got round coins?

GOVERNOR WILLIAMS: Yes.

GOVERNOR EVANS: They are not the same issue. We are really talking about two different things. The Franklin Mint,

independently and without any contact to my knowledge with the Governors' Conference, did send a set of what I think were bicentennial medals and that is what I think you are talking about, Jack, and that had no part at all in our negotiations. It was done by them independently and voluntarily.

GOVERNOR WILLIAMS: We haven't solved the problem.

GOVERNOR EVANS: I solved the problem in my own state, I shifted it over to the state museum.

GOVERNOR NOEL: Jack, I can clarify that for you. When I investigated how the Franklin Mint operated, I found that the Bicentennial Commissions of the several states, like the thirteen original states, and other states have bicentennial groups and they were the first to collect on a royalty arrangement for bicentennial commemorative coins.

These people have issued a lot of different kinds of medalions, and whatever the bicentennial commissions did in entering into those agreements with the Franklin Mint is totally independent of anything we have done. They also sent us a series of those medals, and so the Franklin Mint was just responding to these bicentennial groups and those are the medalions you have received.

The ones you receive from us will come with clear instructions that they are state property, in accordance with the letter that Mr. Carihfield was describing, and this will be forwarded.

We, as an Executive Committee, cannot accept responsibility

for what bicentennial groups may have done because that was not of our doing.

GOVERNOR SHAPP: I would hope in this particular case in view of the contractual arrangements entered into by the Conference, that the governors do not accept these coins as a personal gift otherwise it is going to be viewed and blasted in the press for us having accepted these on a personal basis, and since the Governors' Conference has made contractual arrangements I would hope that each governor would make certain that anything he receives from the Franklin Mint would be turned over to the state.

GOVERNOR EVANS: I think we want to make that very clear in the letters we send out. As Phil said in this particular issue we have an official connection with it that will be made most clear in conjunction with the delivery of the flags.

GOVERNOR RAMPTON: I think the Franklin Mint sent to each state not one but six sets of those coins. There are five of them in a cardboard set to be given to the people that judge the design for each state. They gave a prize in each state for the best design, and five judges got a set and they sent the sixth set in a wooden box for the state.

GOVERNOR EVANS: Yes, I think that is correct. That is what happened in our case, at least.

GOVERNOR ASKEW: I'd like to say something parenthetically. This doesn't have anything to do with the Franklin Mint and what

you are talking about, but I hope since you are going to be the host for the National Governors' Conference that we cut out all of the gifts, because really they become more of a problem in receiving them and I think it would relieve whoever is the host to just--if there is anything symbolic of the state or something significant--fine, but I really believe that you can set the precedent this next time and just don't have any gifts.

GOVERNOR EVANS: Let me say the only thing symbolic of our state is Boeing airplanes which I can't afford, and forest products, and if you get a case of toilet paper I am sure you will recognize that as symbolic of the State of Washington.

We are taking some considerable care along those lines. I might add that when you arrive you will be not met by a Cadillac this time but by a Chevrolet instead, and I think we are very conscious of that problem. During the course of the meeting, I intend to try to get these things back in line because I do agree with you that--especially now--it is not viewed very well, and it gets to be a burden on each succeeding host state as time goes on. We will be keeping that in mind, but I appreciate that concern.

All right, are there any other questions now or comments on any one of the elements of the recommendations made that we are dealing now with, and as far as I think we can go or want to go today in response to the proposed changes in the Articles of Organization? There is, obviously, going to be a continued effort to better describe the working relationships between the Council of

State Governments, the National Legislative Group, the National Governors' Conference, and regional efforts.

None of these are really at stake today except insofar as we establish, as an organization, the National Governors' Conference.

Now we have had working with us, during the course of all of this effort, those staff members who represent both the Council and the National Governors' Conference and I know it is accurate to say--and I have talked with them both personally--that Griff and Charley Byrley do endorse the changes in the bylaws which are being brought forth, and I think both look forward to the opportunity to develop a stronger, a closer, a better, and even more productive working relationship between the Council and the National Governors' Conference.

GOVERNOR MANDEL: I just want to be sure, and I sat in on a couple of those meetings a few years ago, that the relationship between the Governors' Conference and the Legislative Conference is not being disturbed by this action today. I do it for several reasons, one, because I know there are some disagreements and you certainly are asking to increase the dues and I have got to get my legislature to approve that, and if they feel that what we are doing here today is attempting to destroy the legislative organizations I am not going to get the dues.

GOVERNOR EVANS: I totally agree with you that we would have troubles. Now there have been several proposals made, and I

sat in the day before yesterday as did Governor Noel, Governor Holshouser and Governor Hathaway with representatives of the leadership of the Council of State Governments and representatives of the three legislative groups who are now working toward merger.

I think it is accurate to say--and I might ask those others who were there--Governor Hathaway, Governor Noel, and the rest if this is an accurate view of what was going on at the legislative group meeting.

First, it appears like they will succeed in a merger and that the resulting single organization would join in a sort of three part proposal to go to each state and to seek an appropriation for the National Governors' Conference and an appropriation for the National Legislative Conference, and an appropriation for the Council of State Governments.

Now the suggestion was made that it be left up to each state how they run that through their budget process. Some may want to do it in a lump sum. There are probably 50 different ways of doing it, but that there would be three separate identifiable parts to it and the legislators there, I think, were very much in agreement that, you know, as long as they could identify their legislative needs and establish a dues structure and, you know, a budget and as long as we did the same that neither would bother the other, and I think that is pretty much the relationship we have all developed in our individual states except on maybe with rare exceptions.



I know in our state I don't attempt to try to tell the legislators how much they spend for their own operation, and they don't bother with the Governor's Office budget, and I think that that relationship is a pretty good one insofar as the National Legislative Group, and the National Governors' Conference, is concerned.

Now both will have to join, and I think it is important that we work closely with the legislative group so that together we can insure there is continued strength for the Council of State Governments.

I was deeply disturbed, frankly, when I first read the proposals by the legislators--the initial proposal---that they take \$900,000 out of the existing budget of the Council of State Governments which would seriously cripple, in my view, the ability of that Council to continue operations.

Phil, didn't you feel that the legislators represented there were going along very much the same track we were and were in pretty complete agreement so I don't think we will have any kind of trouble.

GOVERNOR SARGENT: With respect to the suggestions embraced within the recommendation that you have, in the event there is a failure to have the legislative organizations to merge, are we in any position of moving first to reshape that particular organization?

GOVERNOR EVANS: Absolutely; I think that we would

strengthen ourselves, and probably we would have a better opportunity to give guidance and influence to the Council of State Governments, and work closely with them.

But I am pretty confident the legislative group is going to merge, but I don't think we will be hampered at all. I think it is just as important that we go ahead and insure that there is a strong gubernatorial presence.

Let's face it, one thing that was never said during the course of the meeting of the legislators and the governors--and you'd find new legislators willing to say publicly but they all know it--is that when it comes to operations of the Congress and with the federal administration the National Governors' Conference is going to have ten times the clout that any collection of state legislators is going to have, and I started as a state legislator.

But with 7600 of them it is very difficult to get them all together and marching in the same direction. But I think the proposals we now have will come the closest to bringing us together, so that the two organizations can be that much more effective in our representations to Congress and in understanding that there may very well be times when there will be differences between the two organizations.

For instance in how federal funds flow to the states, state legislators probably aren't too enthusiastic--in some cases--about having those responsibilities flow directly to the governors, but would rather have them go through the state legislator process.

Jimmy.

GOVERNOR CARTER: Last year, at Lake Tahoe, I was a member of the Executive Committee and I made the motion basically that this be done. In my first couple of years in office, as governor, I think I was Chairman of the Natural Resources Committee and I came to Washington to testify before the congressional committees as the official duty as Chairman some seven or eight times, and it became obvious to me--as I am sure it would to anyone in a similar position--that there is no clear-cut identity of the National Governors' Conference the way the present structure exists as far as staff work to focus upon the major decisions made at the National Governors' Conference Meeting in the summer, and as far as independent identity for the governors themselves here on Capitol Hill in Washington.

