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NATIONAL GOVERNORS ASSOCIATION

OPENING PLENARY SESSION

Boise, Idaho

Monday, August 5, 1985

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OPENING PLENARY SESSION

Shoshone Room
Morrison Center for
the Performing Arts
Boise, Idaho

Monday, August 5, 1985

The opening plenary session of the meeting of the
National Governors Association convened at 2:45 p.m., the
Honorable John W. Carlin, Governor of the State of Kansas,
presiding.

1 P R O C E E D I N G S

2 GOVERNOR CARLIN: Call the first plenary
3 session to order. Welcome to all the Governors and our
4 many guests here this afternoon in Boise. We have a
5 distinguished set of guests. Our Canadian Premiers have
6 joined us today and the Secretary of the Treasury, who
7 will address us first, and given that fact, we will move
8 as quickly as possible to those distinguished guests so
9 that their time can be appropriately used and our dialogue
10 later with the Premiers will be as successful as possible.

11 I do need, Mr. Vice Chairman, a motion to adopt
12 the rules of procedure.

13 GOVERNOR ALEXANDER: So moved.

14 GOVERNOR CARLIN: And a second.

15 GOVERNOR EVANS: Seconded.

16 GOVERNOR CARLIN: It has been seconded by
17 Governor Evans. Any discussion, all those in favor say
18 aye, opposed nay. The motion is carried.

19 I would remind you as I did yesterday that anyone
20 who has a motion for suspension of the rules, it needs to
21 be in writing by the close of business today. We are
22 going to make every effort to be done at 4:30 or very
23 shortly thereafter. Jim Martin -- where are you, Jim?
24 Stand up. Is the gentleman who should receive any motion
25 that you have for suspension of the rules. That will be

1 the deadline. Those who have been submitted, those rules
2 of suspension that have been submitted will require a 3/4
3 vote tomorrow for consideration by the body.

4 Our program today, in addition to a roundtable
5 discussion with our Canadian friends, which will be
6 primarily on trade, we have with us Secretary James Baker.
7 He will make some remarks, make an address, in fact,
8 covering trade and the tax issue, and he will accept a few
9 questions following his address.

10 We are honored, Mr. Secretary, to have you here
11 today. For those who are Texans, I want to remind them
12 that we acknowledge you are a Texan, a distinguished
13 graduate of Princeton and the University of Texas law
14 school, as everyone knows Undersecretary of Commerce in '75
15 under the Ford Administration but for all of us, most
16 importantly, an excellent member of the President's staff
17 during his first term, one we could contact and work with,
18 but now moved to the Treasury as Secretary, was confirmed
19 in this year, is speaking to us not just as a secretary
20 but chairman of the Government Council on Economic Policy;
21 and, really, the leader for the President on tax reform.

22 It's most appropriate that you would take time
23 from your busy schedule. We thank you for doing so and
24 welcome you to Boise and the National Governors Conference.
25 Secretary Baker.

1 (Applause.)

2 SECRETARY BAKER: Thank you very much, Governor
3 Carlin. Ladies and gentlemen, you are here today because
4 you are interested, and because you are concerned about
5 making your states and our nation better for all of us.

6 That is why I am here today too, but with me,
7 it was not ever thus. For some 20 years or so, I was
8 pretty much totally apolitical as a lawyer and with a
9 major law firm in Houston, Texas, but I could gripe and
10 moan with the rest of them about what was wrong with my
11 state and with this country, and I used to spend a lot of
12 time doing that. One day my wife said to me, she said,
13 you know, you really have no right to complain, because
14 you are not willing to roll up your sleeves and get your
15 hands dirty and try and do something about what you see as
16 problems.

17 I thought about that, and I concluded that she
18 was right, and one thing led to another, and one day I
19 found myself running for state-wide office in Texas
20 against one of your number, and back in those days, Texas
21 was pretty much a democratic state. We have begun to make
22 a few little inroads, but it was pretty much solidly a
23 democratic state back in those days. And I never will
24 forget an experience I had one hot summer afternoon in a
25 bar in Amarillo, Texas, where I was talking to a small

1 group, and some of you might say what in the world were
2 you doing talking to a group in a bar and the answer to
3 that is, if you were a Republican running for statewide
4 office in Texas in those days, you would talk to anybody
5 who would listen.

6 So there I was, and I remember talking to these
7 people about how important it was to get involved and be
8 concerned, and I closed my speech by saying that two of
9 the foremost issues facing the state of Texas that day
10 were ignorance and apathy. I leaned over and I asked this
11 guy, I said, what do you think of that, sir? And this
12 grizzled old guy looked over his beer and looked up at me
13 and he said, well, now, I will tell you, Sonny, I don't
14 know and I don't care.

15 So much for being concerned.

16 Governor Carlin, ladies and gentlemen, I
17 seriously many pleased to be here today, and I am
18 especially glad to see the provincial Premiers from our
19 next door neighbor, Canada, who are here. Your
20 participation in this meeting builds on the meeting in
21 your country last March when President Reagan and Prime
22 Minister Mulroney reaffirmed our nation's commitments to
23 keep markets open. We look forward to listening to,
24 learning and to prospering together.

25 I am well aware of the growing interest in

1 trade among our nations Governors. Over 30 of your states
2 now have representation abroad to promote your exports and
3 attract investment to your states. Such far-sided
4 policies can pay great dividends in a world economy that
5 is becoming more mobile and more interdependent everyday.
6 With this growing interdependence, it is essential that we
7 devote our efforts to expanding the free markets worldwide.
8 Only the free flow of goods and services will guarantee
9 that the abundant resources of this world are put to their
10 most productive use.

11 This is not an abstract ivory tower theory. We
12 are talking about the living standards of all Americans.
13 Only open markets will bring the United States the most
14 trade benefits, give Americans the broadest selections of
15 goods at the best prices, and provide the most jobs and
16 the most income.

17 And for the world at large, trade and economic
18 growth go hand in hand. In the quarter century from 1948
19 to 1973, world trade grew 7 percent annually. At the same
20 time the world economy grew a remarkable 5 percent each
21 year.

22 Since then, reflecting their dependence on one
23 another, both economic and trade growth have generally
24 been slower and more sporadic. In the last several years
25 trade has been a particularly powerful stimulant to growth.

1 A fast growing United States economy has boosted the
2 incomes of our trading partners dramatically.

3 Literally half the growth of European countries
4 in 1983 and 1984 stem from our expansions' demand for
5 their exports, and our imports from the less developed
6 countries have helped to keep their severe economic
7 problems from spinning out of control with possible
8 adverse consequences for our banking system.

9 Furthermore, imports that help keep our level
10 of inflation at low levels. This recovery is the first
11 one in many years in which inflation has gone down and has
12 stayed down.

13 The benefits of free trade are real. We must
14 not forget them as we examine an issue of very deep
15 concern: the trade deficit.

16 You are acutely aware of this issue. Your
17 Committee on International Trade and Foreign Relations
18 speaks eloquently of its meaning to our economy and our
19 working men and women. Some have suggested quick fix,
20 meat axe protectionist solutions that would supposedly
21 solve the trade deficit. But these measures would be
22 dangerously counterproductive because they are based on a
23 misunderstanding of the trade deficit. As the saying goes,
24 it's not wise to try to fool Mother Nature, nor is it wise
25 to ignore the fundamental forces behind the trade deficit.

1 A large part of the rise in the trade deficit
2 has been caused by the fact that the United States has
3 grown faster than its trading partners, something I
4 alluded to earlier. In the first two years after our
5 recovery began in late 1982, we grew three times as fast
6 as Europe and twice as fast as the rest of the
7 industrialized world.

8 Such rapid growth increases our demand for
9 imports. Beleaguered foreign economies had little demand
10 for our exports. Hence the trade deficit has grown, just
11 as our economy grew. Our trade deficit has also been
12 increased by imports from the less developed countries.
13 In turn, their economies, beset by problems, have not had
14 as much demand for our exports. Our exports have also
15 lagged because of the necessary adjustment policies those
16 countries have adopted to deal with their foreign debt
17 problems.

18 Another issue, linked to the trade deficit, is
19 the strength of the dollar. Its sharp rise since the
20 early 1980s accounted for between 1/3 to 1/2 of the
21 increase in the trade balance. It has, in effect, imposed
22 quite a price increase on our exporters, and a significant
23 price cut on our imports that our producers must compete
24 with. For many, a fluctuating currency can be a
25 frightening random phenomenon that is apparently beyond

1 one's control.

2 But like the trade deficit, the strong dollar
3 is largely a result of the vigorous United States economy
4 over the past several years. The dollar has strengthened
5 as United States economic performance has strengthened,
6 relative to previous years and relative to other countries.
7 Foreign investors see the United States as a flexible,
8 resilient economy that has taken firm steps to reduce
9 taxes, to reduce regulation, and to reduce inflation.
10 They also see it as a political safe haven for capital in
11 an insecure world. All of this drives up the desirability,
12 and yes, the price, of the dollar.

13 Once again, you have a seeming paradox: as our
14 economy went up, so did the dollar, hurting our exporters
15 and those who compete against imports.

16 The forces behind the United States trade
17 deficit and the level of the dollar are basic market
18 forces. Our trade policy must take these forces into
19 account and must allow them to bring the highest possible
20 level of prosperity to all Americans.

21 Policies that distort markets, whether for
22 products, for services, for investment, or for currencies,
23 should be avoided.

24 Distortions are a disservice to all the world's
25 economies. They create inefficiencies and inefficiencies

1 inevitably mean economic well being is lower than it could
2 and should be.

3 For these reasons, there is little the
4 government can do directly to influence, in other words,
5 distort, the value of the dollar in exchange markets.
6 Experience shows that efforts to move exchange rates
7 contrary to market forces are generally ineffective and
8 always costly, while contributing simultaneously to market
9 uncertainty and to instability.

10 Protectionism suffers from the same fatal flaw.
11 It attempts to violate the law of market forces. Its fond
12 illusions are like fancy script written on sand.

13 One year the illusion was that domestic content
14 legislation would save automobile jobs. This year, the
15 illusion written on the sand is a proposed 25 percent
16 import surcharge. The curious thing about this illusion
17 is that its supporters believe the surcharge is not
18 protectionist. You have heard of non-bank banks. Now we
19 have non-protectionist protectionism. Here you have the
20 assumption that no other country will react to the
21 surcharge with protectionist measures of its own. Instead,
22 it is naively supposed that our trading partners will
23 placidly submit to everything we ask, as if we were the
24 only market in the world open to them.

25 Whatever they are, the fond illusions of

1 protectionism are inevitably washed away by the tide of
2 truth. Protectionist threats all too often turn into
3 harsh reality. Our Smoot-Hawley Tariff which Congress
4 passed with the fondest of illusions in 1930 touched off a
5 worldwide trade war which lasted far too many years.

6 Double digit protectionism, the 25 percent
7 surcharge, could cause a return of double digit inflation.
8 Our consumers would be harmed and manufacturers using
9 imports might well have to lay off workers and suffer
10 severe inefficiency. And here's another reality not often
11 given its due. If protectionism reduces imports, the
12 dollar could rise, not fall. Fewer imports would reduce
13 the supply of dollars in the hands of foreigners and cause
14 the increasingly scarce dollar to rise in value.

15 Protectionism and exchange market intervention,
16 therefore, are not viable solutions to our trade deficit
17 problem. Rather, we need to continue to pursue a fair,
18 free market, growth-oriented policy. We are cooperating
19 with other nations in an effort to achieve solid economic
20 growth.

21 And as United States growth is slowing to a
22 more moderate pace this year, other economies are
23 beginning to converge with ours. As other countries'
24 economies become more attractive for foreign investors,
25 downward pressure on the dollar will build. At the Bonn

1 Economic Summit earlier this year, the industrialized
2 nations laid out their goals. The United States committed
3 itself to reducing its budget deficits. The Europeans
4 promised to take action to strengthen employment and
5 non-inflationary growth. Japan pledged to open its
6 markets to imports, and to continue the process of
7 liberalizing its capital markets and internationalizing
8 the yen.

9 Indeed, Prime Minister Nakasone's statement to
10 this effect last week is a step in that direction. The
11 summit partners agreed that developing nations need to
12 persevere in adjustment efforts, and that all countries
13 must resist protectionism.

14 In addition, we in the United States must also
15 take care to reasonably and responsibly enforce our laws
16 to combat unfair trade practices.

17 At the same time, we want to improve the
18 functioning of the international monetary system. The
19 group of 10 industrial countries met in Tokyo in June for
20 this purpose. We agreed that while the basic structure of
21 the present system remains valid, there is a clear need to
22 improve its function.

23 Exchange market intervention can play a role,
24 but only a limited one, in support of other more basic
25 policy changes.

1 We are convinced that true monetary stability
2 can be attained only if countries cooperate to achieve
3 sound policies at home and compatible performances
4 internationally. This is an ambitious agenda and it's one
5 with a long-time horizon, but we firmly believe it is the
6 right approach. The quick fixes proposed by some in our
7 view will only exacerbate the problem.

8 We are already beginning to see some progress.
9 The growth differentials among countries are narrowing,
10 other countries are achieving lower rates of inflation,
11 and the growth prospects of less developed countries are
12 improving as they carry out needed adjustment policies.

13 Since the dollar reached its peak last winter
14 there has been a considerable reversal of its previous
15 run-up. Over a third of its rise against the European
16 currencies and the yen since 1980 has now been reversed.
17 This decline reflects our view that an orderly decline of
18 the dollar was not a surprising outcome, as our GNP growth
19 slowed to more sustainable levels and as economic
20 prospects improved abroad. So we are satisfied, though
21 hardly complacent, about the recent performance of the
22 dollar.

23 The decline has been moderate and not
24 precipitous. Like its earlier rise, the decline in the
25 dollar was not caused by exchange market intervention, but

1 by market forces.

2 We don't have a particular target in mind. I
3 don't think anybody knows what the right exchange rate for
4 the dollar is.

5 I do not expect a precipitous fall in the
6 dollar, contrary to some fears that I have heard expressed.
7 Yet, as our policy of promoting the convergence of
8 economic growth continues, I would expect to see further
9 moderate declines in the dollar.

10 Finally, the United States has called for a new
11 round of trade negotiations. Trade negotiations are the
12 proper forum for fighting protectionism. They are a far
13 better approach than individual countries taking
14 uncoordinated action by themselves.

15 Multinational trade negotiations permit us to
16 counterbalance powerful groups that benefit from
17 protectionism with groups that would benefit from a
18 reduction in trade barriers and a more stable and
19 comprehensive set of trading rules.

20 After all, if we can hold off the pressures, it
21 is the public, all consumers, who will gain.

22 Such negotiations should be broad in scope,
23 since trade barriers are rapidly becoming more
24 sophisticated and more deeply rooted. All barriers to
25 trade in goods and services and flows of direct investment

1 should be on the table, whether such barriers or tariffs
2 or some other form of protectionism.

3 And crucial to the success of the negotiations
4 is that both the industrial and developing nations
5 participate equally. Our trade policy is based on the
6 belief that allowing the individual, the business, and the
7 nation, to buy and sell freely, will guarantee the most
8 prosperity for all Americans.

9 Freedom is the foundation of this, the greatest
10 economy on earth. We are committed to preserving that
11 freedom as America prepares to enter the 21st century.

12 Now -- surprise, surprise -- I don't think I
13 could speak to this group without at least mentioning one
14 aspect of tax reform that I know is of concern to you:
15 our tax reform proposal to repeal the deduction for state
16 and local taxes. Repealing that deduction is essential to
17 tax reform, so let me go over a few key points that we
18 think underscore this case.

19 Our tax plan promotes fairness, economic growth
20 and simplicity by cutting back tax preferences and by
21 lowering tax rates. Take fairness first. Simply put,
22 most of the benefits from the state and local deduction go
23 only to a few well-to-do. Repealing a deduction that
24 primarily helps the wealthy is at the heart of any tax
25 reform, and I will add parenthetically that the deduction

1 works against the progressivity of state taxes and
2 actually transforms such levies as sales taxes into
3 regressive taxes that hit hardest at the poor.

4 Non-itemizers making \$10,000 a year must pay
5 the full sales tax. An itemizer making \$100,000 a year in
6 the 50 percent bracket can deduct the sales tax and in
7 effect pay only half the tax. Indeed a full 85 percent of
8 the tax savings from the state and local tax deduction
9 accrues to only a narrow 25 percent of all tax returns by
10 adjusted gross income. This is not only unfair to the
11 poor, it discriminates against middle income people in
12 lower brackets, and it leaves middle income people with
13 only a very small share of the benefits of this deduction.
14 The better way to help middle income Americans is through
15 lower rates, higher personal exemptions and other direct
16 tax relief.

17 Quite frankly, the state and local tax
18 deduction has other problems as well. Not only is it a
19 boon for the wealthy, but it also discriminates against
20 people of equal incomes in different states.

21 Second, repeal of the state and local tax
22 deduction is critically important to our efforts to reduce
23 marginal tax rates, and reducing those rates is essential
24 to making our economy stronger and more internationally
25 competitive.

1 If this deduction is not repealed, we will see
2 a Federal revenue loss of \$33 billion in 1987, which increases
3 to \$40 billion in 1990. Without recapturing this amount,
4 a substantial tax cut in marginal rates would not be
5 possible.

6 It reminds me of the story about the city man
7 who was driving in a rural area and got totally and
8 completely lost in the middle of nowhere. He stopped to
9 ask a farmer how to get to a particular town. That farmer
10 replied, well, you can't get there from here. That goes
11 for tax reform. Without eliminating deductions, you can't
12 get there.

13 A third reason for ending the state and local
14 tax deduction and other deductions is to promote
15 simplicity. Ending the deduction will reduce the number
16 of itemizers and it will permit more taxpayers to
17 participate in our return-free tax system. Under our plan,
18 over half of all taxpayers will not have to fill out any
19 tax form whatsoever if they choose not to. The IRS will
20 simply bill them or will issue a refund due them. This
21 would be a tremendous relief for millions of Americans.
22 It would perhaps be one of the most noticeable benefits of
23 the President's tax reform plan.

24 Finally, let me address your concerns about how
25 repeal of the deduction will affect your states. While

1 ending a deduction is crucial to our overall plan, we
2 believe the impact of this change on individual states and
3 localities will be extremely modest. Perhaps the most
4 important fact to consider is that a relatively small
5 portion of state and local spending is financed by
6 deductible taxes. In 1982, taxes claimed as an itemized
7 deduction represented only about 20 percent of all state
8 and local tax spending. In addition, it is frequently
9 overlooked that expanding the national tax base will also
10 expand the tax base of the 32 states that use the Federal
11 system as a reference. That would send state tax revenues
12 up. For example, Colorado recently estimated that our
13 plan would add \$50 million to its revenues by expanding
14 its tax base.

15 And even as to state and local revenues derived
16 from deductible taxes, the effective repeal should be
17 minimal. Since the majority of people would have
18 significant marginal rate cuts, the states would benefit
19 for more vigorous economic activity.