This recommendation, or suggestion, that has now been worked on all year by the National Governors' Conference Executive Committee I think is one that is desperately needed. They have done a very good job in taking an original idea that was presented last year, and improving it greatly. But the essence of it, the way I understand it, is twofold.

First of all, it will retain our relationship with the Council of State Governments as far as staff work and basic supportive service, and will not duplicate nor decrease that service.

The second thing it will do will be to give the National Governors' Conference more individual identity, and we can support

our own positions as governors, and strengthen the testimony of governors on Capitol Hill, and our voice in public affairs, and the other ancillary benefits as we pass resolutions primarily at the summer meetings, and that those resolutions can be changed into material facts and have an impact upon the nation and on positions taken in the Congress.

I think these are all very worthwhile considerations and I, personally, appreciate the fine work that the Executive Committee has done. Our staff has helped you and, you know, I call upon others who are not members of the Executive Committee, and I strongly support what you have done.

One thing, though, that I'd like to have for sure--as an individual governor--is if we vote in favor of this--and I strongly support it--that when we meet with you in Seattle in the summer I would like to have a clear understanding of the role of the different staff members who are working for the National Governors' Conference.

I don't want the Executive Committee, or any other small group of governors, speaking for the whole group. I'd like to know what they are, what the salaries are, what their functions are as related to the standing committees and so forth. I presume that is part of the plan. If so, that is my only reservation and I think it is a very, very, fine move forward. It won't hurt anybody, but it will let the governors speak with a stronger voice than we have in the past.

GOVERNOR EVANS: Thank you, Jimmy; I think you have described very accurately what the purpose is, and the relationships which we hope to retain and build upon between the various organizations as far as staffing is concerned. We don't have enough people on the staff, now, to fill the kinds of positions that it is recommended we have.

I think we do have to move, and should move promptly, to kind of fill the positions we create if, in fact, we create any so that we can move from now on and not have to wait until June to do it. This doesn't mean that we can't change or anything of that nature. I am sure it will take from now until June to seek out, and to try to get on board, good people to fill the senior staff positions.

We have some now, but again I doubt that many of you realize--and what I didn't realize either--is that a good many of the staff members we work with, and depend on, in the National Governors' Conference Office simply are not financed by the National Governors' Conference. They are financed by the Council of State Governments, and respond directly to the National Legislative Group, and they feel that is who they work for, and that is who they report to, and they are not under the guidance of Charley Byrley. So it is a very awkward, a very difficult arrangement, that now exists and I think that simply has to be clarified and done promptly.

GOVERNOR SHAPP: I'd like to go back to something that

Marv raised a few moments ago about the dues. I attended my first Governors' Conference actually back in 1961 when Governor Lawrence was governor, and it was purely a social event, and this organization has developed really from a social event in the past when it really was not business oriented beyond the fact that the governors got together and talked about their mutual problems.

Out of this has grown a set of rules that have been very restrictive to the governors getting together to do business, and I am supporting this resolution. But I would hope that in going forward we would also get down to the business of changing this three-quarters vote to put items on the agenda.

I don't think that has any place any more in an organization such as this where we come here to do business. I think we should change the rules regarding putting resolutions on the floor that are approved by committees so that we have more discussion, and more change on the floor to change some of the committee recommendations and things of this sort.

As far as the dues structure, and an increase in dues, the legislators provide that money and I think if we become more business oriented, and change our rules to reflect that, it is certainly going to make it easier for me to justify an increase this way in the dues structure.

GOVERNOR EVANS: I am glad you brought this particular point up, because the Executive Committee did look at that part of the bylaws, and recognized that perhaps we are at a point where

some further change ought to be made.

We felt that it would be biting off too much at this meeting to do that, but we have sort of pledged to ourselves that we will take this as a next step and hopefully be able to bring to the June meeting proposals that would allow us to take action, and to modify, when it becomes necessary the positions that the National Governors' Conference takes.

Some of the history of that was that the National Governors' Conference in about 1963, I believe, '63 or '64 got into a terrible partisan fight relating to civil rights, and the end result of that was that the Conference abolished totally the ability to take any position on resolutions, and for several years there were no resolutions simply because of the reaction to the problems we got into and several years ago, of course, we took a first step to get back in the field of policy positions with a three-quarters vote that is now in existence and I, frankly, believe--personally believe--that we are at the point where another step is justified, and we ought to take a look at it.

I hope to have that for you in June when we meet.

Governor Wilson.

GOVERNOR WILSON: I just wanted to know when, during the discussion, it would be appropriate to state a view in opposition to the concept. Would that be when we bring up the first motion, or would that be now?

GOVERNOR EVANS: Now; it would be my intent to once we

have concluded the discussion of this entire matter then to move to the adoption of the elements of the bylaws and that we would, hopefully, then be able to do it without--you know--a lot of discussion on each of the motions. So right now Governor Wilson, is the time.

GOVERNOR WILSON: First of all, I relish the opportunity of being here and hope that I will have the chance to meet more of you personally.

I must say I have listened with growing concern to the discussion about the possible problem with respect to the receipt of coins from the Franklin Mint, which was a matter with which I was not familiar. I consulted with my secretary, and who was also Governor Rockefeller's secretary, and he hasn't seen these coins, and I know that my predecessor is beyond the reach of avarice.

I recognize fully, gentlemen, that I am a new boy on the block in terms of the Governors' Conference. But I am not unfamiliar with the work of the Council of State Governments and its constituents, because I attended--as a member of the legislature representing our state--a meeting of the Council of State Governments in February 1939, and have been in state government in an elective office ever since.

The awesomeness which hit me with full impact yesterday when I was reading the brochure of the governors, was to find that I attended that meeting a full month before Governor Chris



Bond was born.

Now I am very grateful to the members of the Executive Committee who have labored so industriously to develop the proposals which are before this group. I must say, however, that in my judgment what is proposed is--I suggest--an injudicious and potentially counter productive response to what is a very real problem.

The whole concept, as I understand it, of the affiliation of states is to protect the rights of the states against invalid federal invasion, and as a part of that to bring about a better understanding of the need of state responsibilities. Because as each of us knows there is no such thing as a right without a corresponding responsibility, and then if we speak of state rights we obviously must be ready to assume state responsibilities, and the whole concept of the joinder of states through the Council of State Governments has been to seek, among other things, to foster and stimulate interstate cooperation; to avoid the hand of the federal government reaching out to solve a problem which goes beyond state lines.

When I consider what is proposed before us today, and when I here in the course of this discussion that our legislative friends are about to follow in the same path, I suggest that we are falling victim--partly at our own hand--to the divide and conquer technique.

That there is a problem, I certainly admit, and that

something must be done about the proliferation of national associations of state officials is a proposition so immediately evident as to require no demonstration. The mere examination of of this partial litany of those associations makes it clear that something must be done.

I suspect that next we will have the national association of state sea gull inspectors it has gotten to such ridiculous proportions. However, I think that the proper response to the problem would be to assert more strongly the voices of the governors in the Council of State Governments. The governors are the bottom line. I have spent 35 years in and with the legislature and, hence, I recognize fully the coequal status of the legislative and executive branches of government.

But the governors are on the bottom line. They are the symbol of their states. The citizens know the individual legislators, but they regard their governor--as indeed they should--as the one who speaks the voice of the state in policy matters especially as they relate to Washington.

It would seem to me, then, that the concept of separating the governors from really, for all practical purposes, despite the cosmetics of relying still on the Council of State Governments for the provision of supportive staff services, especially as I say when it appears that our legislative friends may be pursuing the same route, would be in my judgment divisive and counter productive in view of the objective and the only proper motivation for the

taxpayers' fund to support our activities, or the activities of our legislative friends or indeed the activities of any of those who affiliate themselves with the Council, and it would seem to me then that it is wasteful and I, indeed, would find grave difficulty--not with my legislative friends--but in justifying to the taxpayers calling upon them to provide what I suggest is a duplicative expense in terms of staffing separately and more completely, rather than have the National Governors' Conference do basically their work which is supported by dues we now pay, and I say this despite the fact that pending before our legislature is my budget which calls for an expenditure this year of \$9,383,000,000 of their funds.

I would hope that before we take this step, which I suggest in its passage if that is, indeed, to be its fate of the first specific motion which will be before us which will irreversibly set us on a course as leaders which will point the way for others to follow, that we will be doing a disservice to the cause of state rights.

I would add but one other footnote. There is much which we share in common and that is as governors representing each his own state. The desire to preserve state rights, and state responsibilities, and to see that equitable portions of the taxpayers' funds are returned to the taxpayers to help in the provision of the very costly services which are provided by state governments. But I suggest in most cases in terms of local government, however,

there are many things which divide us about the formulation of aid programs which vary virtually in terms of desirability and/or entitlement from state to state.

Increasingly states are required to call upon their taxpayers to provide the financial support for separate state offices in Albany, and if a regional group of states could do that in competition among the states a particular state will not suffer unduly.

In the case of New York, we have a large and growing office supported by our taxpayers. The current cost perhaps runs close to a million dollars and it is going up. I know that many of our sister states have offices, and these offices are working with the Council of State Governments and not alone in attempting to shape particular programs as against other governors for the benefit of our state. But they also assist our agencies in their endeavor to combat the petty tyranny of bureaucracy which is a growing menace, and to paraphrase while administrations may come and administrations may go, these desk people, the petty tyrants of bureaucracy, go on forever and I suggest to my colleagues that it would be more judicious at least for us to take another look conceptually as to what the course upon which we are about to embark might mean in terms of the clear responsibility for a single voice to speak for state government in its contest with the federal government.

Now one more footnote and that is this. I never want to

make an objection without a specific proposal. I would suggest that we assert more effectively the voice of the governors in the Council of State Governments; that we stop those who work for us, or with us, as members of these constituent organizations of the Council from trying to make policy because they are not policy formulators, and that we increase--if that need be--the staff services with our support of the Council of State Governments so that we will--in my judgment--take that role within the Council of State Governments which should be the spokesman, I suggest, for all state governments at all levels, and I would hope that as we address ourselves to this we will consider perhaps the wisdom of a little more thought on this subject rather than bringing it to decision today.

GOVERNOR EVANS: Thank you, Governor. Are there further comments? Governor Bumpers.

GOVERNOR BUMPERS: We have worked very conscientiously in trying to formulate these rules. I'd like to respond just very briefly, and say that at no time was there any attempt to overtly or covertly to be detrimental to our legislative brothers. But, by the same token, if you will permit me a little quotation from Thomas Jefferson who says that, "A Democracy is totally dependent upon the fate of the government," and I would embellish on that by saying that the fate of the governed is directly related to the responsibility and intelligence which its leaders articulate issues.

Our point, here, is to use the Council of State Governments

just as each of you use your planning department as a service organization to give you better information, and to allow you to speak with at least a little more comfort in the knowledge that you are speaking with some authority based on their information, and the idea here is to make the Council of State Governments a very responsible organization and that they lose none of their powers.

We, as governors, can turn to them on the one hand and to our legislators on the other for the kind of information we need to speak with authority.

GOVERNOR WILSON: You are precisely right. Our legislators depend on us to speak the state policy, and I don't know of any legislator who would want us to do less. They recognize their own fragmentation which is not their fault, but it is due to the simple fact that they are a large number. All of us who have been legislators understand that fragmentation. They do look to us but I, for one agree with this.

GOVERNOR BUMPERS: I have felt, starting my fourth year in the National Governors' Conference, most uncomfortable for a number of reasons not the least of which is I never knew who was responsible to me. I never knew precisely how to get the kind of information I wanted. It is all of these things combined that caused me to devote the time, and the energy, and dedication in helping draft these revised rules of operation.

Mr. Chairman, I suggest that the matter be voted on. I

certainly will be happy to live with it if there are more people here who want to postpone it for further study. But we have worked assiduously on it. I think they are good rules, and I think they will be not only to the benefit of the governors who are speaking with a louder voice, and more authority, but also to the benefit of the legislators who are in turn looking to us.

GOVERNOR EVANS: Thank you, governor. I might point out one thing in case you do not understand thoroughly the management makeup of the bylaws and Articles of Incorporation of the Council of State Governments, that you should understand that the chairman according to the bylaws is a legislator, and that make up of the governing body which is how many, Griff? 112-108, is heavily legislative in makeup, you know, far outweighing any 100% gubernatorial involvement and would require in any kind of disagreement--if there was any with the legislators--a substantial proportion of legislative support in order for us to be effective under the present makeup at least of the Council of State Governments which is, I think, one of the difficulties when it came to the gubernatorial presentation of issues to the national government.

Are there any further comments or questions? Governor Hathaway.

GOVERNOR HATHAWAY: Are you going to vote on the whole proposal or segments?

GOVERNOR EVANS: I will do it whichever way this body chooses. Would you like to vote article by article, or vote, as

has been described on all of the amendments to the Articles of Incorporation?

VOICE: Why don't you vote on the whole thing?

GOVERNOR FORD: Item 3, would you look at that a moment. Item 3 in the report, the first part of that seems to be all right and then as I read the balance of that statement, "added emphasis should be given", from there on to the bottom of page 4, "providing staff services to aid governors and individual states." That is what the Council of State Governments is doing now, and it also says that, "Regional conferences will be under the Governors' Conference."

Now are we duplicating? This is the only question I am calling up at this time.

GOVERNOR EVANS: I think no, if you are on page 4 of the report--

GOVERNOR FORD: Page 4.

GOVERNOR EVANS: First, there is neither any intention nor I think any desirability of either duplicating or superceding the work of the Council of State Governments as it is now carried out. The added emphasis is in providing these services, and I think that inherent in that recommendation is coordinating the work and interacting with the Council of State Governments in the provision of staff services to regional governors' conferences, and providing consulting services and technical services to state governments in general.



I do not view this proposal as an attempt of the National Governors' Conference staff to be developed here in Washington, D. C. to either supercede or oversee the regional governors' conferences or the Regional Council of State Government Offices, for instance, but rather to--and this was emphasized--to insure that there is a close interaction, because those Regional Council of State Governments do support the regional governors' conferences, and I think it is almost inherent in this whole idea that there be closer coordination between the two.

GOVERNOR FORD: You are talking about coordination of work.

GOVERNOR EVANS: This calls for coordinating the work. I might say that these words were changed from the original. I am pretty sure that these were part of a changed proposal in order to not give the implication that was in, I think, the original report that somehow the Council of State Government Regional Offices would report to the National Governors' Conference.

GOVERNOR HATHAWAY: Mr. Chairman, I am looking at the same thing that bothers Governor Ford on page 4 and I move to change the word coordinating to supplementing. I think the Council of State Governments has a basic responsibility for the self-help functions of not only this Conference but also including the regional conferences. I think if we take out the word coordinating and put in supplementing I don't have much of a problem with it.

GOVERNOR NOEL: I don't think we are adopting this

language; is that correct?

GOVERNOR EVANS: No, this is part of the report.

GOVERNOR NOEL: This is part of the report, and if we look to where it says implementation, item 3 on page 4, the language is sort of a statement of purpose or intent. If you look at page 5, where it says implementation, this is principally to the adoption of the proposed revision to the schedule of state contributions. So that when we move the question will be adopting, in this instance, budget recommendations.

We, on the Executive Committee, have a distinct concern as we go about implementation of policy and development of policy, so that we may have to develop these relationships to achieve continuity of services. By adopting the question, you don't commit to that specific language because that is not in the part of the question.