20 Now, this is not just idle talk from one man
21 dedicated to the principle of tax reform. Recent
22 independent studies have confirmed the belief that repeal
23 of the deduction would have at most a very limited effect.
24 The National League of Cities found that total state and
25 local spending, now increasing 7 percent annually, is only

1 about 2 percent higher because of the deduction for state
2 and local taxes. Likewise, a study by the Congressional
3 Research Service predicted that total state and local
4 spending would be only 1.5 percent lower if the deduction
5 were repealed. And even these encouraging studies leave
6 out two major factors of benefit to state budget makers.
7 First, the more than \$20 billion of bottom line tax relief
8 that our plan would deliver to individual taxpayers; and,
9 secondly, the political impact of the non-itemizing
10 majority.

11 So I would submit to you, ladies and gentlemen,
12 that this is not the end of western civilization as we
13 know it, as some would have you believe. They point to
14 catastrophic consequences on welfare spending, education,
15 or other vital areas. This analysis is, simply put, off
16 the mark.

17 Let me say in closing that we face an historic
18 opportunity to reform the tax system, for the benefit of
19 ourselves and for generations to come. By reducing
20 marginal tax rates and improving the fairness of the
21 system, we can remove the drag on the prosperity of all
22 Americans. I believe we owe the American people nothing
23 less.

24 Thank you very much.

25 (Applause.)

1 GOVERNOR CARLIN: The Secretary will now take a
2 few questions and I call on Governor Robb.

3 GOVERNOR ROBB: Thank you, Mr. Chairman.

4 Mr. Secretary, I join with all of my fellow
5 Governors in expressing appreciation to you for coming to
6 be with us today to talk about matters of urgent
7 importance and to talk about some of the things that are
8 of concern to all of us. Whether we agree or disagree in
9 every single aspect, we appreciate both your personal
10 commitment to come and discuss the issues with us, and
11 your courage in discussing some of the issues that we are
12 indeed concerned about.

13 I must say that I had hoped that you might
14 include the question of deficit reduction in your remarks
15 in addition to your comments on the trade policy, monetary
16 policy, as well as the tax reform proposals.

17 If I may, however, I would like to not address
18 the substantive issues that you have so kindly raised with
19 us, but talk about the politics of accomplishing some of
20 the goals that many of us share, and certainly for the
21 sake of the country, we want the President to succeed in.

22 I should probably begin by prefacing my
23 comments by saying that I happen to be one who has worked
24 very hard with my colleagues on both sides of the
25 political aisle here to maintain what most of us believe

1 is an important bipartisan approach to some of the things
2 that we have been doing, as the nations Governors convene
3 each year, occasionally receiving a certain amount of
4 criticism from colleagues on my own side of the aisle, for
5 being insufficiently partisan on particular issues.

6 But when it comes to the question of reform in
7 our economy, if you will, and particularly as regards to
8 the deficit, there is a great deal of concern that I have
9 to tell you is shared by the majority of the Governors
10 here today, and I know I don't purport to speak for each
11 and every one who may hold this particular position at
12 this time, but I am going to ask you to take with you when
13 you depart a letter that we would like to have you share
14 with the President. And may I digress at this point to
15 say that I just heard the news about the diagnosis on the
16 little spot on the nose, and we certainly share with you
17 and all Americans the hope that the continued speedy
18 recovery from that particular diagnosis will continue.
19 Most of us like him personally. We certainly want to see
20 him back in good health in a short period of time.

21 We are concerned, however, that the request
22 that is implicit in your appearance here, and the remarks
23 that have been made repeatedly, individually, and
24 collectively to Governors on both side of the aisle for
25 bipartisan support for some of the programs, is not

1 enhanced by a communication that bears his signature.

2 Now, to be perfectly honest, few of us believe
3 that the President personally saw this communication, but
4 we do not think that he is being well served by it or the
5 overall objectives that all of us share are served.

6 I would read, if I may, from one page of a six-page
7 document that has been sent to some number of contributors
8 and supporters around the country on behalf of what
9 purports to be the Republican Governors' Association.

10 It says, and I quote, "What is more, the
11 Democratic Governors have teamed up with other liberal
12 democratic leaders to block our plans aimed at balancing
13 the Federal budget. For years, the Federal Government has
14 been going deeper into debt by taking money from the U.S.
15 Treasury and passing it on to state governments. But
16 Democratic Governors want to keep money coming and they
17 don't seem to care that our Federal debt has grown to a
18 frightening scale."

19 In contrast, the Republican Governors have
20 consistently supported the resolution of Republican
21 Governor Dick Thornburgh of Pennsylvania, endorsing the
22 balanced budget amendment supported by Republicans in the
23 House and Senate.

24 "Walter Mondale and liberal Democrats as usual
25 wanted to raise your taxes. Frankly, I was surprised.

1 During the past four years, our Administration cut your
2 taxes by 25 percent, many Democratic Governors turn right
3 around and increase state sales and income taxes wiping
4 out the tax cuts given to you by our Administration. In
5 contrast, our Republican Governors have fought to hold the
6 line on taxes and spending. Clearly, the huge majority of
7 Governors the Democrats have represents the last unchallenged
8 stronghold of the liberal tax and spend philosophy that
9 nearly brought America to her knees."

10 Now the letter goes on for some six pages with
11 other material that in some cases, we believe, is either
12 misleading or similarly erroneous in its base.

13 Our concern, Mr. Secretary, is that we want to
14 participate, we want to cooperate. Many of us have gone
15 out of our way continuously at one conference after
16 another to try to assist the President in his overall
17 objectives. And we would hope that you could convey to
18 him, and I convey at this session to the other Republican
19 Governors whose names have been at least a part of that
20 effort, and who happen to be very good personal friends,
21 and Governors that all of us who serve with them hold in
22 extremely high regard, and they have made some very tough
23 politically difficult decisions, but they have also
24 balanced their budgets that Democrats and Republicans
25 alike, time and time again, and to suggest that Democratic

1 governors are somehow now responsible for the inability of
2 the President or the country or the Congress to balance
3 the budget or to bring the deficit in line, does not seem
4 to me to contribute to the goals that I think all of us
5 share.

6 So I would simply hope that you would
7 understand that our concern on this particular measure,
8 and certainly request that you share that with the
9 President, at the same time we tell him that you hope that
10 his physical recovery is speedy and that we do indeed look
11 forward to working with him. And I will reiterate what I
12 have done personally and many of the other Governors have
13 done, and say that, Mr. President, if you will provide the
14 strong, courageous principal leadership which we know is
15 required and make the tough decisions that we know are
16 going to be required, many of us stand ready to close
17 ranks behind you and to help you take the heat for some of
18 the difficult decisions that are before us.

19 I mention that in the context that you are here
20 before us, and I realize that you may not have seen this
21 particular letter; but in the context of seeking support
22 for the budget, and for tax reform, I would offer this in
23 the hope that this type of activity could be diminished
24 and that we could continue on in the central bipartisan
25 basis on the best interests of the entire country.

1 SECRETARY BAKER: Thank you, Governor. I am
2 tempted to say I am out of politics and into statesmanship,
3 but I won't. I will tell you that I will share those
4 remarks with the President. I will go further and say
5 unless we have bipartisan support, there are a lot of
6 things we are not going to do. One of them is we are not
7 going to enact tax reform, and another is we are probably
8 not going to find the wherewithal to stand up and preserve
9 the free trading system that is so important to the
10 welfare of this country, as I indicated in my remarks. So
11 I will share those views with him.

12 GOVERNOR CARLIN: Governor Kean.

13 GOVERNOR KEAN: Mr. Secretary, first of all,
14 thank you on behalf, again, for all of us, for being here
15 and spending this time with us. A lot of us were not only
16 pleased but excited when the President showed his leadership
17 by endorsing a program for tax reform, and we recognize
18 that took courage, and the idea of tax fairness, making a
19 tax system that is going to be a lot better than the one
20 we have now is one I think that has very wide support in
21 this room and around the country.

22 But a lot of us continue to be troubled by the
23 very idea that you just addressed, the idea of state and
24 property taxes, not having those deductible. Not just on
25 some of the basis that you mentioned, but on the basis,

1 first of all, of constitutional grounds, we question the
2 taxing of taxes by the Federal Government. Secondly, on
3 the grounds it's not fair to all states. It hits some
4 much more heavily than others.

5 We do believe it can cause a much greater
6 decrease of services at the local level, which comes at a
7 time when we are trying to implement the New Federalism
8 which we support very strongly and pay for more programs
9 at the state level which are now being passed over to us,
10 in many cases without the funding by the Federal
11 Government, and are kept going at the local level.

12 We also have a very strong feeling, some of us,
13 about education, and our belief, which I believe is shared
14 by educational leaders all over the country, that it would
15 make raising funds for local schools much more difficult.

16 At least in the kind of situation, if you go
17 out and purchase something, you have some deductions. If
18 you want to give to a nonpublic school, you have some
19 deductions. But if the money goes to support your local
20 public school, that is no longer deductible. Those kind
21 of inconsistencies, those kind of difficulties are going
22 to continue to bother us.

23 The bottom line of my question is, this program
24 is financed by about 3/4 by revenues that are now in one
25 way or another at the state and local level. Is there any

1 possibility, or do you see any possibility for compromises
2 in this area. Bill Bradley in his proposal does not go as
3 far as you do in state and local taxes. Jack Kemp doesn't
4 go as far as the Administration does. Is there room for
5 compromise in this area so that all of us can get behind
6 the program and support it wholeheartedly.

7 SECRETARY BAKER: Governor Kean, first let me
8 say that it's our view that the elimination of the
9 deductibility of state and local taxes would clearly be
10 constitutional, that there's really no issue there. We
11 had raised that issue before and we have looked at it, and
12 I feel reasonably secure in saying that.

13 With respect to the question of negotiation and
14 compromise, we have proposed to the Congress what we
15 considered to be the best overall proposal for tax reform.
16 We didn't send it up there with the idea of negotiating or
17 compromising it item by item before we get into the
18 legislative process; nor, for that matter, during the
19 course of the legislative process.

20 But the legislative process being what it is,
21 we recognize that there are likely to be changes made in
22 various provisions. Whether there will be a change here
23 or not is too early, it seems to me, for us to tell.

24 We feel very strongly that, A, it is required,
25 if you are going to have meaningful reform on the

1 individual side; and, B, that the fairness argument argues
2 strongly in favor of eliminating the deduction. That
3 being the case, it would be inappropriate for me to
4 indicate that we would compromise that out or negotiate it
5 out before the legislative process begins. So I simply
6 can't do that. We feel very strongly about the
7 elimination of the state and local tax deduction, I am
8 sorry to say to you.

9 GOVERNOR CARLIN: Governor Sununu.

10 GOVERNOR SUNUNU: Mr. Secretary, yesterday the
11 Japanese ambassador was here and he too chose to talk
12 about trade. He tried to convince us, I believe, that
13 great strides have been made in opening up the Japanese
14 market to American exports. A number of us, and I think a
15 number of our constituents, are a little bit skeptical of
16 that in terms of the reality of what might be accomplished,
17 particularly with the historical pace of change that has
18 occurred. There are a few of us who are and I think will
19 continue to be free trade advocates who are also a little
20 bit impatient at the lack of real reciprocity on the part
21 of some of our trading partners such as the Japanese, a
22 lack of real movement towards free trade. We see the
23 export of jobs, the export of ownership of our assets.

24 In light of what you said, and I understand
25 over the long haul the points you make are perfectly valid,

1 and I guess in terms of summarizing what I think you said
2 for the short haul, you pointed out that the reason things
3 are so bad is that they are so good, and things will get
4 better as soon as things get worse.

5 SECRETARY BAKER: That's right, you got it.

6 GOVERNOR SUNUNU: My question is, at least in
7 the shorter term -- and the shorter term I hope is
8 measured not in what I think is the Japanese concept of
9 decades, but in what I would hope would be in years or
10 even better in terms of months -- is there any way we can
11 add some muscle to the negotiations that we hope are
12 continuing to take place, so that we don't not only see
13 the continued export of jobs and the ownership of assets,
14 but see it continue at an accelerated pace and see a loss
15 of what took generations to build up within a period of a
16 year or two.

17 What actions can we take to give some strength
18 to that negotiation without losing, if you will, our
19 principles associated with our commitment towards
20 long-term free trade, and what, from your perspective,
21 would be an appropriate time frame to see real opening up
22 of a market rather than the exchange of nitty gritty's
23 that make no impact at all?

24 SECRETARY BAKER: Well, I really am not able to
25 predict with a lot of accuracy, Governor Sununu, when that

1 might take place.

2 What we think, quite frankly, is that the
3 action program that the Japanese announced several days
4 ago is a clear step in the right direction. We had been
5 negotiating with them for quite some time for them to
6 announce these steps. Clearly the proof of the pudding is
7 in the eating and it's not so much what they say they are
8 going to do but what they do. We recognize it as a step
9 in the right direction but like you, we want to see
10 results.

11 I do think that the fact that Prime Minister
12 Nakasone was willing to do this, willing to stake his --
13 put his political credibility on the line and go out and
14 do something that is not particularly popular in Japan, I
15 think, is quite commendable. We certainly applaud that.

16 I can't tell you when the dollar is going to
17 get to the point that it would mean that the trade balance
18 would be reversed. But, quite frankly, I happen to
19 believe that the dollar is more at fault, honestly, than
20 the unfair trading practices of other nations. I really
21 believe that the dollar has increased as it has because we
22 have been so successful; and because if you are looking
23 for a place to invest today, you are looking for a place
24 to invest your money, where would you put it. You
25 wouldn't put it with some of those economies that are not

1 growing or haven't grown the way the United States has.
2 You certainly wouldn't put it in the LDCs; you would put
3 it right here.

4 Quite frankly, until the dollar moderates
5 further, I am not sure we are going to see a rapid
6 increase. I do think, as I indicated in my remarks, we
7 are moving in the right direction. We are certainly
8 addressing this problem. As Governor Carlin indicated in
9 his introduction of me, I am chairman of the Economic
10 Policy Council. We now have -- all the players are under
11 one tent and in one room, and we are in a position, I
12 think, to address the problem.

13 We are doing so, I mentioned in my remarks that
14 we think it's important that the United States reasonably
15 and responsibly enforce its laws against unfair trade
16 practices, that we encourage our trading partners to
17 permit their economies to grow a little bit more. We
18 think they can do that, as ours tends to moderate. And
19 ultimately we think that will turn the situation around.
20 But it's not something that is going to happen overnight.
21 We would be, I think, taking -- walking down the wrong
22 road if we thought that some sort of Congressional
23 protectionist legislation was the way to go, because that
24 is simply going to exacerbate the problem. It's going to
25 make it worse and it might, in fact, lead us into the kind

1 of situation we experienced in the 30s.

2 GOVERNOR SUNUNU: If I may just follow up
3 quickly, haven't we been trading asset ownerships of our
4 own assets in order to accommodate the strength of the
5 dollar over this long period of time, and how much longer
6 can we afford to see that drain take place? That's the
7 time question that I really have.

8 SECRETARY BAKER: That has been a consequence,
9 quite frankly, of our strong economy and our strong dollar.
10 It is not something that has been done consciously, but it
11 has been a necessary, I suppose you would say, economic
12 consequence of the fact that we were so successful from an
13 economic standpoint.

14 It will turn around. I can't put a date on it
15 for you from here.

16 GOVERNOR CARLIN: Mr. Secretary, I am going to
17 take some risk here and abandon Governor Clinton and go to
18 Governor White. You claimed you were good friends when we
19 talked privately. If this doesn't work out, I apologize.

20 SECRETARY BAKER: At least you are putting the
21 burden on him to prove it.

22 GOVERNOR CARLIN: I am counting on him to give
23 you a good tough question. Governor White.

24 SECRETARY BAKER: Governor White, before you
25 ask your question, let me remind you that the Secret

1 Service is in the room.

2 GOVERNOR WHITE: Let me say, Mr. Secretary, how
3 proud I am that you are here today. I heard the very
4 tough questions from the Democratic Governors and then I
5 heard even tougher questions from the Republican Governors.
6 Let me tell you how happy I am that you are going home to
7 Washington and I am going to home to Austin. I have no
8 questions.

9 SECRETARY BAKER: Governor, if it wasn't for
10 you, I wouldn't be here today.

11 (Applause.)

12 GOVERNOR CARLIN: Mr. Secretary, we do thank
13 you very much for your time and your remarks. I think
14 it's very clear from the comments and the questions here
15 that we Governors, in a bipartisan way, want to work with.
16 We can't always agree but we are committed to tax reform,
17 sound budget, reducing the deficit and certainly our whole
18 conference here is committed around our concerns in regard
19 to international trade. Thank you for joining us. We do
20 understand you have to leave. One more round of applause
21 for the Secretary, please.

22 (Applause.)

23 GOVERNOR CARLIN: We now move on to the second
24 part of this first plenary session. We are honored to
25 have with us today a number of our distinguished friends,

1 Premiers, Canadian provinces, to discuss trade. As we are
2 all aware, we have extensive ties, we Americans, with
3 Canadians, whether they be political, economic, cultural,
4 commercial or even defense.

5 These close relationships have been
6 strengthened through the leadership of both of our
7 countries, through several administrations. It is
8 appropriate, obviously, that we gather, that we meet and
9 that we discuss. Just as here in this country, trade,
10 internationally speaking, is more and more important, it's
11 certainly true in your country, and because of the
12 complexities and difficulties of the challenges we face,
13 it is good that we are here and having the opportunity to
14 have dialogue.

15 Today we will focus on trade. There isn't any
16 question but what Canada and the United States have the
17 largest bilateral trade and economic relationship in the
18 world. 1984 alone, two-way trade exceeded \$113 billion.
19 We are each other's largest export market. Canada is, by
20 far, our most open trading partner, as well as our
21 fastest-growing market.

22 I am pleased to introduce at this time Governor
23 Lougheed. I might add, before I go any further, I want to
24 acknowledge Governor Evans and his involvement in making
25 this all possible in the suggestion that we gather

1 together and have this discussion.

2 Premier Peter Lougheed, Premier of Alberta
3 since 1971, served in the Legislature, a path that a lot
4 of us have taken. You have announced your retirement,
5 some of us are retiring as well in the next year or so.
6 You have been a close supporter of better relations with
7 this country. I ask you to come to the podium at this
8 time for a response, and then I suggest to my other
9 friends that we will try to continue the dialogue at that
10 point with our position at our chairs and use the
11 microphones so we can speed along. I will be introducing
12 you all individually. Peter. Premier Lougheed will we
13 welcome, please.

14 (Applause.)

15 PREMIER LOUGHEED: Thank you, Mr. Chairman.
16 Governors, ladies and gentlemen, it is indeed an honor for
17 the Canadian Premiers to be invited to join with you in
18 this important meeting. Governor Carlin has just referred
19 to the magnitude of our trading relationships, to the
20 emphasis you are giving in this conference to the matters
21 of international trade and to the fact that we in Canada
22 represent your largest growth market.

23 We recognize that there will be, by the very
24 magnitude, differences between our two countries on trade,
25 so we welcome an opportunity for this dialogue. Many of

1 us have been involved with many of you on a regional basis
2 and in other ways bilaterally over the years that we have
3 been involved in office. I can't resist just one side
4 comment. We all agreed at our lunch today that we would
5 try to learn and take back some ideas to our country, but
6 we did decide that one thing we didn't want to take back
7 was any of you who have the provision that you are limited
8 to two terms in office. That was one of the things as 10
9 premiers we were in full accord.