GOVERNOR EVANS: It would seem to me that what I would propose as a proper method of procedure, and in light of the fact that we will be meeting again as a National Governors' Conference in annual meeting the first of June, just three months from now, that if we adopt these specific changes in the bylaws and dues structure then the Executive Committee for the annual meeting will be able to prepare and present the staff recommendations, and the way in which we carry out the operations, and I think that has to be done in close conjunction with the Council of State Governments, and we do have subsequent meetings with the

leadership of that organization scheduled, and with the National Legislative Conference.

It would be my feeling that ultimately offices of those three organizations in Washington, D. C. will be to a degree like they are now. But rather than sort of a single entrance you would be talking with separate entities for both the National Legislative Group and the National Governors' Conference, and sort of in between would be the basic staff services and the support services, the kinds of things that we depend upon the Council of State Governments to provide, which they have been providing.

GOVERNOR HATHAWAY: If you are going along with the statement of intent as I take it to be, it should be modified.

GOVERNOR EVANS: No.

GOVERNOR NOEL: This is a language problem. The National Regional Governors' Conference should not be running the Regional Governors' Conferences, because they have always been well served by the Council of State Governments. So it is not the intent, nor is the machinery set up, to adopt a change in the policy by which that staff support flows to the Regional Governors' Conferences and I think you know we have got to separate the language from the implementation which, in this instance, is adoption of the budget because that is not the intent of anyone on the Executive Committee.

GOVERNOR WALLER: Will you have further rulings and resolutions in June to distribute?

GOVERNOR EVANS: Well the bylaws are the only, at least

up to now, our bylaws have been the only sort of written documents of the organization. In addition, we have policies which have been adopted in the past by the various Executive Committees for operation.

In fact, we are operating right now in the Washington, D. C. office on really a quite unclear policy statement which was adopted about seven or eight years ago that I think needs to be clarified, and added to. That is why I say it will take much of the time between now and June to get ourselves in gear, and I am sure we would present the kind of plans we have for future operations.

GOVERNOR WALLER: You are saying there is confusion today, and that we are going to have further rules of conduct later.

GOVERNOR EVANS: There are rules of conduct for the management of this Conference, but those very bylaws are through the Executive Committee. Each Executive Committee as it comes along each year, and they operate between meetings of the Governors' Conferences and in the past, at least, that has been a responsibility of the Executive Committee to provide those day to day working rules.

I would presume that would continue, but I would suggest that is important enough to report back to the June meeting sort of a full array of what we have in mind, and what is being proposed.

GOVERNOR WALLER: Would changes be adopted unanimously by the Executive Committee?

GOVERNOR EVANS: Yes, they would.

GOVERNOR WALLER: I'd like to offer a motion, if I may.  
I move that we do now adopt and confirm these as official rules.

VOICE: Second.

GOVERNOR EVANS: The question is now on the floor; is there further discussion of the motion?

GOVERNOR MANDEL: As a practical matter, does this increase the Fiscal '74 and '75 figure?

GOVERNOR EVANS: No.

GOVERNOR MANDEL: When does it start?

GOVERNOR NOEL: '75 and '76.

GOVERNOR EVANS: Let me describe that.

GOVERNOR MANDEL: I couldn't change my budget at this point.

GOVERNOR EVANS: It is important to bring that up. We are at the point, now, where over the years there has been built up in surplus about \$300,000 and this surplus now does exist. Recognizing that many states would have to have some lead time in preparing budgets, and presenting them for adoption to the states, the Executive Committee felt that it would be prudent for us to wait until the Fiscal Year '75-'76 and in the meantime utilize--as we began to build up additional strength--utilize a portion of that surplus fund, and I think that we would be in good fiscal shape by doing that, and so that no one has to consider an immediate response to the increase in dues.

GOVERNOR FORD: I am prepared to support the motion, but I want clarification on Item 3. It seems to me that if the state governments are operating under that, and that if we are also going to be continuing to operate under contract with the Franklin Mint, is that under the Council of State Governments or is that under the National Governors' Conference. If it was under the Council of State Governments would that be transferred to the National Governors' Conference? I am not a lawyer.

Will it prevent you from being able to lobby and that sort of thing? May we go for issues and causes alone, and we are not a political entity here? We are just going to be for issues and causes.

It bothers me just a little bit in getting ourselves in the wrong posture, but I want to lobby.

GOVERNOR EVANS: So do I, and let me ask Ken to expand on this a little bit. But the Franklin Mint contract was with the National Governors' Conference not with the Council of State Governments. We use the Council of State Governments as our fiscal agent, and always have, and would continue to do so. But the contract is with the National Governors' Conference.

The question of tax exempt status is merely so that, well, I think we want to do two things at once. First, we want to insure to the extent we can that we will not become liable for taxation when it is unnecessary, and thus seek tax exemption status especially when we are talking about research and other functions.

By the same token, I don't think we want as an organization to open ourselves to the position where we may have to register as lobbyists. I think that we'd like to avoid that. Some of the other national organizations have gotten into some very serious trouble. The National League of Cities for one, on this very point and so we are trying to get the best legal advice we can to walk that line so that we can get our research functions tax exempt, and so that we can continue to lobby effectively to the federal government without going through a registration procedure.

We will continue to insure that we have the best legal advice. We have already sought legal advice, and we will continue to get the best legal advice we can so that we make sure we are straight on the whole thing.

GOVERNOR WILSON: Mr. Chairman, since the motion I am about to make is not debatable under the rules, I should like to say that it is my hope that should the motion prevail which, frankly, appears unlikely I would like to think that in the interim between now and June the Executive Committee would give consideration to alternative solutions to the very real problem we face, so that we can consider them along with this in June. With that preliminary, I move to table further discussion on this question.

GOVERNOR EVANS: The motion has been made to table, and is not debatable. Will all those in favor of tabling the motion raise their right hand.

(Show of hands.)

GOVERNOR EVANS: All those opposed.

(Show of hands.)

GOVERNOR EVANS: The motion is defeated. The original motion is now before us. Are there further questions?

GOVERNOR WALLER: I am sure there are governors here who would like more time to reflect upon the detail. If we should come together in June and, say, some governor would want to amend a bylaw what would be required at that time in the way of advanced notice to get it on the table, have deliberation, get it written--the amendment written--and back into our bylaws?

GOVERNOR EVANS: A 30 day notice. All a governor is required to make to amend our bylaws is 30 days notice. Then a majority of those governors present voting is sufficient to carry a motion. If 30 days notice is not given, then it would require suspension of the rules, and that would require three-quarters favorable vote. A majority vote is required of those governors present and voting, and a 30 day notice is required to propose those amendments for majority vote.

GOVERNOR THOMSON: Mr. Chairman, first of all I want to support Governor Wilson because, frankly, I feel that when one has a budget we should have some time to give it careful consideration. I think he has raised a point as to really what is this organization supposed to be doing. If by doubling the budget, building a staff, you plan to become a strong lobbying voice as



governors, then I have difficulty with that concept because I find myself in disagreement--as I am sure others do here--with my colleagues from time to time, and I don't want a governors' organization expressing for the State of New Hampshire our views on political issues of the day.

I find it very helpful to come to these meetings, and have the briefings that we have, and to discuss our common problems. But now I know we have a number of resolutions that we are going to consider here shortly, and Governor Shapp has suggested that no longer should we have the three-quarter rule but perhaps bring that down to a majority.

If that is what the organization is going to be I would, frankly, have much trouble in going back to my legislature and recommending that dues be doubled, and I am really sorry that this was not postponed to be considered in more detail at the meeting in June.

But I just want to express myself and my strong support of the sentiments expressed by Governor Wilson.

GOVERNOR EVANS: Thank you.

GOVERNOR MOORE: To amend the bylaws, more than a majority vote is required isn't it to amend the bylaws?

GOVERNOR EVANS: Not with advanced notice.

MR. CRIHFIELD: 30 day notice, a simple majority. Beyond that three-quarters.

GOVERNOR EVANS: All right, are we ready for the question?

Do you all understand the question which is to adopt the changes in toto which have been recommended. All those in favor will raise their right hand.

(Show of hands.)

GOVERNOR EVANS: Opposed?

(Show of hands.)

GOVERNOR EVANS: Okay, the motion is carried. Thank you, gentlemen, and I think the Executive Committee has a significant responsibility now to bring back to you, in June, a broader and a full laying out of what it is now we will be able to do with this expanded responsibility we have voted upon.

I hope you all can bear with us, and we will try to handle this as rapidly as possible.

The meeting is now open to whatever press or other media wants to attend, but before I open the meeting are there any other items which should be brought before the governors which you would like to have in closed session? If not, then the meeting is open and I would like to call if I may, first, very briefly on the Chairmen of the Standing Committees who can present to you the results of their activities as they relate to actions to be taken at this meeting; that is, actions on resolutions.

Now what I would like to do, first, which seems a proper procedure here will be to call on the committee chairmen to handle whatever reports, including resolutions, that have come through from these committees. Those resolutions which have been

adopted by the Committees I will consider to be on the floor for debate and action. Action would require three-quarters vote-- favorable vote. Those other resolutions which have not come through Committee action would require, first, a motion to suspend the rules which is not debatable, and then if the rules are suspended a three-quarters vote will be required. So we will now have the reports. Governor Andrus, Chairman, Committee on Human Resources.

GOVERNOR ANDRUS: Mr. Chairman, members of the Committee--

GOVERNOR EVANS: Please, could those having conversations in the room please be seated, if you can find seats. We welcome you to come but please be seated.

GOVERNOR FORD: Are we going to consider every resolution to see if we can get 75% of the vote before it will pass, is it 75% of those in attendance, or 75% of the total Conference?

GOVERNOR EVANS: The vote, as I understand it, the vote is three-quarters of those present and voting, isn't that correct? We now have a quorum of 25, and let's try to keep as large a group as we can. I hope that we can conduct this rapidly, and get through. The first will be the report of the Human Resources Committee by Governor Andrus.

GOVERNOR ANDRUS: Mr. Chairman, members of the Conference, the Human Resources Committee is very quick to point out that one of the reasons that we have a mid-winter conference is to do what Wendell Ford suggested, and that go lobby on the Hill. We have become bogged down in our mechanics, here, so that we have

just about run out of time for the very reason that we have come to Washington D. C.

But the Human Resources Committee does not have a resolution that we will present to you for acceptance at this Mid-winter Conference, and I won't go through the entire report. But I will say to you that we took action with regard to national health insurance, an issue that the Governors' Conference has been recorded in support of in name and in theory for many years. But now we are getting to that point in time where hearings are being held on various bills.

We have instructed the staff, and given them quite a load of work, and I'd say to Charley Byrley--wherever he is--that we have also instructed the staff to increase, if necessary, their help in order to carry out the workload, and to give us a complete analysis of the pieces of legislation so that we can make recommendations to you at our Seattle meeting.

Now I won't go through the other things but the Human Resources Committee, as you know, handles probably more items than any other committee and there is more money involved to the states from this Committee than any other item. But I will leave that up to your staff members to brief you when you return home, because I think it is absolutely necessary that we do get up on the Hill to make the 4:00 o'clock meetings that we have.

I am going to send around a piece of paper. It has already been signed by some of you, and if you have not signed

it I am going to ask you to sign it. It is not a resolution, it is a statement, and in about 60 seconds I will tell you what it is.

When the Social Security Act was passed into law, there was a provision with regard to those people who had total and permanent disabilities, and there was an amendment that was signed into law by the President on the 4th of January that said these people had to be reevaluated medically before they could go into the SSI Program.

There are 267,000 people in our various states, and territories, that are going to be affected by this Act and it is physically impossible to actually reevaluate them medically by March 31st, and the way the law is now if they are not reevaluated they are dropped from the rolls, they have absolutely no support whatsoever unless you have a program in your state to take care of them which, without going into the details of it, I doubt that you have.

There was a House bill passed on the 5th day of this month, the number is 13025, that simply extends that date for reevaluation to a realistic point in time so these people are not dropped off of the SSI rolls. No one expects it to have any problem. It passed unanimously in the House of Representatives. It is a kind of legislation that we have to have, and everyone recognizes it.

But it is now before the Senate, and the problem is that

some people are trying to attach amendments thereto because, you know, they know this is necessary legislation. So this little statement paper here, and forgive the stationery, it is my own but that is all I had available and it simply says, "We the governors whose names are affixed hereto ask that you pass this through the Senate without amendments." If amendments are hooked on to it, frankly, there is a chance of a veto; there is the chance of hearings and lots of other problems, and Secretary Weinberger told us yesterday that if that is not passed by the 15th day of this month they will send out letters to those 260 some thousand people saying, sorry, but you are no longer on the rolls.

We cannot, in good conscience, let that happen so I ask you to sign the piece of paper and if you choose not to I will understand. I know no one likes to affix their name to a second sheet that doesn't have writing on it, but it is a continuation of the governors' signatures relating to the attached memorandum to the Senate urging passage of HR 13025 and I give you my word--for whatever it is worth--that this will be handled in an appropriate manner, and the signatures firmly attached thereto. Thank you, Mr. Chairman.

GOVERNOR EVANS: Thank you.

GOVERNOR ASKEW: Can't we adopt the recommendation?

GOVERNOR ANDRUS: I need your signatures to have an impact on those one hundred senators, frankly.

GOVERNOR EVANS: All right, there are no resolutions

from the Committee on Transportation, Commerce, and Technology so we will go to the Committee on Executive Management and Fiscal Affairs, Governor Rampton.

GOVERNOR RAMPTON: Mr. Chairman, I'd like to--

GOVERNOR EXON: I'd just like to call your attention, Mr. Chairman, that we are very close to not having a quorum. I counted 26 or 27 governors a moment ago, so any that we can hold if we are going to take any action we want to do it.

GOVERNOR EVANS: There are 27, so please stick around. It takes 25.

GOVERNOR RAMPTON: There were four resolutions referred to the Committee on Executive Management and Fiscal Affairs for consideration. The first of these was a resolution by Governor Shapp having to do with state revenue short falls due to the energy problem. We are not reporting that to the floor. We feel that it is covered in two subsequent resolutions that I will report on in just a moment.

The second is a resolution on public financing of campaigns presented by Governor Byrne, and because of the fact that we feel it is too late in the year for legislation to be accomplished the Committee referred that to the Committee staff for study, and report back to the summer conference in Washington.

The third resolution was proposed by Governor Lucey, and it was discussed to some extent by the Chairman during the opening session. It proposes a release in an orderly manner of

impounded highway funds to be received by the states in addition to their current allotment, the impounded funds to be made available to the states without state matching. This resolution has been distributed to the governors.

Mr. Chairman, I move the adoption of the resolution and ask that the Chair recognize the Governor of Wisconsin, Governor Lucey, to speak in behalf of it.

GOVERNOR EVANS: You have heard the motion. Governor Lucey.

GOVERNOR LUCEY: I will second the motion, Mr. Chairman, and I will try to be just as brief and concise as I possibly can. We have corresponded with enough other governors so that I have gathered that the problem we face in Wisconsin is one that all of you share, too, and in some states I think it is even to a greater extent than we do.

We have experienced about a 23% decline in our projected revenue in the gasoline tax that we collect in Wisconsin. With rising cost of such things as law enforcement, and the maintenance of highways, all of the revenue short fall comes out of construction and repair, and as a result we have already had to suspend a number of contract lettings for construction during 1974.