10 However, an opportunity like this -- and I
11 thank you, Governor Evans, for your initiative -- is most
12 appreciated by all of us involved.

13 In our Federal system, as you are aware, the
14 ownership of resources rest with the provinces. We have
15 in our country, too, the exclusive jurisdiction for many
16 aspects of public policy, so we have some differences in
17 terms of our roles as Governors and Premiers, but we have
18 many similarities. We look forward to the dialogue, to
19 having and acquiring a better understanding.

20 On behalf of all of the Premiers of the
21 provinces of Canada, we thank you for this invitation. We
22 look forward to the discussion. Thank you very much for
23 having us and for your hospitality here.

24 (Applause.)

25 GOVERNOR CARLIN: Thank you very much,

1 Mr. Premier. We are going to go this in a geographical
2 way, for those of us who do understand and appreciate
3 going East to West, you will understand what is about to
4 happen. I want to first introduce Premier Brian Peckford
5 of Newfoundland. Served since 1979, was elected to the
6 House Assembly in 1972, other government posts include
7 minister of municipal affairs and housing, minister of
8 mines and energy and minister of rural development.
9 Worked as an advocate for development of fisheries,
10 hydropower and offshore oil resources in his province.
11 Let us welcome Premier Peckford. Premier.

12 (Applause.)

13 PREMIER PECKFORD: Thank you very much,
14 Mr. Chairman. I will try to be as brief as I can to allow
15 all of the Premiers to participate. What we are going to
16 try to do is to describe for you, from our point of view,
17 our various trading patterns by the provinces with the
18 United States of America. So it is a real pleasure for me
19 to be here and to take part in this discussion.

20 In the early years of Newfoundland's settlement, trade
21 links were maintained regardless of war and depressions.
22 A two-way trade with the New England states and New York
23 was especially important to early development in
24 Newfoundland as in the maritime provinces. That trade,
25 needless to say, also played a part in the success of

1 cities like Boston and New York well into this century.

2 I would be very remiss indeed, ladies and
3 gentlemen, if I did not remind you as well of another
4 footnote in history, very germane I think to the
5 discussion today. In 1890, the then separate dominion of
6 Newfoundland concluded a treaty of free trade and
7 reciprocal fishing rights with the United States. This
8 was the first such free trade reciprocity agreement
9 negotiated by any part of Canada with the United States
10 since the U.S. Civil War.

11 Unfortunately, however, it did not last long.
12 In those days Britain still had to ratify individual
13 treaties for Newfoundland which, to my predecessors'
14 chagrin, it refused to do in this case. Nonetheless,
15 United States/Newfoundland trade, both before and after
16 entry into Canadian federation in 1949, has continued to
17 profit, we believe, both sides.

18 The United States has also been a destination
19 for thousands of migrant Newfoundlanders to work in your
20 merchant marine, your fishery and your construction
21 industries. Indeed many of us still have friends and
22 relations resident in the United States from a generation
23 ago.

24 To take us to the present, our problem still
25 has, on the whole, an economy based on the export of

1 natural resources. In 1984, international trade accounted
2 for over \$1.5 billion to our small economy, and over half
3 of this trade is directly with the United States. Our
4 three main exports to the U.S.A. are approximately \$400
5 million worth in fish products, \$250 million worth in
6 newsprint and \$650 million in iron ore.

7 Our past and future economic development
8 clearly then is tied to providing a competitive supply of
9 natural resources to your country.

10 The modern development of our economy also
11 provides stable investment opportunities for Americans.
12 We welcome and encourage such investment and presently
13 enjoy U.S. partnership in most of our major industrial
14 sectors.

15 In particular, the exploration and development
16 of our offshore oil and gas resources, including the
17 Hibernia field, is benefiting substantially from the
18 investment and technology of U.S. based multinational
19 firms. We have assured these firms that they are welcome
20 and necessary to the development of our resources.

21 The third major area of present Newfoundland/U.S.
22 trade is in tourism. Here you are the chief beneficiary
23 by far. Many Americans do travel to our province to
24 experience our special cultural heritage and wilderness,
25 but we have many tens of thousands more Newfoundlers who

1 make that annual trip, especially to Florida, to break up
2 our long winter.

3 Finally we in Newfoundland are consumers, as
4 are all Canadians, of a great range of American goods,
5 from automobile parts, fishing gear and vessels, to
6 computers, fruit and vegetables, and beer.

7 As you know, Canada as a whole is the United
8 States' single largest customer. Our markets are
9 responsible for millions of jobs in the U.S., just as you
10 are our biggest customer responsible for millions of jobs
11 in Canada.

12 Let us not forget, ladies and gentlemen, in
13 talking about the whole question of trade, as the
14 Secretary has put forward his point of view on it, that in
15 North America we have enjoyed unprecedented growth and
16 prosperity since the Second World War. This growth has
17 occurred very largely because of decisions made in the
18 1940s to have a free and open international economy, at
19 least among the free market economies. The two-way trade
20 between our countries in 1984 across the most open border
21 in the world exceeded \$113 billion. This is the largest
22 bilateral trade that exists anywhere in the world. I hope
23 that in tackling the problems we all face, such as
24 competitiveness, productivity and recessionary times, that
25 we don't lose the advantages which we have all enjoyed

1 from this trade.

2 There are sectors of our mutual economies which
3 are experiencing problems, and we must face them. We
4 recognize this and we must come to grips with these
5 problems. Our respective trade representatives should be
6 encouraged to deal with the trade irritants that arise in
7 an open, creative, and positive manner.

8 Our two countries have so much in common in
9 terms of our business communities, our culture, our
10 relative levels of living standards and political systems,
11 that if we cannot reach agreement on our own trade problem,
12 what hope is there for you or us to go forward and
13 preserve the multilateral trading system, including
14 maintaining our markets and creating new export
15 opportunities in Japan, Europe, the Pacific rim, Latin
16 America and elsewhere.

17 I have a short slogan which I would like to
18 leave with you, and that, is simply, exports mean jobs.
19 The export led sectors of the Canadian economy have been
20 in a better position to preserve what employment they
21 create now and expand employment as export sales grow. We
22 believe that the same is true of the American economy.
23 The dynamic growing sectors of your economy will be those
24 which meet early the competitive demands of the
25 international marketplace.

1 I hope that our discussions here today will
2 facilitate a better understanding of the need for all of
3 us to work together to promote not only greater
4 understanding but also greater appreciation of the mutual
5 benefits of our trade with one another. Thank you for
6 listening to me.

7 (Applause.)

8 GOVERNOR CARLIN: Thank you, Premier.

9 Our next guest, Premier Buchanan from Nova
10 Scotia, Premier since 1978, served in the Legislature
11 since '67, up to that time as a member of the Progressive
12 Conservative Party, and has served as minister of public
13 works and fisheries. The Premier was awarded many
14 honorary degrees on numerous occasions, has been and was
15 among other Premiers who actively participated in the
16 constitutional debate that recently took place in Canada.
17 Premier Buchanan.

18 PREMIER BUCHANAN: Thank you very much,
19 Mr. Chairman. Governors, Premiers, ladies and gentlemen.
20 First of all, I want to also extend my thanks to you,
21 Mr. Chairman, and your colleagues, for inviting us to
22 participate with you in your conference. I being the
23 recipient of Governor Evans' hospitality since Saturday
24 night, and I want to tell you all that I thoroughly
25 enjoyed every minute of my stay here in Idaho.

1 It's significant to note that historically and
2 to the present, the United States and Canada not only are
3 closest neighbors but probably closest friends and
4 particularly now. Relations at the present time are very
5 good. In fact, I don't think it's an overexaggeration to
6 say that relationships are excellent. I believe we must
7 keep it that way.

8 In the Atlantic provinces, we have enjoyed a
9 particular close relationship, of a rapport and a working
10 partnership with the New England Governors for over a
11 decade. The vehicle: the New England Governors and
12 Atlantic Premiers Conference. We know one another better,
13 both personally and in a governmental sense. We
14 understand and appreciate our problems better as a result
15 of that vehicle.

16 Now this new national relationship between
17 Governors and Premiers must blossom into the same kind of
18 relationship.

19 There is no doubt that we will have our
20 differences, but we are friends, trading partners and
21 neighbors. Therefore, we can and we will work those
22 problems out.

23 I look upon the United States, as do the vast
24 number and the vast majority of Nova Scotians, as family.
25 For instance, our naval bases, our harbors, are open to

1 the United States. Your servicemen are as at home in Nova
2 Scotia and other parts of Canada as they are here in the
3 United States. They are like our own. That kind of
4 relationship in the world today is unique.

5 You know, we even ride buses in Nova Scotia
6 assembled in the great state of Connecticut. Governor
7 O'Neill told me that those buses would be efficient and
8 comfortable and I believed him, and he was right, they are.

9 (Applause.)

10 PREMIER BUCHANAN: Mr. Chairman, where else in
11 the world do you find two countries where there is no visa
12 necessary, no passports necessary. We travel unimpeded
13 across our borders, two-way movement, over the longest
14 unprotected border in the world today.

15 Trade relations continue to be excellent. This
16 relationship must continue and expand.

17 Some of you -- you have already heard some of
18 the facts. We are each other's largest export markets.

19 Canada accounts for more than 21 percent of all
20 of United States's exports. Canada is an open market and
21 the fastest growing market for U.S. products in the world.

22 U.S. exports to Canada in 1984 grew by more
23 than 20 percent, as opposed to an average growth of 8.7
24 for other U.S. export markets. The United States exports
25 twice as much to Canada than it does to Japan. The

1 exports to Canada are equal to total U.S. exports to the
2 European economic community.

3 According to your own statistics, over 2
4 million jobs depend directly on U.S. exports to Canada.
5 Approximately 85 percent of U.S. exports to Canada were
6 manufactured in semifinished goods; while on the other
7 side of the coin, billions of dollars of exports from
8 Canada to the United States in the form of raw material
9 would create jobs in the United States as outlined by
10 Secretary Baker a little earlier.

11 So trade relations are excellent. We must
12 ensure that they continue, because Canada is an open, free
13 market to the United States.

14 In addition to the so-called merchandise
15 account, add the billions spent by tourists going to the
16 United States. Many Nova Scotians spend their winters, as
17 Brian Peckford said, in the United States, adding many
18 dollars to the economy of the United States.

19 In addition to that, we welcome investment from
20 the United States to Canada, particularly now with
21 investment in Canada. But we have always welcomed
22 investment from the United States and Nova Scotia, so you
23 have another traffic that way with profits from investment
24 going back to the United States. So that's another
25 account that must be taken into consideration.

1 Canada is the biggest market for American
2 exports. And Canada is a rapidly growing open and free
3 market.

4 So Governors and Premiers, ladies and gentlemen,
5 trade is vital to our economy, it's vital to jobs. It's
6 vital to the North American economy, and we are all North
7 Americans. We can and we will, as we have in the past,
8 work out our differences.

9 Let us not invoke that old saying that we will
10 throw out the baby with the bath water.

11 (Applause.)

12 GOVERNOR CARLIN: Thank you, Premier. Now we
13 go to Premier James Lee of Prince Edward Island, Premier
14 since 1981, prior to that in the Assembly, at that point
15 beginning in 1975 and held post as minister of social
16 services, minister of tourism, parks and conservation, and
17 minister of health and social services. Premier James Lee,
18 Prince Edward Island.

19 PREMIER LEE: Mr. Chairman, Governors, Premiers,
20 ladies and gentlemen, I first too want to start out by
21 thanking the Governors conference here today for the
22 invitation to attend this conference. I say that because
23 I believe it is important that we as Governors and as
24 Premiers get together to share our ideas and to share our
25 concerns. This, hopefully, will be the start of many more

1 opportunities to come.

2 The more information we exchange among
3 ourselves, the greater the understanding will be about our
4 concerns and about our problems.

5 For some Governors, the occasion and maybe the
6 activities of my province, the province of Prince Edward
7 Island, may not be widely known. First of all, we are
8 Canada's smallest province. We are nestled out on the
9 east coast between our sister provinces of Nova Scotia and
10 New Brunswick and Newfoundland. So because of our size,
11 as a province, we don't consume everything that we produce
12 and everything that we grow in our province. So in saying
13 that international trade is more or less a lifeline of our
14 province and good working relationship in the open market
15 is very important to us.

16 Of the products that we produce in Prince
17 Edward Island, 58 percent of our products are exported to
18 the U.S.A.. And the major part of that is in the fishing
19 area. Therefore, deep ties developed between the eastern
20 provinces and the eastern states because of that. This is
21 probably most clearly reflected in the existence of the
22 conference of the eastern Governors and Premiers as has
23 already been mentioned. I hope there are some points we
24 can all learn from the interaction of the states and the
25 provincial officials as this conference has been going on

1 now for about 12, 14 years.

2 My province ships goods to 53 countries around
3 the world. And the most noted of these is the potato. I
4 want to say to Governor Evans today, that I had the
5 opportunity to look through rural Idaho and look at your
6 potato farms and your crop, and your potatoes are
7 comparable, comparable to Prince Edward Island. But you
8 do have a good crop and you do have a good name. So Idaho
9 is the potato capitol of the U.S.A. and Prince Edward
10 Island the potato capitol of Canada.

11 With this relationship that we have entered
12 into, certainly is noted, it's already been said, we are
13 the largest trading partners between our two countries.

14 This relationship, ladies and gentlemen, did
15 not develop without difficulties. It required
16 understanding, sometimes trade-offs, but the end result
17 has been that we have strong ties.

18 At the present time, it's noted that we have
19 irritants. This is no doubt part of the reason why we are
20 here. Those irritants represent various degrees of
21 economic and political problem for the groups that are
22 involved. I believe we must work in a positive approach
23 and resist what is often a short sighted temptation to
24 turn the irritants into possible wounds. But if we permit
25 the irritants to follow that negative path, then both

1 countries will certainly suffer.

2 Mr. Chairman, I am very pleased to be here with
3 my colleagues. I do want to say that the agreement that
4 was entered into today between the Governors and Premiers
5 dealing with the task force on trade I think is a step in
6 the right direction, and I am here as a Canadian Premier
7 very much willing to sit down and discuss any irritants,
8 any problems, anything that will help both our countries
9 for the future.

10 (Applause.)

11 GOVERNOR CARLIN: Thank you very much. We now
12 have Premier Richard Hatfield of New Brunswick, been
13 Premier since 1970, prior to that served in the
14 Legislative Assembly, he has been in office as a Premier
15 longer than anyone else and has worked to achieve equality
16 between Canada's two language groups. Premier Hatfield.

17 PREMIER HATFIELD: Thank you, Governor Carlin.
18 First of all I want to express my appreciation to Governor
19 Evans and to you, Governor Carlin, for your invitation to
20 be here, but especially to Governor Evans because it gave
21 me an opportunity to discover your undiscovered state. I
22 must say I have been charmed by the hospitality of the
23 people, and I have been impressed by the pride that the
24 people of this state have in being residents of Idaho,
25 which has come through loud and clear in the way they have

1 greeted us individually and in the way that they have
2 participated in organizing and becoming involved in this
3 conference.

4 I think we have to continually remind ourselves,
5 because of the importance of it, that the United States,
6 without exception, is Canada's most important and largest
7 trading partner. As Premier I realize the importance of
8 keeping our trade relations mutually beneficial.
9 Therefore your invitation here is a welcomed and unique
10 opportunity, because this conference can result in a new
11 beginning of better understanding of one another's
12 problems and, as political leaders, we can work closer
13 together towards solutions.

14 With nearly \$113 billion in trade between our
15 two countries, the motivation and the opportunities are
16 great.

17 65 percent of the province that New Brunswick
18 exports goes to your country. Our province exports 1.4
19 billion. In terms of all Canadian total, that's not a
20 very large figure. But in terms of the province, of 700,000
21 people -- which by the way is the province which has, as
22 one of its four borders, the state of Maine -- that is a
23 very significant amount.

24 We export to the the United States \$76 million
25 in fish products, \$56 million in lumber and lumber

1 products, \$300 million in electricity, \$110 million in
2 refined oil, \$500 million in newsprint and wood pulp, \$130
3 million in wood products, including potatoes, and over \$40
4 million in beverages. That moose that is loose in many of
5 your states is Moosehead from New Brunswick.

6 Now, without these important export and trade
7 dollars, I think you should be reminded that we in New
8 Brunswick would not be able to buy those Caterpillar
9 tractors made here in the United States, the IBM PCs and
10 the other American products and services that your
11 companies and citizens depend on, as well as ours.

12 I am confident that we can work together to
13 solve these irritants. Some of them are just fair
14 competition, in my opinion, but I am confident that we can
15 work together to solve them, and I am optimistic that we
16 will move closer to more liberalized trade. As political
17 leaders, let us confirm our determination to show the
18 world that we are the example of the best and greatest
19 trading nations.

20 Thank you.

21 (Applause.)

22 GOVERNOR CARLIN: Thank you very much. Next,
23 Premier Rene Levesque of Quebec, Premier since 1976,
24 served as minister of public works, minister of hydraulic
25 resources, minister of natural resources and minister of

1 family and social welfare, elected to the Quebec National
2 Assembly in 1960 and in that capacity introduced many
3 social reforms. Premier.

4 PREMIER LEVESQUE: Merci beaucoup.

5 Monsieur, Mr. Chairman, Governor Evans of Idaho,
6 ladies and gentlemen. Needless to say, I am just as
7 delighted as my fellow Premiers to be allowed an
8 opportunity, because the Chairman was nice to me, he
9 forgot to mention that I am also on my way to retirement,
10 so this will be my first and only chance to participate in
11 this great annual get-together of yours, and on a very
12 basic question, the question of U.S./Canadian relations,
13 none of which can be more important to both countries, and
14 especially, not exclusively but espacially, in the
15 economic field.

16 This has led me, like my colleagues, as you
17 have noticed, to emphasize just one key topic that goes
18 straight right to the heart of the matter, namely, trade,
19 which doesn't mean there aren't other issues of great
20 importance. For example, just one: the growing danger
21 for us, in the east especially, of pollution by acid rain
22 and other forms of contamination. You know, we are slowly
23 but surely poisoning thousands of our streams and rivers,
24 lakes and forest resources all over the east on both sides
25 of the border. That was a crucial issue that we discussed

1 at the recent Eastern Governors and Premiers Conference
2 that Premier Buchanan has mentioned. Our recent
3 developments have given that problem I think a renewed
4 growing urgency and made a few reactions, if possible,
5 positive, could come from this great national forum of
6 yours in order that we also look clearly at that problem.

7 Now, back to trade relations. Between us, and
8 I am speaking specifically of Quebec, between us they go
9 far, far back in our common past. In fact they go back to
10 our very beginnings when we, the French people, either
11 from France or later from Quebec, were discoverers or
12 first explorers of the Mississippi Valley down to
13 Louisiana and the Gulf of Mexico, and then on westward.

14 In flying over America yesterday afternoon, I
15 saw reminders all over the map: Joliet, Detroit, Michigan,
16 to a refueling stop at Duluth, Minnesota. I am sure
17 Governor Evans and other Idahoans, contrary to Premier
18 Hatfield, who called you an undiscovered state, I am sure
19 you are well aware that Boise, which means a good piece of
20 timberland, Boise, was and is Boise with an accent, we
21 call it an acute accent in French, and it started by being
22 Fort Boise. I have also been told that the oldest
23 building in the state, Cataldo mission, was first
24 established by Reverend Father DesMans, one of our roving
25 imperialist Jesuits from Quebec. Jesuits have always been

1 that.

2 All told, and that you may not believe, but all
3 told, 31 of the 50 American states, were either discovered,
4 explored or pioneered, as far as the white man's presence
5 is concerned, by our own forefathers from Quebec, which
6 gives you an idea of how big a stake we have in this
7 continent historically. In fact, if history had been fair,
8 America would be French.

9 (Laughter.)

10 PREMIER LEVESQUE: Now, be that as it may, from
11 the start, it also meant that our stake was economic and
12 it still is, now as then; but now immeasurably more
13 important, Quebec remains a major market for U.S. goods
14 and services. Now, believe it or not, and I am just
15 speaking specifically about Quebec, one of 10 provinces,
16 for American exporters, our Quebec market is half as big
17 for exporters, half as big as the whole Japanese market
18 and twice as big as the French market in Europe.

19 In a nutshell, almost five of every hundred
20 dollars¹⁰⁰ that you earn abroad originate from Quebec, not
21 counting, for instance, tourism or very lucrative and
22 ever-growing under-the-counter, which means also uncounted,
23 cigarette sales, ours being right now twice the price of
24 yours, so you can imagine what goes on around the border,
25 that great undefended border.

1 Now, the obvious counterpart is that we
2 ourselves are very dedicated exporters to the U.S. market,
3 because otherwise we couldn't live. Each year we ship
4 over 10 percent of our total production to your country,
5 mainly to New York, New Jersey, Pennsylvania, New England,
6 the whole of New England, and the Midwest. The range of
7 goods and services involved is so diverse that it's no use
8 going into it chapter and verse, but I shall single out as
9 a Quebecan, just hydroelectric power, whose development
10 has been a long time personal commitment for yours truly.
11 Now our fast growing sales of low cost and obviously clean,
12 since it's hydro, power to New York and to New England,
13 should reach just about \$1 billion a year by 1990. It's
14 about half of that right now, but new contracts are there.

15 Not more than anything else in the last century,
16 that's more important even than dollars, this has
17 contributed to establish more solid and certainly lasting
18 contacts, not to mention contracts, friendships and new
19 ties between Quebecers and American northeasterners. Thus
20 on each side of our common border, markets are growing.
21 They are large, free and open. Actually, U.S./Canadian
22 trade is bigger, freer, and more open than between any
23 other two countries in the world.

24 We in Quebec firmly intend to make our own
25 market even freer and more accessible to American goods in

1 the future, if only we can cultivate and expand together
2 the mutual trust and understanding that have been the
3 trademarks of our relations in the past. There is the
4 main issue, and the main opportunity also for our
5 countries, the issue is whether we as statesmen are going
6 to let well-intentioned but short-sighted special interest
7 groups on either side jeopardize our long tradition of
8 peaceful trade and harmony, because they go together, and
9 drag us into the ghettos of protectionism at the cost
10 inevitably of hundreds of thousands of jobs for our two
11 countries. If we are ready to answer "no" to this, as the
12 Secretary was saying, this "meat axe" approach or recipe
13 for disaster, I think the time should be now that we
14 should draw the line and work ever harder not to constrict
15 but to expand the domain of free and freer trade between
16 our markets, which means our producers, our buyers, our
17 consumers -- it's all in their interest -- and thus become
18 jointly more competitive in world markets.

19 Anyway, as far as Quebec is concerned, we have
20 firmly taken sides in this debate as a matter of basic
21 principle. We are in favor of a global free trade
22 agreement between the U.S. and Canada. This principle, of
23 course, should be implemented over a certain number of
24 years with fairness and flexibility, with due regard to
25 special needs of some sectors that will have to undergo or

1 are already undergoing it, a rather rough transition
2 period.

3 It's very easy for each of us in this room to
4 put our fingers on what is wrong with our neighbor's trade
5 practices, be it lumber, as I have been told, or any other
6 specific item. It will be more difficult but absolutely
7 essential for each also to recognize the impediments to
8 trade it has itself, and we are all, in a sense, we have
9 some guilt, direct or indirect trade practices, the
10 impediments to trade it has itself built over the years
11 and agreed to dismantle them progressively. I may be a
12 bit naive in these matters but I sense that nothing will
13 come out of bilateral trade negotiations without central
14 ingredients like trust, goodwill, and especially readiness
15 to listen to the other guy's point of view. But if
16 successful, this fascinating understanding will do much
17 more than improve our economic relations. It will
18 strengthen our political and cultural ties, and this will
19 be all the more reassuring for the future of this
20 continent, where all experts predict we shall have to live
21 together side by side for another little while yet. Merci
22 beaucoup. Thank you.

23 (Applause.)

24 GOVERNOR CARLIN: Premier, I apologize for not
25 mentioning your approaching retirement.

1 PREMIER LEVESQUE: Oh, I may change my mind yet.

2 GOVERNOR CARLIN: Maybe that's why I scratched
3 it from my notes. I certainly know your retirement,
4 whenever it comes, has nothing to do with any inability to
5 speak clearly. I think we got your message, and as we
6 have from all of your distinguished colleagues. We now go
7 to Premier William Bennett, British Columbia, whose father
8 was W.A.C. Bennett, Premier for 20 years of British
9 Columbia. Our distinguished friend has been Premier since
10 1975, a strong proponent of the free enterprise system and
11 a Premier very interested in trade. Premier Bennett.

12 PREMIER BENNETT: Thank you very much, Governor
13 Carlin, Governor Evans, and of course thank you to all
14 Governors for giving us this opportunity at this forum. I
15 guess you have noticed some similarities in our countries.
16 Those of us who live in the West are used to voting last,
17 speaking last, and here we are in the same position again.

18 That's one of the natures of our two economies,
19 is that we have grown in a westerly fashion, and as a
20 westerner we have a unique economy in British Columbia
21 inasmuch as our economy reaches south to the U.S., it
22 reaches west to the Pacific rim, and the changing
23 geography of international trade. It is now put in the
24 position of British Columbia, Canada's western doorway to
25 the Pacific, similarly to that of Washington and Oregon

1 and California as being the western doorway to a much
2 larger global market than has existed before and one in
3 which there is great tension.

4 So we in British Columbia are very optimistic,
5 not only about trade opportunities with the United States
6 but the broader opportunities and challenges that takes
7 place in the largest growing market in the world, that of
8 the Pacific rim.

9 Those of you who don't know British Columbia
10 should understand that as Canada's Pacific province, we
11 are as large as Washington, Oregon and California put
12 together, and that we have a geographic province that
13 geographically extends north to Alaska, south and touches
14 Washington, Idaho and Montana, and if we considered the
15 ocean just a highway, rather than a barrier, then our
16 province is the eastern neighbor to your state of Hawaii.

17 We have grown, as a resource province, but
18 today we are a province in diversification. A large part
19 of our trade does come from the U.S., but a lot of
20 opportunity exists in expanding and extending that trade.

21 We in British Columbia then are in favor of
22 increased opportunities between our two countries.

23 While we built our economy on our resources,
24 like all other resource areas we must diversify our
25 economy and stabilize it in a way in which our two

1 countries have worked very well in the past.

2 Very few people recognize that we have had
3 primarily a free trade or a comprehensive trade agreement
4 in probably the biggest area of both our economies and
5 that's in automobiles. That automobile trade makes up the
6 bulk of the trade between our two countries, gives Canada
7 30 percent of our trade surplus with the United States,
8 but it points the way to a solution for other products in
9 which there are irritants from time to time in the trade
10 patterns between us.

11 We have an industry that even during the
12 international recession, when the auto industry faced its
13 severest challenge, survived in both our countries. And
14 it is a splendid model for other products we trade between
15 us, whether they be resources in lumber and forestry, or
16 manufactured products, that if we have a clearly defined
17 rules under a comprehensive trade agreement, we can bring
18 stability for investment decisions on behalf of industry
19 on both sides of the border, industry investment that will
20 bring greater stability than if we have to respond to what
21 is happening now in some areas on both sides of the border.
22 And we face a difficult international economy, and that is
23 moves to introduce protectionist measures, but while they
24 might be politically pervasive during this particular time,
25 would in the long term and the midterm, be destructive to

1 the growth of both our economies, the long and midterm
2 employment of our people, and we will have missed an
3 opportunity to establish in a more formal way the
4 strongest market economy in the world, the North American
5 trade agreement between what is now the strongest market
6 economy in the world, but with mostly informal
7 arrangements and greater opportunity that lie ahead.

8 I don't think any of us in Canada and the
9 United States should be fearful about extending our
10 opportunities through formalized discussion. When I look
11 around the world I see lesser economies that have survived
12 and stabilized, whether it's the European economic
13 community, the Free Trade Association of the Scandinavian
14 nations or the nations of Southeast Asia who are banding
15 together to strengthen their economies, all legitimate
16 organizations under the general agreement on trades and
17 tariffs, as ours could be. So I think today while we have
18 some pressures, I think we should recognize that we can
19 build an even greater stability in the largest economy in
20 the world.

21 We take it for granted and it's been stated by
22 others, but you know, Canada buys almost twice as much
23 from the United States as the United States sells to Japan.
24 Twice as much, and that's to your next largest trading
25 partner. We are an open trading partner, unlike the

1 difficulties that you have stated, and which I understand,
2 as the Premier of a province who provides 55 percent of
3 all Canadian sales to Japan come out of British Columbia,
4 as I understand, dealing specifically with that market.

5 You have to understand that we have been fair
6 traders, most of us believe in free trade. But you can't
7 be free traders and fair traders and protectionist at the
8 same time. That is why I was pleased to be here to help
9 remind us to guard against short-term political solutions
10 that will deny us greater opportunities in the future.

11 Because we are neighbors with a number of
12 states, we have resolved a lot of problems by a discussion
13 in the past. As Governor Gardner would know, a
14 longstanding dispute on the Skagit Valley and flooding by
15 Seattle City Light to meet its energy requirements has
16 festered for 40 years, but we settled it just two years
17 ago both by agreement with our government and then
18 international treaty. We have been able to do that to
19 reationalize power and irrigation into the U.S. states
20 from British Columbia through the Columbia River Treaty.
21 All of these have required give and take. They are the
22 type of things which are the only way our economies can
23 grow and expand.

24 We have a history of mutually successful,
25 satisfactory negotiation behind us. Therefore, the

1 positive way to deal with international trade now and
2 trade between us, is not to have beggar-thy-neighbor
3 policies, but to recognize that together we are part of a
4 North American economy that can face the world.

5 I spoke to a news conference earlier with
6 Governor Evans, when we talked about forming a committee
7 of Governors and Premiers to work together to find
8 solutions to irritants that are before us now, because
9 they are there whether it's hogs or raspberries or lumber
10 or the telecommunication equipment and others in which the
11 U.S. dominates to a 90 percent penetration in the U.S.
12 market, those sorts of things are there. We think we can
13 work together positively in order to bring about a
14 positive resolution.

15 I have agreed to cochair with Governor Evans
16 that committee and make recommendations to the conference
17 of Premiers. That's the way we should be working as
18 Governors, Premiers, Congressmen, Senators and legislators
19 within Canada. That's in a positive way. That's the way
20 we can always beat our competition.

21 You talk about Japan being a tough market. As
22 I said, you can do it. We in British Columbia now take 55
23 percent of their market, of all Canadian products. We
24 take 60 percent of Korea's, of all Canadian exports, and
25 we have done it by the way we built both our countries,

1 not through protectionism, not through subsidy but hard
2 salesmanship, being competitive and productive, which is
3 the way your country built as well.

4 We have a number of other positive things on
5 our side. I just want to take this chance for a
6 commercial, because one of the things that always works to
7 our best interest is to understand each other and to meet
8 together, and we in British Columbia will be putting on in
9 Vancouver, Canada in 1986 a World International Exposition.
10 It will be the largest in North America since Montreal in
11 1967. It is sponsored by our provincial government. It
12 is a multibillion dollar show in which over 40 nations
13 will be putting in major displays, based on transportation
14 and communication, including a number of states, including
15 Washington State, who were the first to put in a display.

16 It will be the only time that the countries of
17 Russia, the country of -- the countries of Russia, the
18 United States, the Peoples Republic of China, to name a
19 few, will have been together on a single site in North
20 America, displaying the technologies of the future and the
21 trading opportunities of the future, because we hope that
22 through those expositions, we can expand our understanding
23 amongst countries, just as you and I are trying to expand
24 our understanding and trade opportunities today. I hope
25 that each and every one of you will take the opportunity

1 to be part of a peaceful international event that points
2 in a positive way to the future, and come to Vancouver,
3 British Columbia between May 2nd and October 15th in 1986,
4 because I believe you will have an opportunity to be
5 entertained and educated, but we all have an opportunity
6 to marvel that from time to time, East Bloc and the free
7 governments of the world are able to meet together in a
8 positive way, particularly in matters of future trade.

9 Thank you very much, Governor, for allowing me
10 to be here today. I appreciate the opportunity to have
11 spoken.

12 (Applause.)

13 GOVERNOR CARLIN: Thank you very much, Premier
14 Bennett. Premier Lougheed, I am going to go to you at
15 this point, but let me say to you that despite the
16 magnitude of the problems we discussed and some
17 differences need to be worked out, I am confident that we
18 can make progress because there is one thing we definitely
19 share, that is our ability to be brief. Premier Lougheed.

20 PREMIER LOUGHEED: Mr. Chairman, first of all,
21 if there's going to be a commercial, Bill, I want to
22 invite all the Governors to come to the next Olympics in
23 Calgary, Alberta, Canada, in 1988. In any event, you have
24 heard Governors from seven of the provinces. I want to
25 make a few brief words with regard to my province of

1 Alberta. The other three provinces not represented here,
2 Ontario, Manitoba and Saskatchewan, their Premiers are not
3 here for good and valid reasons, and they will get a full
4 report from the seven of us at our Premier's conference in
5 a couple of weeks. As far as Alberta is concerned, most
6 of you know we are on the eastern slopes of the Rockies,
7 that province that produces over 80 percent of Canada's
8 crude oil and natural gas. Some of you probably do not
9 know that in terms of crude oil now, we are second in
10 terms of the country, after Mexico, providing crude oil
11 imports, primarily into the Midwest area.

12 In natural gas, we are major exporters of
13 natural gas, again into California and in the Midwest area.
14 We are involved in petrochemicals and the exports of
15 petrochemicals. We are major producers of red meats and
16 feel that we can compete on a productivity basis with beef
17 and pork producers throughout the world. We are a strong
18 agricultural province.

19 When I mention agriculture, it's a classic
20 example, Governors. Yes, we sell agriculture products to
21 you, but we are a growing province and we buy a credible
22 amount of agricultural products in terms of vegetables and
23 fruits from your country.

24 We believe that this discussion, both in terms
25 of our province and overall, should help the focus upon

1 the potential that we have and the need to work together
2 and to understand each other, and I hope that all of you
3 have gone through the exercise that the Premiers have gone
4 through. We try to evaluate our particular trade with
5 your country, and at the same time, what we buy from you.

6 I would just like to urge in closing that you,
7 on your part, you look at what you in fact sell to Canada
8 and we work out expanding that trade to our mutual benefit.

9 Thank you, Governors.

10 (Applause.)

11 GOVERNOR CARLIN: Thank you, very much, Premier.

12 I am going to go to Governor Sununu first. Let's try to
13 demonstrate at least occasionally, Governor, that we can
14 brief for our Canadian friends, so that as many can
15 comment or ask questions that would like and we can have
16 an interchange in the time we have remaining. Governor
17 Sununu.

18 GOVERNOR SUNUNU: Thank you very much, Governor
19 Carlin. As chairman of the New England Governors'
20 Conference, we have had a very good working relationship
21 with the Governors and Premiers of the eastern provinces.
22 They quite often speak enthusiastically about the energy
23 resources they have. I wonder if the Premiers could take
24 a 30- or 60-second opportunity to give us a commercial,
25 each individually, on what they think the potential for

1 energy sales from their part to our country is at the risk
2 of offending our states who consider themselves the only
3 resources of our energy supplies in North America. I
4 thought it might be informative for the other Governors to
5 get a little bit of a quick summary. I know it was
6 touched on briefly, but maybe in one fell swoop we could
7 get a good overall summary.

8 PREMIER LOUGHEED: Perhaps I could start with
9 regard to oil or natural gas. With regard to crude oil
10 potential in Canada, I know we are in a position now to
11 continually expand the sale of our crude oil to the United
12 States as a reliable supplier. We have the Alberta oil
13 sands, we have the heavy oils, in natural gas, with
14 British Columbia we share a potential with British
15 Columbia Natural Gas. Other provinces, I am sure
16 Newfoundland and Nova Scotia would like to refer to crude
17 oil and natural gas.

18 PREMIER PECKFORD: Mr. Chairman, if I can
19 quickly go through where we are, we are on the verge right
20 now of developing the Hibernia oil field which is being
21 led by Mobile of New York. It is a field of somewhere
22 around 1 billion to 1.5 billion barrels. The development
23 plan for the field will be coming in August 15. We are
24 looking at green lights towards development next year.
25 The probabilities for the future, there are three or four

1 other fields that have been already discovered, are now
2 being delineated. The predictions are there is a greater
3 than 50 percent chance there is between 10 and 15 billion
4 barrels of oil off Newfoundland, also tremendous amounts
5 of gas. We do now have a developed hydroelectric resource
6 of 5200 megawatts in Labrador which is being sold to
7 Quebec which is then being resold to the United States, or
8 some of it.

9 There is a potential for another 4- to 5000
10 megawatts to be developed over the next 10 years, 10 to 15
11 or 20 years.

12 So we are on the threshold of both massive oil
13 and gas developments, which will benefit both our
14 countries, particularly in the exports to the United
15 States in crude oil, and the more hydroelectric power to
16 come our way, I think, in cooperation with the province of
17 Quebec.

18 PREMIER BUCHANAN: Thank you, Governor, for the
19 opportunity. I know Governor Sununu is well aware of what
20 I am going to mention. First of all natural gas, which we
21 hope will be ashore during the next number of years,
22 contracts have already been signed for the transmission of
23 the first projects of about 300 million cubic feet a day
24 to the northeastern United States. And Governor Brennan
25 and Diprete were present in Halifax for the very historic

1 signing of those contracts, the first offshore natural gas
2 contracts signed between the United States and any country.