We have been in litigation on these impounded funds. You heard the discussion with Mr. Ash on that yesterday, and at a meeting of the Executive Committee a couple of weeks ago I outlined this proposal in the presence of Mr. Ash and the Secretary of Transportation. While neither of them flatly endorsed it, I think



they gave us a very good response, and I think that really this represents a pretty well thought out proposal to distribute this impounded money, and to do it over a three to five year period without matching funds because, very frankly, most of us would not have the match to put it to work and I would hope that it would have the support of at least three-quarters of the governors present and voting. Thank you.

GOVERNOR EVANS: The resolution is then moved and seconded. Are there any further remarks on the resolution?

GOVERNOR MANDEL: I want to say I enthusiastically support it without any expectation of getting it.

GOVERNOR EVANS: I have a suspicion you are right, but we ought to push for it.

GOVERNOR EXON: The only question I have, and maybe Pat can answer it, is that you called for here in the motion to release these funds over a three to five year period. Now we have been asking for the release of all the funds, all the federal highway funds, so is it inconsistent for me to vote for this at the same time I am asking them to release all the funds? That is my question.

GOVERNOR LUCEY: This will probably go the court route, but we are assuming that we are not going to get it by the court route and it seemed to me that this would be an orderly way to approach it. There is about, I think, 2.78 billion involved.

GOVERNOR ANDRUS: Even if you got all the impounded money tomorrow under the present strings you couldn't possibly use it. So I think you have to keep your case in court and keep the pressure on. But if we can arrange for an orderly release without matching requirements, I think it will meet our needs much better.

GOVERNOR EXON: Are you going to march to court and say Governor Exon voted for this resolution so he really doesn't want the money the way he asked for it.

GOVERNOR ANDRUS: There has to be a stipulation in court.

GOVERNOR EVANS: This would require legislative action.

GOVERNOR ASKEW: Involving the Congress.

GOVERNOR EVANS: The federal government, without congressional action, could release the impounded funds but to release the matching requirement does require legislative action. Any further questions on the resolution? All in favor say aye.

(Chorus of ayes.)

GOVERNOR EVANS: Those opposed to the resolution hold up their hands.

(Show of hands.)

GOVERNOR EVANS: We have got the three-quarters.

GOVERNOR RAMPTON: The other resolution brought before our Committee was by Governor Tribbitt as a member of the Committee. It calls for a form of energy crisis revenue sharing, and may I

read the resolving part.

"Be it resolved that the National Governors' Conference hereby requests that the Congress of the United States proceed with dispatch working with governors and the staff of the National Governors' Conference to enact legislation to provide substantial energy crisis revenue sharing based on a carefully defined formula reflecting need and equity among the several states."

Our Committee voted unanimously to bring this before the body, but not unanimously to support it. There was dissent to support, although no dissent to the motion to bring it here. So I move the adoption of the resolution and ask that Governor Tribbitt be recognized to speak on the motion.

GOVERNOR TRIBBITT: Thank you, Mr. Chairman. First of all I will second the motion. Mr. Chairman, members of the Conference, some weeks ago I wrote all of you--each of the 49 governors--on the subject pertaining to the resolution, only in more detail. I had gone so far as even to propose a formula for the distribution of these funds. I have never, at any time, been able to indicate the amount of money required.

I know that yesterday our conference at ACRI estimated that the loss in gas tax revenues will reach, in calendar '74, 2.1 billions of dollars. Yesterday, the Committee took out the formula. Approximately 18 of you responded to my letter of several weeks ago favorably. The Mid-Atlantic Governors' Conference acted

favorably on my proposal which then had the formula enclosed.

As we all know, this problem that has been discussed at this Conference and it is affecting us tremendously state by state with respect to our present statutory imposed revenue program, and I ask for your support, gentlemen, of this resolution.

GOVERNOR EVANS: Any other comments or questions?

GOVERNOR DUNN: I have got to speak against that thing. The biggest trouble I have in my state has to do with the legislators which are very sensitive to this, and very concerned, and they have proposals which they want to see legislated into law. But they fail to add to their resolve, or to their proposal, any formula by which these funds can be acquired in the first place so that they can then be made available.

We are all going to have to do some belt tightening, and we have got a situation that we can't accurately predict as far as the impact on the individual states.

I can't put my name on a resolution which simply says we are facing a crisis; that we are going to find reduction of our state revenues and, therefore, we call upon the federal government to enact a new revenue sharing program without some explanation of where this money is coming from in the first place so that it can be distributed to the states.

GOVERNOR EVANS: All right, any further comments or questions on the resolution. Are you ready for the vote? All those in favor will raise their hand.

(Show of hands.)

GOVERNOR EVANS: All those opposed.

(Show of hands.)

GOVERNOR EVANS: The vote is 15 to 10, and the resolution is defeated.

GOVERNOR RAMPTON: That completes our report.

GOVERNOR SHAPP: Would it be appropriate for me to reintroduce and ask for a three-fourths vote on my resolution?

GOVERNOR EVANS: Since this did not pass, you would like to have your resolution considered then. All right, the motion then is made by Governor Shapp to suspend the rules. It is not debatable, and requires a three-quarters vote. Is there a second to that motion?

VOICE: Seconded.

GOVERNOR EVANS: It is moved and seconded, all those in favor of suspension of the rules which is not debatable unless you have a question? The resolution is among those which were passed along to you entitled "Resolution on State Revenue Short Fall Due To the Energy Problem" submitted by Governor Shapp of Pennsylvania.

Now that is the resolution. The motion is made to suspend the rules. This requires a three-quarters vote and is not debatable. All those in favor of suspension of the rules on this resolution will raise their hand.

(Show of hands.)

GOVERNOR EVANS: Thirteen. All those opposed will raise

their hand.

(Show of hands.)

GOVERNOR EVANS: Thirteen to twelve; having failed to receive a three-quarters majority the motion is lost. Now let's turn to the--does the Committee on Crime Reduction and Public Safety have a report? Yes, Bob.

GOVERNOR DOCKING. Mr. Chairman, we have one resolution. At our meeting yesterday the Committee on Crime Reduction and Public Safety considered the proposed resolution which was referred to as "Announced Inactivations of National Guard Air Defense Forces" offered by Governor Milton Shapp. We found no discord in any of the provisions of the resolution with either existing or proposed policy.

The Committee agrees with the objectives of the resolution, and the members of the Committee present voted unanimously to include it in our policy recommendation, and I move that the rules be suspended with adoption of the motion, and to recognize Governor Shapp who may wish to speak on it.

GOVERNOR EVANS: Thank you, Governor Docking. The motion has been made. Governor Shapp.

GOVERNOR SHAPP: I appreciate the opportunity to speak to this resolution. Pennsylvania, in the past two years, has had an opportunity and the need to call upon its National Guard. First when Agnes struck and, secondly, during the recent truck strike.

If it had not been for the National Guard during the

period of the flood, I think the loss of life in Pennsylvania would have been astronomical. Because of the Air National Guard, with its chopper service, it rescued hundreds of people from the roofs, and floating debris--floating houses and debris--and then they participated very actively thereafter in the clean up operation, and maintaining order.

In the recent truck strike, we had to activate the National Guard again to prevent violence in our state. That is the reason I am dismayed to find that the Department of Defense has announced a plan to start deactivating a large percentage of both the Air National Guard and the Army National Guard services.

I think this is something that would affect everyone of our states, and I would certainly hope that you support this because without the National Guard in our state in time of emergency we would have a great strain placed upon the state to provide services, and there would be some very serious situations develop and get out of our control. Thank you.

GOVERNOR EVANS: Are there any further questions?  
I am constantly counting. We still have 27, so are there any other comments on the resolution? If not, all those in favor will raise their hand.

(Show of hands.)

GOVERNOR EVANS: Opposed.

(Show of hands.)

GOVERNOR EVANS: The motion is carried. The Committee on Rural and Urban Development, is there a report or resolution from that Committee?