3 In addition, I just want to mention to the
4 Governor of Texas that many years ago, former Premier of
5 Nova Scotia, when speaking in Massachusetts, admonished
6 Nova Scotians that they should brag about their province,
7 and if they ever met a Texan who praised Texas and said
8 everything was bigger in Texas than anywhere else, to
9 remind him that Nova Scotia has the highest tides in the
10 world, much higher than any in Texas. I say that because
11 we are now generating electricity from the tides of the
12 Bay of Fundy, which are the highest in the world, a drop
13 of 54 feet, twice in 24 hours, so it's quite a head of
14 water to generate electricity. We have the only tidal
15 power plant in North America and it is at the present time
16 operating and you are invited to take a look at this, it's
17 the Eighth Wonder of the World.

18 In addition we have a massive amount of coal in
19 Nova Scotia. We generate a lot of our electricity, most
20 of our electricity from coal, and we are at present
21 negotiating to sell surplus amounts of electricity to the
22 New England Power Pool and the Power Authority of the
23 State of New York through new thermal plants fueled by
24 coal, which we will be building within the next decade.

25 GOVERNOR CARLIN: Any other Premier?

1 PREMIER HATFIELD: We sell, New Brunswick sells
2 over \$300 million worth of electricity, most of it hydro
3 or imported from Quebec, and some of it nuclear, to New
4 England utilities.

5 We are -- every year we expand contracts with
6 utilities in New England, and the only concern we have at
7 the moment is with your public utility commissions which
8 are beginning to resist the exportation -- the importation
9 of power from Canada.

10 PREMIER LEVESQUE: If I may have just a few
11 words. As far as Quebec is concerned, we have, most
12 surplus power, but we are going towards firm energy
13 eventually, whether agreements, contracts, with New York
14 State, with Vermont and with the already mentioned New
15 England Power Pool, NEPOOL.

16 All of that, to the tune of about \$400 million
17 a year right now, going up all the time.

18 The limit to the longest term contract is year
19 2004, but we are moving towards the future.

20 Now, if I may emphasize, in closing, the fact
21 that my junior partners here have forgotten, Quebec, you
22 know, there is a sort of oil barrel equivalent in energy,
23 so it's not all transferable, but there is that kind of
24 calculation. In oil barrel equivalency, about 3/5 of all
25 of Canada's energy resources -- clean, firm, perpetually

1 renewable -- 3/5 of all Canada's energy reserves or
2 resources lie in Quebec. So when those guys are out of
3 the market, we will still be there perpetuating.

4 GOVERNOR CARLIN: Thank you very much, Premier
5 Bennett.

6 PREMIER BENNETT: Well, I should mention that I
7 can go along with Rene because British Columbia has
8 substantial hydro, only 20 percent developed. We have a
9 surplus right now of 7800 gigawatts. We do not sell firm
10 power to the U.S. We do sell it on an interruptible basis,
11 which for Washington and Oregon right now, with the dry
12 conditions, is helping to supply much needed energy
13 without firm contract, but about the rate of \$1 million a
14 day. We also have oil and gas reserves, although we are
15 not self-sufficient in oil yet, in British Columbia we
16 have surplus natural gas which we sell to the United
17 States and are also negotiating to sell offshore through
18 LNG projects in substantial volumes.

19 Quite frankly, we have a number of energy
20 options that may well be in the mutual interests of both
21 our people, and the people of the United States, the
22 western states, in coming to some agreement, which is not,
23 so far being achievable, although California and Los
24 Angeles Power & Light and others have signed agreements,
25 that we have not been able to wheel that power on a mid- or

1 long-term basis.

2 Another source of power we have which may
3 surprise you is the second 30 years of the Columbia River
4 Treaty, which is actually power that is produced in the
5 U.S. that was a benefit of the treaty, but belongs to us
6 and is available to us for either continued sale into the
7 U.S. or return to Canada. It's an additional hydro
8 development in which we actually have your energy produced
9 in your area but is ours to disposed of for 30 years. So
10 we have an important role to play in continued development
11 of the western part of North America.

12 PREMIER LEE: Mr. Chairman, just to report on
13 the problems of Prince Edward Island, we are not an
14 exporter of energy from our province, strictly an importer.
15 We are drilling natural gas, but not found it as yet. The
16 only source of power that we have is potato power, we are
17 very proud of it and we're continuing to build on that.

18 PREMIER PECKFORD: May I just say one thing,
19 given the enormity of the offshore resources, as it
20 relates to square miles, the island of Newfoundland is
21 43,000 square miles. Labrador is 112,000 square miles.
22 The amount of territory that we are talking about on the
23 continental shelf off Newfoundland for exploration and
24 development of gas is 700,000 square miles.

25 GOVERNOR CARLIN: Thank you very much. Going

1 to Governor Sinner next. Before I do I want to advise
2 staff and host committee that given the commercials that
3 we have just heard, if they are properly and totally paid
4 for, we should net a very nice profit at this conference.
5 Governor Sinner.

6 GOVERNOR SINNER: Thank you, Mr. Chairman,
7 Premiers. I am the governor of an agricultural state, the
8 most agricultural in the United States.

9 While I am in abiding sympathy with what you
10 are talking about in free trade, I must remind you there
11 are some phenomenon on the scene that are promoting
12 neither free nor fair trade and the relationship between
13 us will not be free nor fair unless these phenomena are
14 corrected. We can't go on with a currency differential
15 the way it is and have either free or fair trade. Neither
16 can we go on with improving trade relations, when the
17 marketing of wheat and farm produce by Canada follows the
18 track it has followed for years, where you retain none of
19 the reserves, you undercut most of our pricing; and, as a
20 result of these two phenomenon, our agricultural sector is
21 being decimated. We have to live with those kinds of
22 realities, and if the Federal Government in this country
23 will not deal with them, the states are going to have to,
24 unfortunate as that may seem.

25 We have heard that from lots of people in this room

1 in the last two days; and in my state, the situation is
2 critical, and I must deal with the problems. The same is
3 true with electrical generation. We are electrical
4 generators, and we have to fight to protect our industry
5 and our jobs for our people.

6 So I encourage you to address these issues with
7 the realism that we have to address them, because the
8 economy is suffering badly here, and it's not going to go
9 away until these phenomenon change. I encourage you to
10 give us your comments and suggestions in any way that you
11 can to help us deal with the problems; because we must, in
12 fact, deal with it.

13 GOVERNOR CARLIN: Premier Lougheed. May I make
14 this suggestion, Premier, if you could respond, we could
15 move on to some other questions, go one on one as quickly
16 as possible. If everyone will cooperate we could cover a
17 variety of topics and questions. Premier Lougheed.

18 PREMIER LOUGHEED: Thank you, Mr. Chairman.
19 Governor, you mentioned two elements with regard to
20 agriculture, trade in our province, and almost all of the
21 Canadian provinces are involved in that trade. I'm not
22 sure that I can fully comprehend how Canadians can be
23 blamed for the monetary differential or the value of the
24 currency that is involved. We have actually had a
25 difficult time. Your currency, for reasons that you are

1 well aware of, has of course appreciated significantly,
2 because we are in a Northern America geographic context,
3 ours is appreciated with yours.

4 Frankly, we would like to see in a way a
5 currency that permitted us as a trading nation to sell
6 throughout the world. But we have suffered in a negative
7 way from the appreciation of the American dollar. It's
8 certainly not within our control to relate to the various
9 factors that have been mentioned by Secretary Baker and
10 others relative to the American currency.

11 So much as we would like to see an adjustment
12 to that, I don't see how you can sort of point the finger
13 at Canada. We really have lost by it.

14 On the wheat side, you mention that, and I am
15 puzzled, because when I travel through parts of my
16 province or get into agriculture debate in our country, we
17 keep saying we are losing in a great share to the United
18 States in the world grain trade. We have great emotional
19 debates in Canada about the world grain trade in which we
20 compete with you. We haven't thought that you were
21 suffering; frankly, we see our share of the world grain
22 trade diminishing. I think it is a case where we are in
23 competition selling in a world marketplace where
24 communication between our two countries in terms of that
25 trade is warranted in terms of being expanded.

1 GOVERNOR CARLIN: Governor Orr.

2 GOVERNOR ORR: Governor Carlin, mine is not so
3 much a question as it is a statement. First, let me
4 commend Governor Evans and you for this most interesting
5 gathering and the importance of it in the long range
6 future of both Canada and the United States, as well as
7 our respective provinces and states.

8 Secondly, as someone who has, at various times
9 throughout his life, traveled all over Canada, with the
10 exception of Prince Edward Island and Newfoundland and I
11 suppose after today's activities it will be absolutely
12 necessary for me to go there in order to retain friendship;
13 I have had a long time affection for Canada and for the
14 kind of relationship which our two countries enjoy.

15 My purpose in speaking is simply that several
16 years ago, when it became apparent to me that Indiana was
17 beginning to enjoy a considerable investment on the part
18 of industry coming from abroad, from overseas, from beyond
19 our borders, I got somebody onto the job of trying to
20 identify where those investments have come from, in the
21 belief that it might be Germany or United Kingdom, this
22 was before the recent interest on the part of the Japanese.
23 And to my astonishment, I found that none of those were
24 the major investors in Indiana, but Canada was; this was a
25 surprise to me and a surprise to other people as well.

1 So, I want to express appreciation to all of
2 you for the fact that you have that much involvement in my
3 state.

4 It's also another indication of the
5 interrelationship which exists between our countries; and
6 I would want to, before my junior partners, Premier
7 Levesque, speak up on this, I'd like to encourage you to
8 continue that kind of activity and encourage your
9 industries to come to Indiana, to the exclusion of the
10 other states south of the border.

11 Lastly, in 1987, at almost this very same time,
12 Indianapolis and the state of Indiana will be playing host
13 to the Pan American games. This will be only the second
14 time that they have been held in the United States. I am
15 not sure whether they have ever been held in Canada; but
16 we want to, Indiana, the Hoosiers want to invite all of
17 you and any of your people as well as all of those from
18 the United States to come to the state of Indiana during
19 the course of that significant event. We intend to make
20 it one of the most significant, probably outdoing the
21 Olympics in Los Angeles last summer.

22 So please come, please enjoy yourselves, but
23 continue to make investments in the United States, and
24 particularly in Indiana.

25 GOVERNOR CARLIN: Thank you, Governor Orr.

1 We'll now no longer will be able to charge our friends
2 because, with that extensive commercial, I think it's a
3 wash.

4 If we could proceed to questions and move very
5 quickly. Governor Clinton, please.

6 GOVERNOR CLINTON: I would like to ask a
7 question, certainly of Premier Bennett, perhaps of our
8 distinguished Premier from Quebec, I have never wished
9 more than I do now that I were conversational in French,
10 Premier.

11 We talked about irritants, and you all said it
12 would be a terrible mistake for us to get into
13 protectionism. A lot of Governors in this room of both
14 parties have resisted domestic context legislation, have
15 not supported the present bill on import surcharges before
16 the Congress, believe in free trade whenever possible. It
17 appears to those of us who come from states where
18 thousands of our people work in the wood products industry,
19 that we are at an unfair competitive disadvantage in the
20 importation of timber from Canada, for the simple reason
21 that we believe that your stumpage practices permit that
22 timber to be sold at a cost that is far below the cost of
23 administering the land, the cost of replanting the land
24 and a return on capital that is reasonable. I believe, I
25 have read all the documents, or most of them that have

1 been filed on our behalf before the United States
2 International Trade Commission, I am always reluctant to
3 do anything to increase tariffs or barriers in our
4 relationships with Canada. But I would like to just ask
5 first of all, do you acknowledge that the stumpage
6 practices result in the sale of the timber below the cost
7 of maintaining the land, and if so, what should we do
8 about it? And if we think that it's unfair, what should
9 we do about it?

10 GOVERNOR CARLIN: Premier Bennett.

11 PREMIER BENNETT: I will answer that. Quite
12 frankly, just as in your country, stumpage varies from
13 geographic location to geographic location, and species by
14 species.

15 Since the U.S. forest products industry started
16 the counter veiled action against Canadian lumber in 1982,
17 had the most expensive and longest counter veiled hearing
18 on trade in your history, and the determination from that
19 hearing was that Canadian lumber was not subsidized in the
20 manner of stumpage and other areas. I believe that the
21 facts, not only statements filed by the U.S., but the
22 answers filed by the Canadian lumber industry and
23 government, are necessary both to be read in order to
24 determine that.

25 There's also -- as I say right now, under 322,

1 I think it is, further fact finding. Quite frankly, I am
2 always prepared to have that type of determination when it
3 comes to trade, because British Columbia, of course, in
4 lumber, supplies a large part of the lumber that goes to
5 the U.S. Our stumpage practices are modeled on the U.S.
6 Forest Service. The difference in our country is that you
7 have a mix of public timber and private timber.

8 In our province, settled late, 94 percent of
9 the land base is owned by the government and is leased out
10 to the private sector. Our stumpage rates vary by species
11 and by geography, depending on the area.

12 In the northwestern part of British Columbia, I
13 can say our species would compare very favorably with the
14 species grown in the Alaska panhandle. So you have got to
15 know that there will be differentials. No, it is not
16 subsidized.

17 Within two years our reforestation, if that's
18 what you are talking about, will be equal to Finland's,
19 which is the highest standard in the world. But you have
20 also got to know our cutting practice, because it's later
21 than in the U.S., where in many cases you're into second
22 and third growth timber. We are still cutting mature
23 timber and will be for the next 100 years. That mature
24 timber will be lost, as we get fall-down of the timber.
25 If it is not harvested, in many cases it is a detriment to

1 new growth. Up in the northwestern part of our province,
2 the timber is actually -- has to be harvested in order to
3 do the extensive replanting we have to do. So we will be
4 into another 100 years of still cutting mature timber. As
5 we accelerate reforestation, on a provincial basis, not
6 geographic by province, because there are areas of
7 priority, so that I can unequivocally say that our lumber
8 is not subsidized.

9 But it's difficult to do that in a political
10 arena where you are answering a number of questions, many
11 of them assumptions that are incorrect, that I have been
12 dealing with in Washington and with the Gibbons committee,
13 Congressional committee, that were in Vancouver just
14 recently.

15 GOVERNOR CLINTON: Let me ask you one follow-up
16 question. From the documents that I have read, and I
17 admit, obviously I have a biased perspective, it appears
18 that our cost of labor, our cost of production and our
19 cost of transportation are quite similar to yours, and
20 particularly in the soft wood area, and therefore the only
21 significant cost differential is in the stumpage area.

22 If the only reason is that all of your lands
23 are crown lands or owned by government and ours are
24 privately owned, and we have to calculate the price based
25 on competitive bidding, should we then just be prepared

1 for the demise of a lot of the private forest products
2 industry in our country, or should we take over the
3 management of their land for them so they can compete with
4 you on a competitive basis?

5 PREMIER BENNETT: Your question is drawn on the
6 wrong assumption. I'm not saying that it's because you
7 have private lands, you are not competitive. In fact,
8 given that most of the private land was secured for
9 actually no value in your early settlement, those
10 companies probably have those trees for nothing. That's
11 not what I am saying, if you've drawn that conclusion.
12 What I am saying is our industry is not being subsidized.
13 You have a dollar, that was \$1.40 in Canadian, but now has
14 slipped, as we slipped, as ours is \$1.35, which has
15 created trade problems for more than your forest industry.
16 It has created problems which I have heard all across the
17 board, from every governor of every state, each has a
18 different set of products.

19 British Columbia and Canadian lumber, during
20 the period, has suffered worse economically than have the
21 U.S. lumber industries.

22 British Columbia lost 20,000 workers out of our
23 forest industry permanently. That's a higher loss than
24 Washington or Oregon.

25 Our companies in British Columbia, on a return

1 on investment, into 1984, got about 1 percent where the
2 U.S. forest industry has averaged 3 percent. So there's a
3 substantial difference in the economics on the balance
4 sheet. The stumpage system talks about "log to the mill,"
5 and takes into account, as I say, species, distance.

6 There is a market factor in which we sell log
7 surplus to our need. It's interesting that if our logs
8 were so cheap, only 15 percent were purchased by U.S.
9 interests last year.

10 Quite frankly, I think all of the information
11 could be easily dealt with; no, they are not subsidized.

12 GOVERNOR CARLIN: Governor Edwards.

13 GOVERNOR EDWARDS: Jeremie Gireaux, Premiere de
14 Quebec, les ceux de vous qui viens en l'Amerique pour des
15 vacances devrais aller a Louisienne parce que l'on parle
16 la langue Francaise et vingt-sept per cent, comme vous
17 connaites, parle Francais.

18 I would like to know to what extent --

19 PREMIER LEVESQUE: I was there a few years back,
20 Governor, I was.

21 GOVERNOR EDWARDS: I recall that; we were glad
22 to have you. I want to know whether or not the energy
23 sources, gas, coal, oil, hydroelectric power, are
24 privately owned or governmentally owned, and if
25 governmentally owned, is it by the country of Canada, or

1 by the provinces?

2 GOVERNOR CARLIN: Premier Lougheed.

3 PREMIER LOUGHEED: Governor, primarily it's by
4 the provinces. Under the Canadian system all 10 of the
5 provinces own the natural resources. So whether you are
6 referring to province of Quebec with its hydroelectric
7 resources, we are referring to the resources owned by the
8 provinces. In our province, for example, 80 percent is
9 owned by the government, 20 percent is free rule. You
10 would be familiar, of course, with that term. That's the
11 differential. It's by the very nature the way our part of
12 the country was developed. It's mainly by the province,
13 perhaps with the exception, what you have heard today,
14 Newfoundland on the offshore, that's a special arrangement
15 made between the Federal Government and the province of
16 Newfoundland.

17 PREMIER LEVESQUE: Just to follow up, is that
18 by virtue of governmental reservation and now privately
19 owned lands, or by government ownership of the lands?

20 PREMIER LOUGHEED: It came about by reservation
21 essentially. For example, in our province when we were
22 developing in the West, the homesteader, if you like, did
23 not receive the mineral rights. Federal Government
24 retained it and it was then transferred to our province.

25 GOVERNOR CARLIN: Governor Kunin.

1 GOVERNOR KUNIN: Thank you, Governor. I would
2 like to address my question or comment to all the Premiers.
3 This morning we heard a presentation from Lee Thomas, the
4 administrator of EPA, and Premier Levesque raised the
5 question of acid rain. Governor Sununu and Governor
6 Dukakis and I, we were joined by the Governor of New
7 Mexico, Governor Anaya, raised a lot of concerns about the
8 appeal that may be made by the EPA to the Federal court
9 decision. They are in the process of evaluating that. I
10 think you recognize that the decision was based on the
11 fact that the effects of acid rain are being felt and
12 noticed immeasurable in another country, and that other
13 country, obviously, is Canada. There we have a very
14 common interest of protecting our mutual environment. I
15 would urge the Canadian Premiers to make their wishes
16 known, their interests known, because clearly your future
17 is as dependent as ours on this question, as to whether or
18 not there is an appeal.

19 It's my understanding if there is an appeal
20 there will be considerable delay. If there is not an
21 appeal, some immediate action, some planning, some steps,
22 have to be taken in that regard.

23 Your voices, your presence here indicates your
24 concern. Your voices, I think, will have an effect. I
25 would like to yield to Governor Dukakis, if he would like

1 to add to that.