GOVERNOR BOND: Governor Gilligan asked me to tell you very briefly that the Committee received staff reports, and the Committee itself approved recommending an amendment to the Housing and Community Development Act of 1974 to provide for permissive subsidies, and to delete statutory provisions earmarked in Section 701 planning funds, and to provide for continued reserve funds for housing development authorities.

That we do not recommend that the full body act upon. However more information on that will be supplied from the staff.

Finally, the Committee expressed its support for the work of the special task force on the National Regional Development Policy which has been working on a set of principals to guide federal legislation on continuing multi-state regional cooperation and economic development of lagging areas.

No formal resolutions have been voted out of the Committee for this body to consider.

GOVERNOR EVANS: Thank you, Governor Bond. The last committee, and I presume there are several resolutions from it, is the Committee on Natural Resources and Environmental Management. I still have four resolutions remaining in my hand. How many of them you have reported I don't know. Governor Hathaway.

GOVERNOR HATHAWAY: Mr. Chairman, three of these resolutions



have been approved by the Committee on Natural Resources and Environmental Management. The first deals with propane, and if I may I'd like to read the enacting clause.

"That the President of the United States, the Congress, the Cost of Living Council, and the Federal Energy Office should cooperate immediately by Executive Order, Executive Action, and any necessary enabling legislation to decrease the price of liquified petroleum gas to the consumer, removing this grossly unfair and dangerous burden of the energy crisis from the rural people, the elderly, and the poor."

GOVERNOR HALL: I move the adoption of the resolution.

VOICE: Second.

GOVERNOR HALL: I'd just as soon vote.

GOVERNOR EVANS: Any further questions? I detect the beginnings of a railroad train. All those in favor will raise their hand.

(Show of hands.)

GOVERNOR EVANS: Opposed.

(Show of hands.)

GOVERNOR EVANS: Motion carried.

GOVERNOR HATHAWAY: The second deals with daylight saving time, also introduced by Governor Hall.

"That daylight saving time should be used as an energy conservating measure to be in effect only from the third Sunday in April through the fourth Sunday in October of each year, and

that such schedule be enacted into law by the Congress.

That such time schedule be adopted for 1974 immediately, and the Conference does hereby call on the President and the Congress to take necessary steps to implement such time schedule immediately for the conservation of our Nation's resources, our citizens' well being and the protection of our school children."

I move the adoption of the resolution.

VOICE: Seconded.

GOVERNOR EVANS: The motion is seconded. Are there any comments?

GOVERNOR RAMPTON: I'd like to propose a slight amendment, and strike the word immediately and say adopted for 1974 before the fourth Sunday in October. I would not like to see us go back to standard time for three or four weeks, then go back.

GOVERNOR EVANS: A motion has been made to strike the word immediately after 1974.

GOVERNOR HALL: I will accept that and second the motion.

GOVERNOR EVANS: The amendment is accepted adopted for 1974 before the fourth Sunday in October.

GOVERNOR McCALL: Mr. Chairman, the word commentary always inspires me. I just want to say we ought to keep our options open, and maybe adding a week or two before. We might want to be thinking more about the resolution. We have got meteorologists studying this out on the West Coast, and maybe

there might be some additions.

GOVERNOR EVANS: That is a commentary.

GOVERNOR WALLER: I'd like to pose a resolution, briefly. I think those of us that do a good portion of our living in a semi-tropical climate in the mid-south, like Mississippi, enjoy a lot of after hours activity. I probably have the oldest energy office of any governor in the room, and we have kept careful tabulations, and the citizens of my state support daylight saving time in the manner in which it is now being conducted and we would like to see no changes in the system.

Due to the fact that there is inflation, and other factors, this has caused many families to go out and carry on part time activities to supplement their income, and the longer daylight period at the end of a 4:00 p.m. work day gives an added factor to the ability to earn added income for families in my state, and I would very sincerely oppose the resolution.

GOVERNOR EVANS: Do we have a rebuttal from the far north?

GOVERNOR WILSON: I support the Governor of Mississippi for his reasons, and there is one other. I recognize the problem of the school children but they can change the school hours. That is the simplest thing.

GOVERNOR THOMSON: I support the position of the Governor from Mississippi, not only because of the trace of a southern accent I acquired in Florida but because we have the

northern lights up our way. But, seriously, the people of our state definitely approve of the new system of daylight saving time, and I would hate to see a resolution that made it look like New Hampshire, or the Governor of New Hampshire, went along with this proposed change.

GOVERNOR RAMPTON: In reply to the contention of the Governor of New York that we change the school hours, really you can not without causing a problem for working mothers who are still on one time and their children on another. Furthermore, there is the problem of high school students that work in the afternoon, and occasionally you have school teachers moonlighting. So I think you can't put the school on a different schedule from the schedule your state has as a whole.

GOVERNOR EVANS: All right; any further comments? Ready for the question? Everybody had better vote so we have a quorum.

GOVERNOR BUMPERS: Have we voted on the amendment?

GOVERNOR EVANS: It was accepted by the maker of the motion, so it is the resolution as amended. All those in favor will raise their hand.

(Show of hands.)

GOVERNOR EVANS: All those opposed.

(Show of hands.)

GOVERNOR EVANS: Sixteen to six, the motion is lost. That is not three-quarters, well, there is a quorum here but a quorum not voting. What do you do?

MR. CRIHFIELD: The quorum depends on who is here. The actual count depends on who votes.

GOVERNOR EVANS: There are 25, presumably some did not vote. But 16 to 6, that is 22 votes and that requires--

GOVERNOR ASKEW: How does the Chairman vote?

GOVERNOR EVANS: The Chairman did not vote. Would you like to take the vote over again? We have got 24. Let's everybody vote. The Chairman will have to vote now, because that takes--we'd better end up with 25 votes. All right, all those in favor please raise your hand.

(Show of hands.)

GOVERNOR EVANS: Opposed.

(Show of hands.)

GOVERNOR EVANS: We have got 24 out of 25 which isn't bad, but the motion still loses.

GOVERNOR HATHAWAY: There is a resolution sponsored by Governor Salmon which essentially reiterates the position we have had before on land use planning. It does not endorse the Senate or House bill specifically. It says as follows.

"That this meeting of the National Governor's Conference herewith endorses the concept of national land use planning legislation without sanctions imposed upon the states, and urges the Congress to act on such legislation forthwith."

I move to adopt this resolution.

GOVERNOR EVANS: The motion has been made. Governor

Salmon, would you like to speak to the motion?

GOVERNOR SALMON: Yes.

GOVERNOR WALLER: The daylight saving time amendment was defeated, and then we went back to the original resolution, is that right?

GOVERNOR EVANS: The resolution was accepted by the maker of the motion, Governor Hall accepted the amendment. So we were voting on the amended resolution.

GOVERNOR SALMON: Mr. Chairman, very briefly, the resolution before us is the epitome of home made American apple pie and ice cream. It is a very bland document. The subject of national land use planning is not a bland consideration. It is an exceedingly important consideration in the state of the art.

What is not in the resolution at this particular point is this. The President of the United States has said that this legislation has the highest of environmental priorities in this Administration.

Senate Bill 268 has passed the Senate. HR 10294 was moving along in the House until recently when the 9 to 4 vote of the House Rules Committee locked it in the bondage of captivity.

This legislation needs a nudge here and now, and interestingly the congressmen I have talked to are looking to the nation's governors for guidance on this extremely important subject.

We, in Vermont, are in the fairly advanced stage of land use planning at the present time. The subject is controversial, but

it is a subject that this country will have to bite the bullet on in the foreseeable future. There is a modest proposal in either of the bills now before the Congress, \$8 hundred million dollars in the generation of a \$3 hundred billion budget, parceled out over an eight year time frame to give the states a greater individual capacity to deal with our own problems.

Mr. Chairman, I would move on the resolution, and second.

GOVERNOR EVANS: The motion has been made and seconded.