2 GOVERNOR CARLIN: Premier Levesque.

3 PREMIER LEVESQUE: I would rather not take time
4 away from Governor Dukakis, because we all agreed with a
5 very strongly worded resolution as eastern Governors and
6 Premiers, that was a very, very, very pressing question.
7 I think on the Canadian side we've made some headway, but
8 we are guilty, everybody is guilty about that kind of
9 damage. I know Governor Dukakis is particularly active,
10 as far as the eastern part of the continent is concerned,
11 so I would rather yield to him. It is a very urgent
12 question.

13 GOVERNOR CARLIN: Governor Evans.

14 GOVERNOR EVANS: Thank you very much, Governor
15 Carlin. I wanted to make sure I greeted our premiers and
16 welcomed them to the beautiful state of Idaho. I want to
17 thank Premier Lougheed for his efforts to rally the
18 Premiers to get here. I received a frantic phone call
19 from Governor Carlin a month ago, said it was your idea to
20 bring the Premiers to the National Governors' Association
21 meeting, but none of them are responding very well. They
22 may not be coming. So I called Peter up. Peter said,
23 don't worry, we will be there. This is the largest
24 contingent of Premiers that ever met with a group of
25 Governors in our history, so we truly appreciate your

1 being here.

2 One of the things that I want to expand on,
3 Mr. Chairman, is the point that Premier Bennett brought to
4 your attention in his comments. Just prior to this
5 session, we had a press conference that brought together
6 the four Premiers and seven Governors who are going to
7 serve on a Governors/Premiers task force on international
8 trade. We are going to work on trying to solve some of
9 the problems that have been addressed here, not only by
10 the Governors, but by the Premiers. And I received a very
11 strong endorsement from every one of the Governors and
12 every one of the Premiers that I talked to about serving
13 on this special task force. We're going to bore in.
14 Premier Bennett has indicated that he wants to get
15 together as quickly as possible. The Premiers are going
16 to be meeting later in August to address the issue of the
17 task force and the subjects that need to be covered. They
18 have addressed many of those issues today in their
19 observations and comments, so we will move fast,
20 Mr. Chairman, to get some of these things done, and
21 hopefully we will be able to come forward with some
22 recommendations to the NGA as well as to the Congress and
23 to the President and the Parliament and the Prime Minister
24 very soon. I just wanted to cover that subject a little
25 clearer so everybody would understand what we were trying

1 to accomplish in announcing that Premier/Governor task
2 force on trade.

3 GOVERNOR CARLIN: Thank you, Governor Evans.
4 Governor Martin.

5 GOVERNOR MARTIN: Thank you, Mr. Chairman. I,
6 too, want to say pleased and impressed I am at the
7 delegation of Premiers from Canada who have been here to
8 participate in this conference, and as a member of the
9 task force to which Governor Evans just referred, I am
10 pleased to have the opportunity to further discuss with
11 them issues that are at hand and also to commend them on
12 their general attitude of willingness to provide for open
13 markets between our respective countries.

14 One issue that I raised with Premier Bennett
15 and would share with others is a concern on the part of
16 our North Carolina furniture industry, which has in the
17 past enjoyed very good markets in Canada and they have
18 expressed their concern to me about the relative about
19 imbalance of tariffs between our countries on that line of
20 goods. I understand there is a similar situation with
21 regard to fiberglass sailboats, which you manufacture of
22 very excellent quality, as we do in the U.S., and yet that
23 raises the question as to the need for a high tariff there
24 versus, in effect, a trivial tariff, which we impose on
25 those products coming into our country, and raises the

1 further question, since that would not be free trade, how
2 do we resolve that, is that just one of the issues that
3 has to be negotiated between our federal governments, or
4 if we were to impose similar tariffs would that be
5 protectionist or counterprotectionist?

6 GOVERNOR CARLIN: Premier Bennett.

7 PREMIER BENNETT: That's why I say we need
8 comprehensive trade talks and we should deal on a broad
9 basis, because you are talking about the type of thing
10 that goes into negotiations that we could resolve.
11 Obviously, if you are starting to talk about existing
12 trade restrictions or tariffs, and of course you are
13 highlighting the need to do that on a wide range of
14 products, that's done between countries. The provinces,
15 although Premier Loughheed would agree, want to be
16 included more are now, for many years we were precluded
17 from the type of input leading up to gap negotiations,
18 particularly as it affected our industry and resources, as
19 we expect to be now.

20 That will have to take place on that level.

21 PREMIER PECKFORD: Could I just mention, for
22 the benefit of the Governor of North Carolina, who just
23 spoke, and I think Premier Bennett's comments are very
24 apropos to the problem that the Premiers are getting more
25 involved with the Federal Government in matters related to

1 trade, and just recently, the Federal Government and the
2 provinces agreed to meet once each year and talk about
3 economic matters. It's a memorandum of understanding
4 between the provinces and the Federal Government. We met
5 in Regina, Saskatchewan, and we will be meeting in
6 November in Halifax, Nova Scotia. As a lead up to that
7 there is an annual meeting of Premiers which are meeting
8 in my province this year in August. So I think the
9 prospects -- if you look at the process, both from the New
10 England Governors, Eastern Premiers, throughout the
11 interactions that you have with other provinces and states,
12 I think the process is being established whereby Premiers,
13 with the Federal Government of Canada, are getting more
14 together and talking about our trade problems, then being
15 able to relay them on through the Administration of the
16 United States and so on.

17 So I think if, for example, this task force
18 that is now being established, can help immeasurably.

19 But my point is, you must have a process. I
20 think we are getting into that, so we can gladly enlarge
21 and get into the comprehensive kind of approach that
22 Premier Bennett is talking about. Over the next five
23 years I think we are going to see a lot more of this from
24 Canada jointly, as provinces and the Federal Government,
25 as opposed to the historic pattern which has been almost

1 singularly that of the Federal Government of Canada.
2 There's been more of a cooperative arrangement developing
3 in Canada, so I think we can get at a lot of these
4 irritants that are there, and begin that comprehensive
5 process, which I think is the only way we can solve it.

6 PREMIER BENNETT: Can I ask a supplemental of
7 the Governor? I understand North Carolina and southern
8 U.S. supply a growing share of the Canadian furniture
9 market, and that we have seen the deterioration of
10 Canadian furniture manufacturers over the last dozen years.
11 Given that you are doing this at a time that your dollar
12 is vastly more expensive than ours, relating back to the
13 question asked of me by the Governor of Arkansas, how do
14 you do it, if you're carrying a duty that's been there for
15 many years, I think it's 25 percent into Canada, on
16 furniture?

17 GOVERNOR MARTIN: On furniture, no, it's much
18 lower than that, on furniture --

19 PREMIER BENNETT: Whatever it is, if you're
20 doing that --

21 GOVERNOR MARTIN: Even for your furniture,
22 importing it into the --

23 PREMIER BENNETT: -- with a more expensive
24 dollar, rather than -- I really do have a puzzlement how
25 you do it.

1 GOVERNOR MARTIN: Well, we are trying to be as
2 competitive --

3 PREMIER BENNETT: Are you subsidized?

4 GOVERNOR MARTIN: Do we subsidize our furniture
5 industry?

6 PREMIER BENNETT: Yes.

7 GOVERNOR MARTIN: No, sir. No, sir. The
8 electricity for their use is generated mostly from nuclear
9 power and coal-fired utilities, which are very efficient.

10 GOVERNOR WHITE: I am continually amazed at how
11 similar our two countries are. Here are these Premiers
12 that surround the province of Quebec, suffer from the same
13 problems as those states that surround the state of
14 Louisiana. Sometimes I think that Texas, Louisiana and
15 Mississippi serve an even greater burden in this country
16 than any of the other states because of our location.

17 I would like to ask, just between us oil
18 producers --

19 GOVERNOR CARLIN: I thought we would get around
20 to that pretty soon, Governor White.

21 GOVERNOR WHITE: What kind of deal are you
22 making with that guy from New Hampshire?

23 GOVERNOR CARLIN: Governor Anaya.

24 GOVERNOR ANAYA: Mr. Chairman, very quickly, a
25 question in terms of a state like New Mexico that is just

1 now trying to establish an international trade
2 relationship with other countries, we have already seen
3 how long it does take to try to establish those kinds of
4 relationships. We don't do very much business at all with
5 Canada, to or from. I wondered if you had any quick
6 how-to recommendations in terms of a state like New Mexico
7 establishing a trade relation with one of your provinces?

8 GOVERNOR CARLIN: Premier Lougheed.

9 PREMIER LOUGHEED: I am sure that, Governor,
10 perhaps, everyone of the provinces here can respond to
11 that. I will do so briefly. First of all, of course,
12 from our point of view, it's working cooperatively with
13 the other provinces as you would with the other states, in
14 terms of making sure you are not undercutting yourself and
15 that you are working with the private sector. I would
16 emphasize, perhaps, cooperation between governments.
17 Secondly, for sure, with the private sector, so that it's
18 a cooperative basis.

19 Thirdly, we always look on the fact that when
20 we travel, and we certainly do a lot of that, that we are
21 there representing our country first and our province
22 second. So we project ourselves as Canadian salesmen in
23 the marketplace, as I am sure you would, Governor, if you
24 were on a trade mission.

25 I could spend a lot of time on it, but I would,

1 in essence, say, that our feeling is we are a trading
2 nation in Canada, your share of GNP in terms of the export
3 area is lower than ours, but it is still vitally important.
4 I would sense from this discussion and the very theme of
5 your Governors' conference, that you believe, as we do,
6 that expansion of trade is part of your responsibility as
7 Governors. We would be happy to continue an exchange in a
8 more specific way some, of our experiences, and I am sure
9 we can learn a great deal from you as well.

10 GOVERNOR CARLIN: Governor Graham.

11 PREMIER LEVESQUE: Would you mind if I just I
12 add a word? If you want to start anything with Quebec,
13 why don't you start competing with Florida for your winter
14 sunshine. We need it, and I can tell you that
15 diversifying our winter vacations and holidays would do a
16 lot of good.

17 GOVERNOR CARLIN: Governor Graham, I think it's
18 your turn.

19 PREMIER LEVESQUE: Which leads me, just for a
20 moment, to the question about lumber, we are the northern
21 most state or province. It takes anywhere between 40 and
22 75 years for our lumber to mature, which means that
23 without stumpage fees or what have you, I mean our
24 stumpage fees are low, we know that. There is no subsidy.
25 But there is that problem, there is this value on account

1 of time in what we produce. I am referring to the south.
2 In the south, we were hurt when you people found out, not
3 necessarily New Mexico, found out that you could bring in
4 second grade newsprint, but, anyway, newsprint from trees
5 that grow inside of 20 years. That was tough on us. So
6 it works both ways.

7 But the main problem I think is the dollar
8 differential, the exchange rate. It helps us sell in the
9 United States, helped us recover from the recession, but
10 on account of the ties between us, and they are very close,
11 we are not selling as we should in other parts of the
12 world. Our dollar is still too strong.

13 GOVERNOR CARLIN: Governor Graham.

14 GOVERNOR GRAHAM: Mr. Chairman, and to the
15 Premier's previous comment, we are not so certain that we
16 want to be sharing the good neighbors from Canada who have
17 come to our state. We are appreciative of the great
18 relationship that has existed. One of the issues that is
19 of interest and concern to us is the maintenance of good
20 commercial airline schedules between the maximum number of
21 sites in Canada and into our state. There has been, from
22 time to time, some difficulty in expanding those in a way
23 that we thought was appropriate to meet the demand.

24 Could you tell us what is likely to be the
25 status in terms of aviation agreements between Canada and

1 the United States, and what might we do in order to assure
2 that there will be an adequate supply of opportunities for
3 Canadians to get to Florida and vice versa.

4 GOVERNOR CARLIN: Premier Hatfield.

5 PREMIER HATFIELD: The Government of Canada has
6 have just published a policy statement with regard to
7 deregulation of the transportation industry. I think one
8 of the areas of that policy that is likely to be supported
9 is the expansion of airline companies going into places
10 like Florida. So there are other parts of the policy that
11 are of some concern to us. In fact, all Premiers have
12 concerns about all parts, about the policy as a whole.

13 But I think that we would be very supportive,
14 for example, in eastern Canada, we would be very
15 supportive of increasing capacity to get to the southern
16 part of the United States, and in particular Florida, the
17 Caribbean, New Mexico, so on.

18 GOVERNOR CARLIN: Governor Sinner, the last
19 question, it will be short.

20 GOVERNOR SINNER: Thank you, Governor Carlin, I
21 will be very brief. Some of you older members around this
22 table, this question of the currency and the exchange rate
23 is obviously tearing us all apart. Has there ever been,
24 through the years, any discussion of unifying these
25 currencies, any serious discussion of it among the

1 provinces and the United States?

2 GOVERNOR CARLIN: Premier Lougheed, why don't
3 you close on that one and any extended comments you want
4 to make, this would be an appropriate time.

5 PREMIER LOUGHEED: We have a debate, Governor,
6 about this steadily, every time the Premiers and the prime
7 minister meet, which is very frequently in the nature of
8 our Federal system, often under television lights we
9 discuss monetary policy and exchange rates. One time, as
10 you are probably aware, we worked in Canada on a fixed
11 rate of exchange with the United States. Obviously that
12 didn't work because we are in the world marketplace like
13 you are, we are trading nations. Today, I am concerned
14 like you are, to a degree the whole issue of currency has
15 become so speculative, you know, 24 hours a day they are
16 speculating in currencies worldwide, probably in my view
17 there is probably a small number of people that can
18 seriously effect currency rates. It's a matter of concern
19 in our country as well as in yours.

20 We must say that one of the situations we are
21 concerned about, we think our forefathers did a pretty
22 good job in setting up Canada; but, frankly, I wish to
23 heck they had never called our unit of currency a dollar.
24 I'd like it to be 38-1/4 beavers equal one U.S. dollar,
25 and have most of the people figure that out. It's a

ORIGINAL TRANSCRIPT OF PROCEEDINGS

NATIONAL GOVERNORS ASSOCIATION

CLOSING PLENARY SESSION

Boise, Idaho

Tuesday, August 6, 1985

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NATIONAL GOVERNORS ASSOCIATION

CLOSING PLENARY SESSION

Shoshone Room
Morrison Center for
the Performing Arts
Boise, Idaho

Tuesday, August 6, 1985

The closing plenary session of the meeting of the
National Governors Association convened at 11:15 a.m., the
Honorable John W. Carlin, Governor of the State of Kansas,
presiding.

1 P R O C E E D I N G S

2 GOVERNOR CARLIN: I would like to call the
3 plenary session to order. I would ask all Governors to be
4 seated. I know there are a number of Governors coming in,
5 and staff, if you would suggest to your Governors to
6 proceed. I intend in a few moments to introduce our
7 distinguished guest, John Young. He will make his remarks
8 and respond to questions that we have, and unless I am
9 brought another message which I don't anticipate it will
10 happen in that time frame, I will declare a recess until
11 the sound of the gavel. So if the Governors would come in,
12 please.

13 Again, I would ask the Governors to please be
14 seated. I know we have many more to come in. I would
15 like to introduce our speaker so we can proceed.

16 At this time, I would like to introduce our
17 speaker. John Young is chairman of the President's
18 Commission on Industrial Competitiveness. For seven years
19 he has been chief executive officer of the Hewlett-Packard
20 Company and currently president of the company. He serves
21 on the boards of Wells Fargo Bank, Stanford Research
22 International and the Chevron Corporation. A graduate of
23 Oregon State and Stanford universities, he serves on the
24 business council for the College of Idaho. Join me in
25 welcoming our guest speaker this morning, a native from

1 this state, John Young.

2 (Applause.)

3 MR. YOUNG: Thank you, Governor Carlin. I
4 appreciate the chance to talk with the National Governors'
5 Association and working me on at the end of your agenda.
6 I think it's a very important topic to hear about the
7 reality of global competition and what it means to all of
8 us.

9 Unfortunately the term "competitiveness" is a
10 pretty abstract concept. It's not the kind of theme that
11 automatically engenders a gut level response. You will
12 never see it on a bumper sticker. It's way below kind of
13 "I love my dog" or "I love New York." The Commission on
14 Industrial Competitiveness sort of struggled with this
15 problem and really decided that there is really one
16 central message that we need to communicate, and that's
17 for the United States, that being competitive means our
18 ability to succeed in free and fair world trade, while at
19 the same time raising the standard of living of our people.

20 In other words, that standard of living we
21 enjoy has to be earned. It is not bestowed on us as a
22 natural right.

23 Here is a corollary of that truth:
24 Competitiveness is a prerequisite for attaining almost any
25 other national goal we wish to achieve. We can be divided

1 on whether we should spend our public funds on guns or
2 butter, but before we can make those choices, there have
3 to be resources to spend and I think we all can agree on
4 that. So competitiveness really is a unifying agenda, a
5 thematic lens through which we should view and evaluate
6 all of our public policies and private practices.

7 The Commission on Industrial Competitiveness
8 had a diverse membership, leaders from business, from the
9 unions, government, academicians, Democrats and
10 Republicans. But we were able to issue a unanimous report.
11 We sought what united us, not what divided us.

12 Let me tell you what we agreed on. First, this
13 nation's ability to compete has declined over the past two
14 decades. I won't spend my limited time this morning
15 detailing all the measures of diminished competitiveness,
16 but the graphs in our final report and attached to the
17 handout of my remarks which you have at your places, I
18 think tell the story quite well. For those of you who
19 haven't had a chance to look at those warning signals we
20 should heed, let me list them off for your consideration.

21 First, record trade deficits. Second,
22 productivity growth that is surpassed by all of our major
23 trading partners. Third, stagnant and declining real
24 wages. Fourth, declining rates of return, our vital
25 manufacturing sector; and, finally, the loss of world

1 market share in our high technology industries.

2 We had a \$15 billion trade deficit with Japan
3 last year in electronics, and that's bigger than it is for
4 passenger cars. So there is quite a bit that unites
5 Silicon Valley with Detroit in the trade field.

6 Now as a group the commission also agreed that
7 our poor performance cannot be explained away. Certainly,
8 the strong dollar has exacerbated our competitive problems,
9 but it doesn't explain them.

10 Our trade deficit started in the '70s. We had
11 a positive trade balance every year this century, till
12 1970. Deficits started in that year and for most of the
13 decade of the '70s, the dollar was thought to be 20 to 30
14 percent undervalued.

15 Neither can we dismiss the poor performance of
16 manufacturing by pointing to our growing service
17 industries. Manufacturing is the foundation upon which
18 many services are built. Advertising, insuring, financing,
19 distributing, all are services performed on some
20 manufactured product. Many of our service sectors depend
21 on manufactured products for their key competitive
22 advantages. Can you imagine, for example, that New York's
23 financial services community excelling in a way that they
24 do without the sophisticated computer and communications
25 networks that they employ.

1 Now, after we came to a consensus on the fact
2 that the U.S. does, indeed, have a declining ability to
3 compete, the commission began looking for reasons and
4 remedies.

5 Well, we found a lot of causes; in fact, our
6 competitive decline is a little bit like bleeding to death
7 from a lot of little wounds, many of them self-inflicted.
8 So prescribing a remedy isn't an easy matter. It takes a
9 stitch here, a band-aid there, a shot of tonic once in a
10 while. But radical surgery probably won't do the trick.

11 So, let me outline some of the areas that we
12 will have to address, we are going to reverse this trend
13 of decline.

14 I won't be able to develop all these points, to
15 the extent that they deserve. We can maybe treat some of
16 those with questions later.

17 But the commission grouped the factors we
18 identified affecting competitiveness in the four areas:
19 International trade, capital resources, technology and
20 human resources.

21 Let me discuss them in that order.

22 International trade, we concluded that trade
23 simply has not been a national priority. Responsibility
24 for trade is splintered. U.S. trade representative makes
25 trade policy, the Commerce Department implements it.

1 Those two agencies aren't even always on speaking terms.
2 Major pieces of the action are owned by the departments of
3 Defense, Treasury, Agriculture, State; and a host of other
4 executive agencies and Congressional committees. Their
5 actions affect our competitiveness, but they don't often
6 view their decisions through that lens.

7 A complexity and lack of accountability for
8 trade had made it impossible for us to deal with its
9 growing importance and the number of thorny issues we must
10 resolve. That's why the commission strongly advocated the
11 formation of a Department of Trade, to provide a single
12 unified voice. For you deficit watchers, let me say we
13 didn't recommend a new level of bureaucracy. In fact, we
14 think there are economies to be reaped from consolidation
15 and better management of what already exists.

16 Here are some of the other trade items we
17 should put on our agendas. First we need a new omnibus
18 trade bill that helps U.S. industry respond to international
19 competition before the damage is irreparable. Second, we
20 need to review export controls. As a nation we tend to
21 act unilaterally and oppose controls our allies don't have.
22 The commission heard testimony that put the cost of these
23 stricter controls at more than \$12 billion a year in lost
24 sales. Third, we need to look for ways to encourage U.S.
25 exports. Fully 85 percent of export sales are done by

1 just 1 percent of the nation's businesses.

2 And finally, we have to make international
3 trading system work. Since 1970, the total volume of
4 world trade has grown by a factor of 7. But at the same
5 time, the proportion of that trade that is covered by the
6 agreed on rules, has actually declined and declined
7 erratically. There is no coverage for trade in services
8 or investments. There is little provision for agriculture
9 or state-owned industries. And while tariffs have come
10 down, the use of non-tariffs has risen at a geometric rate.

11 So free trade in many cases is just a myth.
12 It's a process that has to be managed, we have to manage
13 it well and make it work or look for appropriate remedial
14 actions.

15 Let me turn now to the subject of capital
16 resources. We heard testimony from a wide range of
17 economists from every spectrum of the economic field and
18 it gave our commission its greatest surprise: They agreed
19 with each other.

20 We are looking for ways to explain the dismal
21 productivity record and capital formation record. Let me
22 just dimension this problem for you. If you you take our
23 six major trading partners, and you rank them from top to
24 bottom in terms of capital formation since 1960, and
25 listing those on the other side of the productivity growth

1 rate, you will find those two lists correspond exactly.

2 By the way, you will find Japan at the top of
3 that last, you will find the United States at the bottom.

4 You know how economists are and you can imagine
5 our surprise at finding this consensus about the cause for
6 this low investment level. Capital costs are
7 substantially higher for American firms than they are for
8 foreign competitors.

9 For example, compared to the Japanese, American
10 costs are at least twice as high, and several studies have
11 identified this cost disparity, not technology, as being
12 the principal cause for the Japanese success in their
13 inroads of the U.S. semiconductor industry.

14 Well, what should we do about it? First, we
15 are going to have to increase the supply of capital
16 available and available for productive investment. We are
17 a nation of borrowers, not savers. As a percent of GNP,
18 American savings lag far behind our trading partners. For
19 example, we save 7 percent of our gross national product;
20 the Japanese, 17 percent.

21 That's why the commission recommended that
22 upcoming rounds of tax reform eliminate the bias against
23 savings, which are taxed and which receive no adjustments
24 for inflation.

25 Second, government has to stop competing with

1 industry for the scarce capital resources we have created.
2 That means cutting the deficit. It's effect has been
3 amassed by a record influx of foreign funds but we pay a
4 strong price for this. A strong dollar has made American
5 products more expensive both abroad and here at home.

6 A third way to reduce the cost of capital would
7 be to create a tax and regulatory framework that doesn't
8 distort capital flows, and discourage the kinds of
9 competitive investments we need to make. For example, the
10 commission found a wide variation between the effective
11 tax rates for investments in different industries, the net
12 result of credits and depreciation allowances on different
13 kinds of assets. Manufacturing, that's the part of our
14 economy most affected by international competition, has
15 the highest effective marginal tax rate. For example, in
16 1982, assets invested in this sector paid an average of 46
17 percent followed by 30 percent for wholesale/retail and 11
18 percent for the rest of industry.

19 Now, so far I have talked about two areas where
20 American industry has some real disadvantages: diffused
21 trade environment and high capital cost. In the next
22 competitive area, technology, we have some advantages but
23 we have failed to make the most of them. First let's look
24 at the kinds of research we have performed.

25 As a nation, the U.S. spends a smaller

1 percentage of GNP on civilian research than its major
2 trading partners. It's true that in total we spend
3 \$100 billion annually on R&D, but half of that is spent by
4 the Federal Government and half is in the private sector.
5 But 2/3rds of the government's half is spent on things
6 related to defense. It's our view that there is much less
7 commercial spillover from this than you might believe.
8 Technologies investigated are just too divergent from
9 commercial applications. So we ought to make the most of
10 the remaining 1/3rd of the Federal R&D budget that is not
11 devoted to defense. Today it's \$18 billion annually, and
12 it just doesn't provide the kind of competitive paybacks
13 that we think it should.

14 Federal efforts are scattered throughout
15 several organizations and some 700 different Federal
16 laboratories. Several studies including of that of Dave
17 Packard, the chairman of our company, have pointed to
18 major administrative inefficiencies. That's why the
19 commission recommended the creation of a cabinet level
20 department of science and technology. Again, we didn't
21 see this as a new layer of Washington bureaucracy, rather,
22 would consolidate a lot of the activities that already
23 exist, give them the visibility, and couple them more
24 closely to the competitive challenges facing the nation.

25 So much for -- since so much of Federal R&D is

1 either unavailable or unconnected to commercial pursuits,
2 we ought to continue to encourage the private sector to
3 spend more in this area.

4 R&D tax credits are a good incentive for
5 business to invest in such activities, and the commission
6 was glad to see that the President's tax proposal still
7 contains that provision.

8 Encouraging private sector R&D is an
9 appropriate role of government. Technological advances
10 create a rippling of benefits felt throughout the entire
11 economy, but those who pay for the research can't
12 capitalize on all of those benefits. Let's take the
13 microprocessor as an example. It's created a competitive
14 advantage for makers of microwave ovens, stereos, medical
15 equipment, and a host of other industries that didn't pay
16 a single dime towards its development.

17 Let me move on now to what's perhaps America's
18 most glaring weakness on the technology side, and that's
19 our failure to develop a competitive advantage in
20 manufacturing technology. That's an area where the
21 Japanese have excelled, and we have seen the results of
22 their efforts, products that are often lower priced and
23 better built than our own.

24 You can count on one hand the number of
25 American universities that are doing significant research

1 in manufacturing technologies. I don't fault the
2 universities; their disinterest simply reflects industry
3 attitudes, where manufacturing managers too often receive
4 lower pay and less glory than their counterparts in
5 manufacturing and finance.

6 So if we are going to make manufacturing
7 excellence an American advantage, industry, government and
8 academia need to take action. Industry will have to take
9 the lead in identifying compromising technologies and
10 trying them out on the production floor. This Renaissance
11 has already begun. You can simply take a look at what
12 General Motors has done, particularly in the new Saturn
13 plant planning.

14 Government must expand its support for
15 manufacturing-related research, and our Federal
16 laboratories should make special efforts to share their
17 advances with interested manufacturers. Our universities
18 have to expand their manufacturing-related course work and
19 here they may need a prod and some support from state
20 governments and business.

21 Let me just briefly recap what I have said so
22 far. First two areas I have discussed, trade and capital
23 resources, pose competitive disadvantages for the American
24 industry. The third, technology, represents an advantage,
25 but one we could use more effectively; and the final area

1 the commission addressed was human resources. Here we
2 have one disadvantage and one advantage. On the liability
3 side, we have to place the high cost of human resources.
4 Americans get paid more than their counterparts abroad, no
5 matter what kind of job they hold.

6 But the commission made clear, it's our
7 conviction that this high cost is a disadvantage we intend
8 to keep. The rising standard of living is indeed the goal
9 of being competitive, so if we are going to keep those
10 higher wages, then we are going to have to strengthen the
11 advantage we have in human resources. That's the quality
12 and flexibility of our workforce. We will also need to
13 learn to work more effectively as a team. Adversarial
14 workplace relationships are a serious impediment to
15 unlocking our full potential. That takes us squarely into
16 the field of education and training. Let me just briefly
17 recap what the commission recommended in this area.

18 We didn't try to cover much new ground on
19 elementary and secondary education, because it's already
20 caught our nation's attention. Momentum started, many of
21 you have spearheaded this vital and welcome change. It's
22 taken a lot of vision, a lot of courage, your perseverance,
23 and I personally would like to thank you for your efforts
24 and I am sure I speak for many.

25 We have also said some things about vocational

1 education and job training, however, that I think might be
2 of interest to you. Here is a rather striking statistic.
3 Fully 3/4ths of the people who will be in the workforce in
4 the year 2000 are already at work. In an era of rapid
5 change, we must view education as a life-long activity,
6 not something we're done with when we graduate from high
7 school or college. When the commission looked at who
8 takes vocational education and how it is funded, we saw
9 some problems.

10 Between 40 and 50 percent of the students who
11 pursue vocational education have already graduated from
12 high school, but the funding patterns don't match that
13 population mix. Most state funding is generated on the
14 basis of full-time enrollment which doesn't account for or
15 pay for the large number of part-time students.

16 The Federal Government's funding pattern is
17 equally skewed. 19 percent of the funds are earmarked for
18 post-secondary vocational education, compared again to a
19 student mix where more than half of the students already
20 have their degrees. So the commission recommended that
21 those funding formulas be revised and reflect the
22 population, vocational education of those that really are
23 served. We also recommended a variety of practical steps
24 that could be taken to assist displaced workers.

25 For example, U.S. Employment Service could be a

1 lot more effective if it weren't saddled by a lot of
2 administrative duties that have nothing to do with finding
3 people jobs. We could also make it possible for displaced
4 workers to use their unemployment insurance as vouchers
5 that could be converted to a wage subsidy for employers
6 who hire and train them. We could also change the tax
7 treatment of individual investment in training. Today, if
8 a person takes training for a job he or she currently
9 holds, that expense is tax deductible. If that same
10 person trains for a new kind of occupation, it's not.
11 That's hardly a tax treatment that encourages flexibility
12 in our workforce.

13 Now, a final item I would like to mention on
14 the agenda for human resources is the strained condition
15 of our nation's universities, especially in engineering
16 and science.

17 Almost a tenth of the key engineering faculty
18 positions in the U.S. are vacant, and cannot be filled.

19 The number of PhD's we produce has declined,
20 and a growing number of those that do receive their PhD in
21 the United States are foreign students. Now, these
22 students may represent a welcome addition to our
23 scientific expertise, but just as in the case of foreign
24 capital, we have them only temporarily. They can always
25 go home.

1 One reason that so many faculty positions are
2 vacant is that salaries are simply not competitive with
3 opportunities in industry. University research equipment
4 is also often obsolete, makes jobs in industry doubly
5 attractive. I see some hope for remedying this dangerous
6 situation. This past year the National Science Foundation's
7 budget for engineering research was up 22 percent, and six
8 cross disciplinary research centers funded by NSF were
9 approved just last month.

10 But more encouraging is that the states -- was
11 what the states were doing to shore up their universities
12 and make them a vital technological resource that they
13 should be. Some states have helped forge collaborative
14 efforts between Federal labs, universities and the
15 business community. Others have provided seed money to
16 establish centers of technical excellence, programs that
17 have attracted significant amounts of private sector
18 matching funds. Others have invested in university
19 research equipment and raised faculty salaries.

20 Now, preparing for these remarks, I had a
21 chance to read a wealth of material about what states are
22 doing to improve our ability to compete. Half a century
23 ago, Justice Brandeis described states as laboratories of
24 democracy, and there are a lot of experiments under way.
25 I think that's a healthy sign for competitive renewal.

1 I am no expert in federalism, but it seems to
2 me that some of the competitive issues I discussed today
3 are most appropriately addressed by the Federal Government.
4 The thorniest issues in trade policy and capital costs
5 fall in that category. Here Federal policy has to set the
6 competitive environment.

7 In my opinion, states play a vital role in the
8 most fertile grounds: Human resources and technology.
9 Here they can serve as catalysts, bringing together
10 industry, government and academia, to solve problems of
11 competitiveness.

12 Without saying what those solutions should be,
13 let me suggest some questions you might ask yourselves
14 when you evaluate their likelihood of success. If your
15 answer to each is yes, chances are good they will succeed.

16 Question number 1: Does the program target the
17 process of innovation, rather than trying to predict the
18 success of a particular product or technology.

19 Bob Noyce, a Silicon Valley entrepreneur, who
20 was a member of our commission, has a great story that
21 illustrates this point. Bob is widely recognized as the
22 inventor of the microprocessor, a device that has
23 dramatically influenced today's computer industry. A few
24 years ago Bob's wife came to him and described an
25 investment opportunity in a young firm that had a new

1 product idea. After thinking about it, he advised her
2 against it. He felt this idea would go nowhere. That
3 product idea was the personal computer, the firm, Apple,
4 and indeed it has gone quite a ways.

5 Question number 2: Is the initiative demand
6 driven. That is, does the technology application or
7 training under development respond to a pull that exists
8 in the private sector. Many of the state matching grant
9 programs I read about illustrate this kind of dynamic,
10 where state initiatives become closely coupled to industry
11 needs.

12 Finally, do the measures you consider seek to
13 create a climate for growth and innovation, rather than
14 simply rating jobs from another state.

15 Rating is probably a pretty attractive strategy
16 for some, especially to voters. But from a national
17 perspective, it's clearly a zero-sum gain. Now, I am told
18 by those who study state government that today's Governor
19 understands his or her economic development responsibility
20 as just that: to create a climate where innovation can
21 happen, where industry can compete successfully. This I
22 am glad to hear, because to a different audience, to a
23 group of business people, I would have made quite a
24 different appeal.

25 I would have told them that government can't

1 legislate success in world markets, that government can
2 only create a climate for competitiveness, and that the
3 responsibility for being competitive rests with the
4 millions of people in the private sector.

5 Now, we in the business community accept that
6 responsibility, and we appreciate your efforts to help us
7 fulfill it. The goal of competitiveness, that rising
8 standard of living for the generations to come, unites us,
9 not just the heads of state like you or the heads of
10 companies like me, but all Americans.

11 We pride ourselves as a democracy, as a nation
12 where people of diverse backgrounds and beliefs peacefully
13 co-exist. But where would we be without the lubricant
14 that allows all those pieces to rub together with such
15 little friction. That lubricant, if you will, is hope for
16 the future, a constantly expanding pie, a constantly
17 widening vision of what is possible. That's what
18 competitiveness buys. That's what is at stake in the
19 challenge we face. So let's meet that challenge together.
20 Thank you.

21 (Applause.)

22 GOVERNOR CARLIN: Mr. Young has agreed to
23 answer some questions. I would call on Governor Sinner to
24 ask the first question, followed by Governor Kunin. As
25 you identify yourselves I will recognize you. Governor

1 Sinner.

2 GOVERNOR SINNER: Mr. Young, thank you very
3 much for a superb presentation. Many months ago, Phillip
4 Caldwell gave a similar speech to the Washington Press
5 Club in which he identified exactly the same problems. I
6 really do, on behalf, I think, of everybody here, thank
7 you for a superb presentation.

8 I have two questions. Why has there been so
9 little public awareness of this cancer that grows in our
10 guts? Is it because we were blithely confused by John
11 Naisbett in his book and made to believe it was quite all
12 right to go ahead and kill off the productive sector in
13 America; or is it because we have been told so often by
14 smiling politicians that everything is just fine? That's
15 the first part of the question. The second one is this:
16 We have had two speakers who warned us that a severe
17 national crisis was imminent. What is your impression of
18 that? How serious is a collapse of the dollar and how
19 imminent is it?

20 MR. YOUNG: Okay. Let me see if I can respond
21 to those two questions.

22 My personal view about why competitiveness is a
23 hard agenda to get up in front of people is that basically
24 people take being competitive for granted. It's just
25 something we grew up with. We were leaders in technology,

1 for 100 years, and the leadership we had of productivity
2 and the infrastructure development, we all grew up with it
3 thinking Americans were leading the world, and indeed we
4 did.

5 It is not popular, in fact, some people in
6 Washington can scarcely admit that we are are not as
7 competitive as we once were, that we have serious
8 challenges to meet. I think we would do everyone a
9 disservice and our country if we could talk about that
10 theme and make sure we understand that being competitive
11 is not granted to us, it's not some heritage we have that
12 we are dissipating.

13 I think it's a hard message to get across.
14 It's a complex of issues all woven together.

15 Your second question was about are we bordering
16 on some kind of collapse, and I don't think that I am an
17 expert on that subject. I think we are clearly proceeding
18 towards new ground in economics, so I indicated we have
19 never had a trade deficit this century till 1970. We are
20 looking at \$150 billion coming up in 1985 that is a
21 precipitous decline starting really picking up momentum in
22 1981. This is uncharted ground for our country. A kind
23 of foreign financing of our country, again, is something
24 we haven't seen before.

25 So I don't know whether there is some imminent

1 collapse of the dollar that could really hurt our country.
2 I know many are fearful of that, and I hope we can see a
3 more orderly retreat to a more normal value of the dollar.
4 I think any dislocation would be quite unfortunate.

5 GOVERNOR CARLIN: Governor Kunin.

6 GOVERNOR KUNIN: Thank you, Mr. Young. I, too,
7 very much enjoyed your remarks. You divided them into
8 what is a Federal responsibility and what is within the
9 control of the state's jurisdiction. One of those clearly
10 is education.

11 For higher education, you set some kind of
12 policy goals. For elementary and secondary education,
13 where the states have a very direct influence, I wonder if
14 you could set some guidelines as well. There is still --
15 while there is a general consensus that higher quality is
16 the goal and higher standards, there is still a lot of
17 debate as exactly how to do that and in which direction it
18 should move, particularly in the high school level.

19 There was a meeting of manufacturers in my
20 state recently and asked the question, what should we be
21 teaching in vocational education, for example, in order to
22 prepare people for the next three to five years. The
23 answer was we don't know, because of the fast-changing
24 technology. And A real debate: Should we have specific
25 vocational education at all at that level, and that's the

1 kind of dilemma that some of us are facing. We have
2 invested in this structure very heavily, assuming that
3 would prepare students for the future jobs, and now we
4 don't know what that future is going to be like. So what
5 general principles could you abide by?

6 MR. YOUNG: As I indicated, we didn't spend a
7 lot of time on high school and grade school education. We
8 felt that the education report had sufficiently focused
9 people's attention on the need to do things there. We had
10 limited time and resources and we focused on other areas.