GOVERNOR McCALL: May I propose an amendment, Mr. Chairman, that will probably die for lack of a second and that is to strike the words without sanction from the resolution. Just in twenty words, very quickly, if we accept the money of the federal government which is in the legislation then we should perform.

Because if we accept it on the supposition and with the tacit agreement that we are going to use it to produce a plan, it asks us to develop a plan, then I think in not carrying it through does represent a form of misappropriation and we need the clout of the federal government's sanction so we can work in our own states. We have to say that we have to do this, working with volunteers all over the state we have to do it, and the clout over thy head of the federal government is absolutely vital or we are going to lose the land use battle.

The clouds are on the horizon, even in our state. There is a tremendous backlash against this.

GOVERNOR EVANS: The motion has now been made and seconded. Is there any discussion on the amendment?

GOVERNOR RAMPTON: I don't regard the interpretation of sanction as being what Tom assumes it means. Sanction does not mean merely a withholding of your land use planning money. It contemplates the withholding of all federal grants--highway, welfare grants--the whole work, and I think that would certainly be wrong. I would agree with Tom that if you don't do your land use planning you should not get sanction provisions, and I think the House Bill originally would go farther than that.

GOVERNOR EVANS: That is my understanding. That is yours, too, isn't it Governor McCall that the sanctions go far beyond just the land use planning monies.

GOVERNOR McCALL: 10% of your highway funds.

GOVERNOR EVANS: That is correct; is there any further discussion on the amendment.

GOVERNOR EXON: I was wondering, would it change or weaken the concept if you struck the word national and just said the concept of land use planning legislation?

GOVERNOR EVANS: Remember we are on the amendment. If we can confine any question to the amendment which was to strike the word without sanctions. Governor Shapp.

GOVERNOR SHAPP: I would like to hear what Tom thinks of the amendment.

GOVERNOR SALMON: I would like to be supported, but as



Governor McCall knows this is an intensely controversial subject these days, and having agreed to an amendment to my original proposal in the Committee that would delete sanctions I feel I have made, accordingly, as much concession as I can--as much as I love him--and I cannot support the McCall amendment.

GOVERNOR EVANS: Okay, any further comments on the amendment, or questions? If not, all those in favor of the amendment to strike the words without sanctions will raise their hand.

(Show of hands.)

GOVERNOR EVANS: All opposed.

(Show of hands.)

GOVERNOR EVANS: The amendment dies. You got far more votes than I thought you'd get.

GOVERNOR WILLIAMS: First I would like to say that Arizona has a land use planning commission at work, and believes in land use planning.

Secondly, I would like to say that the bill that was presented in the Senate was falsely introduced on the basis that the Governors' Conference resolution supported the national land use planning, and on that basis the National Governors' Conference was behind a bill with which I cannot agree, and I think some others might not agree.

The bill is being sold on the premise that the states will have total control in developing their land use program, and

an actual reading of the bill reveals the unlikeliness of the passive federal role. The bill contains line after line of requirements, and criteria, that the states must reach before the Secretary of the Interior can judge their case adequately and this, in effect, establishes a national land use policy to be imposed upon the states under threat of withholding funds for land use planning.

In addition, should the sanctions not be carried out and I believe that applies to the bill brought out in the Rules Committee where it is now, there is no guarantee that sanctions wouldn't be put back on. We will have the withholding of funds from unrelated programs should they not comply with the bill's requirements.

It is fiction to speak of assisting the states with a bill that is filled with criteria, guidelines, and suggestions for defining an adequate comprehensive land use planning process. I feel this is a dangerous usurpation of our states rights, our states ability to plan.

I have a tremendous problem in my state with 15% in private land, the rest in federal and I feel that this demonstration of our states rights should be in the bill when it comes out of the Rules Committee.

GOVERNOR EXON: Governor Williams, if we struck the word national from the third line from the bottom, national land use planning, would that answer your objection?

GOVERNOR WILLIAMS: No, I think that is where we get

trapped. Just call it a land use planning bill, and I think every effort is going to be made to bring this bill out of committee.

GOVERNOR EXON: For land use planning.

GOVERNOR WILLIAMS: Yes.

GOVERNOR SALMON: I have read the report of the House Committee on Interior and Insular Affairs, and with all due respect to my distinguished colleague from Arizona page 32 of this report indicates this bill, the House version, contains no federal regulatory authority whatsoever with respect to the use of non-public land.

The words in the bill, as I read them, confirm at least in my mind that judgment. What we are talking about here, fundamentally, is that there are the beginnings of building a kind of national land use platform and there is some pretty creative thinking that has been long overdue in this country in terms of what we, as the 50 governors, are going to do about the ever diminishing landscape of critical land.

We are in the advanced stage in my State of Vermont in this effort. It is highly controversial. This is a grant aid program of 100 million bucks a year to be spread out for technical assistance, and other absolute imperatives.

In my judgment, if the states are to assume their rightful burden in these tasks there is nothing preemptive here in either version of the bill as I read it, and I think it would be a

giant step backward if this Conference of Governors, at this stage of the game, decided to turn their back on a proposition that has had heavy support from their conferees in prior years.

GOVERNOR EVANS: We are teetering on the edge of losing our quorum. I hope we can proceed to a vote. I think the final issue in front of us--

GOVERNOR RAMPTON: I'd like to respond to Jack's statement regarding the large amount of publically owned land in his state. I have an even greater percentage of about 11% in private ownership, and if I understand one of the provisions in the Senate Bill was a direction to BLM, the Park Services--National Park Services--and so forth to cooperate with the state land use planning, and I really feel that the states--as far as public land--can't do an adequate job of planning at the state level without that federal participation.

Furthermore, we got a land use bill by our legislature this last time. There is a conservative group that is now seeking a referendum, which I think they will get, and I'd like to use the spectre of federal intervention here.

GOVERNOR EVANS: Any further remarks? Ready for the vote?

GOVERNOR THOMSON: This, I think, is a good example of what I was trying to say when I was supporting Governor Wilson of taking a position that does not reflect the view of some of the other governors and in my judgment, and I have read the bill carefully, I have to disagree with you about the rules and regulations

and there is no time to go into them.

But, first, the rules and regulations become effective after they have sat with the Congress for 60 days and if they take no action then they become effective. They are drawn up, and the Secretary of the Interior gives those to the governors.

The report, itself, points out that what they are talking about is 10% of the land total of the United States and in the State of New Hampshire, where we have the highest percent of public owned land in the eastern states with 12% owned by the federal government, and 5% by the state, and you put another 10% there and this is going to be one of the basic ingredients with regard to the Constitution, and some of the congressmen have raised the question about the 5th Amendment and the 14th Amendment, and it just seems to me a shame that we would be taking a position on something that is vital and controversial to the states, and their rights as this particular proposal.

GOVERNOR EVANS: Unless there is a governor lurking out in the hallway someplace that we can horse collar back in, we now have 24 governors. Is there anyone out in the hall or are we without a quorum? The Chairman will wait for approximately three minutes, and if there is no quorum at that time we will adjourn the meeting.

GOVERNOR McCALL: Let's take a sample vote, if we are ready to vote. Let's take a vote of the 24 here, and it may become academic if there is sufficient opposition.

GOVERNOR EVANS: With that, unless there is a further question, all those in favor of the proposition will raise their hand.

(Show of hands.)

GOVERNOR EVANS: Opposed.

(Show of hands.)

GOVERNOR EVANS: Whoever comes in the door is the deciding vote. All right, it is apparent that those in opposition have successfully lost our quorum for us, and I think that is the way it will have to remain. The Chairman cannot invent a quorum which does not exist.

With that, unless there is further business to come before us, thank you for your patience. There will be a very short meeting of the Executive Committee for about two minutes right here at the podium. This meeting is adjourned.

(Whereupon, the Conference was adjourned at 3:40 o'clock, p.m., Thursday, March 7, 1974.)

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