11 As principles, though, I just think
12 strengthening basic education is the most important thing
13 to do to give people personal flexibility. In years past,
14 I think it was not uncommon to go to work at some
15 enterprise, a steel mill or whatever, and expect to spend
16 your life doing that.

17 In my personal experience, at the
18 Hewlett-Packard Company in the 27 years I have worked
19 there, I have lived through four complete changes in
20 technology. I came to work at the end of the vacuum tube
21 era, we are now in large-scale integration. We spend more
22 time in our company training people than we probably do in
23 any one enterprise. What gives people that personal
24 mobility? A confidence to meet change and to meet it with
25 the expectation that they can succeed? Well, it's that

1 set of personal skills that have the confidence that I can
2 master these new technologies, that I can learn, that I
3 can grow with the changing environment. I think the
4 single most important thing is that set of credentials
5 that gives personal mobility to every person in the
6 workforce.

7 GOVERNOR CARLIN: Mr. Young, you have outlined
8 a strategy. How would you suggest it be implemented? Do
9 you have any bits of advice as to how we can get from what
10 appears to be certainly a very reasonable plan to actually
11 getting something done?

12 MR. YOUNG: Well, I like the idea as expressed
13 in the Job Training Partnership Act. I wonder if there
14 just aren't ways in which that format could be draped over
15 particularly the vocational education things. I know in
16 looking at our own company's personal interaction and so
17 much of vocational education, we have steering committees,
18 industry partnership activities with local vocational
19 institutions. We supply, in many cases, a lot of the
20 teachers, a lot of the equipment. It's a real partnership,
21 and I think it should be viewed as a partnership, and look
22 for formats in which we can get local industry to take
23 some ownership of this problem, and to put some of their
24 energies into the steering and development of education at
25 that level.

1 Our report comes down very strongly on the
2 adopt-a-school format. I think anything we can do to
3 strengthen that intersection between public education and
4 private sector firms is one you ought to seize on and make
5 work in your behalf.

6 GOVERNOR CARLIN: Are there any other questions
7 for Mr. Young? Governor Alexander?

8 GOVERNOR ALEXANDER: I was just interested in
9 your comments about university research equipped
10 laboratories. I am hearing more about that in my state.
11 I was wondering if you want to say more about that. Is
12 the laboratory equipment really obsolete, and, on your
13 list of priorities, just, if you can make a general
14 comment, how, if we have got dollars to spend, how
15 important is that to the future of our states?

16 MR. YOUNG: I think that laboratory equipment
17 in general is quite obsolete. Unfortunately, I have to
18 tell you that the right kinds of laboratory equipment in
19 many cases are extraordinarily expensive. I participated
20 in leading a small fund drive at Stanford to create
21 something called a Center for Integrated Systems. This is
22 an integrated circuit laboratory that can do advanced
23 LFVOSI research and look at associated digital systems.
24 This is going to cost about \$20 million and out of that
25 you get 100 MS's and 30 PhD's every year. But these are

1 exactly the kind of people we must have to be successful
2 in many of the cutting edge technologies that we have.

3 One of the best tax policies that I am aware of
4 is when the Federal Government allowed companies like our
5 own to take an enhanced deduction for equipment donations.
6 We can deduct from our tax bill up to twice the factory
7 cost of an instrument if we donate it to a university for
8 research use, biological sciences, electrical engineering
9 and so forth. Since factory costs, the kinds of products
10 we make are about 40 cents on the dollar, we indeed can
11 deduct 80 cents on the dollar, which is the maximum you
12 can deduct. In effect you have the Federal Government
13 through tax relief providing a lot of incentive for that
14 kind of deduction.

15 I think our grants last year, as a company,
16 were \$46 million. I think this is an excellent way for us
17 to find universities and research things with needs to do
18 the support that goes with it, and really enhance that
19 competitive stature of the university.

20 So you can see how important we think it is by
21 the amount of effort we have put into making that happen,
22 but still deals with only one small part of the total
23 problem, and I would encourage you to continue to give
24 very favorable attention to this critical area.

25 GOVERNOR CARLIN: Governor Sinner. Excuse me,

1 Governor Sinner, Governor Orr wanted to be recognized.

2 GOVERNOR ORR: Mr. Young, this report has been
3 public for several months. I have not heard any leadership
4 in the business community in my state of Indiana debating
5 the issues or discussing the issues that were brought
6 forth; and I don't know whether that's typical or not, but
7 I wonder what kind of reaction you have had to that
8 element of our society which is most involved, namely our
9 industrial community, as a result of your report.

10 MR. YOUNG: Well, I don't know whether you can
11 benchmark activity in the industrial side with the
12 disclosure of our report. Fortunately, most business
13 managers weren't waiting for us to complete our work to
14 decide what to do. They have been hard at work seeing
15 these same problems and opportunities in many cases for
16 the last several years. I think honestly you can date any
17 real attention to these matters to not more than two or
18 three or four years ago at the most.

19 I think we do see a lot of interest, a lot of
20 change, a lot of focus on quality, and there is a kind of
21 transformation going forward.

22 We had hoped that our report would stimulate
23 more attention from, let's say industrial sectors and
24 trade association. I can give you a specific example, one
25 I am personally most familiar with. The American

1 Electronics Association has about 2000 member firms. It
2 is the electronics industry. And as a result of having to
3 think about some of these issues more concisely over the
4 period of this report, there are a whole new set of
5 industry-wide activities, literally industry schools that
6 you can send people to to learn about quality control, to
7 learn about more effective manufacturing methods, pooled
8 research activities. There is a whole electronic co-op, a
9 research co-op, that has been funded at about \$20 million
10 this year, voluntary contributions to put back into the
11 university system, to accelerate and steer development.
12 So I think you could look at a lot of these areas and find
13 real actions that have taken place. I think it's just
14 beginning.

15 GOVERNOR ORR: Let me follow on, if I may,
16 Governor Carlin. When the "Nation at Risk" was published,
17 many of the states followed suit by -- and some of us were
18 ahead of that particular episode -- bringing commissions
19 or groups of people together to carry forward with that
20 kind of concept or to relate it to our own particular
21 states and their needs. Would you think that it would be
22 a good idea for the Governors to create some kind of a
23 vehicle comparable to the commission which you headed
24 within their states in order to try to stimulate greater
25 interest in the kinds of things that you identify, bring

1 them even to the local level, to the small companies that
2 may not have nearly the reason for understanding the need
3 for competitiveness as the big ones do.

4 MR. YOUNG: It might be an effective format. I
5 would really encourage not having more discovery on what
6 the problems are, which is usually the starting point for
7 all task force activity. There has been way more analysis
8 of issues than there need be.

9 What we need is action plan. But I see that
10 happening. National Academy of Engineering has been asked
11 by the President to look at this education question that I
12 talked about a little bit.

13 So I think if you could particularly rifle-shoot
14 some things, cause some action to happen, make something
15 change as a result of putting something together, that
16 would be, I think, really a welcome activity.

17 I personally found so much value in peer
18 pressure. If you can get anybody to do something, you can
19 get a lot of people to do it. What we need are success
20 stories that can inspire others to take the chance to move
21 ahead and try to accomplish more.

22 GOVERNOR CARLIN: Governor Brennan, this will
23 be the last question.

24 GOVERNOR BRENNAN: Mr. Young, did your
25 commission explore great or real profit-sharing by

1 industry with workers in order to improve productivity and
2 to improve competitiveness?

3 MR. YOUNG: Well, profit-sharing was one of the
4 things we talked about in our report as being probably a
5 useful tool. But the main idea is the alignment of the
6 interests of the firm and all the people that work there.
7 In my view, this should be really one team. There is no
8 them and us, there is no workers and managers, every
9 employee is really in this thing together. And any device
10 that aligns those vectors is valuable in my view, and that
11 can be profit-sharing, it can be any number of other
12 common programs that get everybody thinking I am a member
13 of the overall team, and there are a lot of suggestions
14 for doing that.

15 Again, Governor Carlin, thank you for having me.

16 (Applause.)

17 GOVERNOR CARLIN: I want to thank you very much,
18 Mr. Young, for your time and contribution to this morning's
19 session. Not only your remarks were on target and
20 consistent with the theme of this conference, but the
21 follow-up with questions and discussion certainly have
22 been most helpful. Thank you very, very much. You are
23 certainly a distinguished successful person from this
24 great state of Idaho, that I am sure everyone is very
25 proud of, and the fact that you would take your time and

1 adjust your schedule to fit ours, we are most appreciative.

2 Thank you.

3 (Applause.)

4 GOVERNOR CARLIN: We stand in recess until you
5 hear this little gavel again. I hope it's soon.

6 (Recess.)

7 GOVERNOR CARLIN: Let's bring the plenary
8 session back to order. I recognize Governor Thornburgh
9 for the purpose of reading a statement.

10 GOVERNOR THORNBURGH: Thank you, Mr. Chairman.
11 Yesterday our Democratic colleagues, through our good
12 friend Governor Chuck Robb of Virginia, raised the
13 question on this floor about a fund-raising letter sent on
14 behalf of the Republican Governors' Association by
15 President Reagan. Considerable additional time has been
16 lavished on this matter this morning, and I want to say to
17 our Democratic friends, and on behalf of the Republican
18 Governors' Association, offer the following comments:

19 We, as Republican Governors, recognize, as all
20 Governors recognize, that if we are to continue to
21 effectively address major national issues with our
22 Democratic colleagues, we must attempt to work together on
23 a bipartisan basis. Language in a recent Republican
24 Governors' campaign fund-raising letter was not intended
25 to unfairly, and I repeat unfairly, characterize the

1 position or record of any specific Democratic Governor,
2 and we obviously do not believe that we should do so.
3 Future fund-raising letters on behalf of the Republican
4 Governors' Association will be framed in terms consistent
5 with this conviction and with that intention, and will
6 avoid any such characterizations.

7 Now we hope we can get on with the important
8 business at hand in our usual cooperative basis. Thank
9 you, Mr. Chairman.

10 GOVERNOR CARLIN: The next order of business
11 consists of discussion and approval for whatever action on
12 proposed policy positions. We will proceed in
13 alphabetical order. I ask your cooperation so that we can
14 proceed in that orderly fashion. We will start with
15 agriculture, end with suspensions. I will ask committee
16 chairpersons to summarize and make that very short and
17 then move their policy positions. Governor Schwinden.

18 GOVERNOR SCHWINDEN: Mr. Chairman, I would move
19 that the plenary session adopt the recommendation in
20 connection with range resource management, G-4. There is
21 another resolution which will require suspension which
22 Governor Branstad will handle at the appropriate time.

23 I ask for a second of your approval.

24 GOVERNOR CARLIN: It's been seconded. No
25 further discussion. All those in favor say "aye."

1 (Chorus of ayes.)

2 GOVERNOR CARLIN: Opposed nay. The ayes have
3 it.

4 Who is vice-chair of Criminal Justice and
5 Public Protection to present, or a member of the committee --
6 Governor Dick Riley had to leave. Governor Graham.

7 GOVERNOR GRAHAM: Mr. Chairman, the Committee
8 on Criminal Justice and Public Protection convened
9 yesterday. The major focus was the accident in Bhopal,
10 India and implications for U.S. emergency management and
11 public safety. The individuals from government and
12 private sector discussed how we must work together to
13 prevent such an occurrence, be prepared to respond to
14 future accidents. I, as the lead governor on illegal drug
15 trafficking and abuse issues, gave a presentation on the
16 demand for illegal drugs and finally we were given a
17 review of the future of the National Guard and state
18 service. The committee recommends the adoption of an
19 amendment to one existing policy position and the adoption
20 of two new policy positions. The amendment is offered to
21 our present national corrections strategy on prison
22 crowding. It adds an alternative to the issue of inmate
23 wages by offering sliding scale based on complexity of
24 work performed. The two proposed policies are commending
25 the Clearinghouse on Licensure Enforcement Regulation,

1 acronym CLER, and urging greater state participation and a
2 civil defense policy regarding disaster assistance.
3 Without objection, I move the adoption of these proposed
4 policies en bloc.

5 GOVERNOR CARLIN: Is there a second? Been
6 seconded. Discussion.

7 All those in favor say "aye."

8 (Chorus of ayes.)

9 GOVERNOR CARLIN: Opposed nay. The motion is
10 carried. Recognize Governor Earl, Committee Chairman on
11 Energy and Environment.

12 GOVERNOR EARL: Thank you, Mr. Chairman. The
13 Committee on Energy Environment yesterday adopted 12
14 policies on a wide range of subjects, everything from
15 ground water and asbestos to low level waste and liability
16 for nuclear facilities. All of those policies were
17 adopted without any serious controversy and I plan to move
18 them en bloc. However, there is one discrepancy between
19 an otherwise identical policy adopted by Governor Orr's
20 Transportation Committee and the Energy and Environment
21 Committee. That has to do with the deadline for ICC
22 action on the captive shipper problem. The Energy and
23 Environment Committee adopted a date of January 1st, the
24 Transportation Committee adopted a deadline of February 15,
25 and I am going to ask unanimous consent that my motion to

1 adopt the Energy Environment Committee's policies en bloc
2 include the February 15, 1986 date, the date that is in
3 the Transportation Committee, so that we will be wholly
4 consistent.

5 GOVERNOR CARLIN: Any objection?

6 GOVERNOR ASHCROFT: Mr. Chairman.

7 GOVERNOR CARLIN: Governor Ashcroft.

8 GOVERNOR ASHCROFT: I would like to have a
9 division on the parts of the policy relating to D-4 and
10 D-13. I have comments to make, and I would like to be
11 able to vote against some of those policies, if I can't
12 get answers to some of the questions, and I intend to vote
13 in favor of the rest of the package.

14 GOVERNOR CARLIN: The motion from the Chair
15 that I have before me, and I have heard a second, would
16 block the others with the unanimous consent to the date
17 change. Discussion.

18 All those in favor say "aye."

19 (Chorus of ayes.)

20 GOVERNOR CARLIN: Opposed nay. The motion is
21 carried. We have then remaining D-4 and D-13. Governor
22 Ashcroft, your question to Governor Earl.

23 GOVERNOR ASHCROFT: D-4, as I understand it, is
24 a policy position that recommends the continuation of two
25 federally mandated programs, and basically the programs

1 require that electric and gas utilities offer \$15 energy
2 audits to all requesting residential customers. I will
3 try and be short with this, but the real cost, the audited
4 cost to the utilities of doing this averages about \$65 to
5 \$95. Since they can only collect \$15 in order to do this,
6 and our information is that only people at the very top
7 end of the income structure ever have these audits, public
8 utilities are putting back into their rate base the other
9 \$50 to \$60 in costs and they cause our utility rates to be
10 higher, and really people at the low end of the scale end
11 up paying more for utilities in order to finance these
12 audits for people at the high income level.

13 Our indications from our samples indicate that
14 only 20 percent of all the homes audited have any
15 insulation installed anyhow. Last week the U.S. Senate
16 voted to repeal one of these types of programs and the
17 House took similar action last year. The Department of
18 Energy concluded from a societal perspective there's no
19 justification for the continuation of the program because
20 the savings of energy resources are simply too small. I
21 think it works against the interest of the average
22 ratepayer and consumer, and as a result, I don't know why
23 we should go forward urging these, basically, a subsidy by
24 low income individuals, of these energy audits, which are
25 not cost effective.

1 GOVERNOR CARLIN: Governor Earl.

2 GOVERNOR EARL: By and large, the report is
3 expressing support for continuation of existing NGA policy.
4 There is a broadening of it to extend it to commercial
5 residential buildings. This language was brought in by
6 Governor Kean on behalf of Governor Thompson, who could
7 not be here. I see no reason for us to change our support
8 for these audits, nor for us to take the position that
9 these kinds of audits ought extend to commercial
10 residential buildings as well as other buildings.

11 GOVERNOR CARLIN: Other questions or comment on
12 D-4. All in favor, aye.

13 (Chorus of ayes.)

14 GOVERNOR CARLIN: Opposed, nay.

15 (Chorus of nays.)

16 GOVERNOR CARLIN: Governor Ashcroft, Governor
17 Alexander, do you want both to be recorded as voting no?
18 Motion carried with those two negative votes. D-13.

19 GOVERNOR ASHCROFT: D-13 would change the
20 proposal that calls for a repeal of the Federal law that
21 currently prohibits the use of natural gas and oil in
22 large and industrial boilers and boilers in new electric
23 power plants. We have had in my state about a 576 percent
24 increase for natural gas users and residential consumers
25 over the last 13 years. As soon as we are through with

1 the old gas under the pricing structure, I think we are
2 going to see a lot more natural gas cost increases. It
3 seems to me that we are really providing an increased
4 universe of demand for natural gas if we follow the tack
5 in this particular instance, and in so doing, we are going
6 to find ourselves with another monumental increase for
7 homeowners, because we will have injected a whole series
8 of consumers into the competitive arena for natural gas
9 that is going to raise prices down the road. I don't
10 think we ought to be doing it, so I would like to see the
11 motion defeated.

12 GOVERNOR CARLIN: Governor Earl.

13 GOVERNOR EARL: Mr. Chairman, this policy makes
14 available to the states the use of natural gas. It, I
15 think, wisely expands that option for those who had wished
16 to use it. Market forces will determine whether natural
17 gas will be used vis-a-vis some other fuel. Beyond that
18 there are some considerable positive environmental
19 implications in those areas where natural gas is abundant
20 and available at the reasonable price. I don't know why
21 we ought to deny to people the right to use natural gas.
22 I will point out to the other members of the body that
23 this motion was brought to the committee by Governor Kean
24 of New Jersey and enjoyed unanimous support in our
25 committee.

1 GOVERNOR CARLIN: Governor Collins.

2 GOVERNOR COLLINS: Might I ask, Governor Earl,
3 you do not see this contradictory to the NGA coal policy
4 in any way?

5 GOVERNOR EARL: Not at all. I think we ought
6 to advance research and technologies on clean burning of
7 coal. This is not meant to undermine that. It's simply
8 meant to provide a wider range of options for people in
9 different parts of the country.

10 GOVERNOR CARLIN: Other questions or comment.
11 If not, I have the motion and the second on D-13, from our
12 Committee on Energy and Environment. All those in favor
13 say "aye."

14 (Chorus of ayes.)

15 GOVERNOR CARLIN: Opposed nay.

16 (Chorus of nays.)

17 GOVERNOR CARLIN: The ayes have it. Governor
18 Ashcroft voting no. The motion is carried. Governor Kean,
19 Chairman of the Committee on Human Resources.

20 GOVERNOR KEAN: Mr. Chairman, I might mention
21 that our highest legislative priority in the committee
22 since the winter meeting was the protection of the
23 Medicaid program. I mention that because it was a
24 wonderful example of how this organization can work
25 together to achieve an end. And in a bipartisan sense,

1 this committee and those Governors have been on the Hill
2 and talked to their individual Congressmen and the result
3 is that letter that most of us signed, was delivered to
4 all 535 members of Congress, it was cited in committee,
5 our letter, our support was cited on the floor. And in
6 the spring Congress dropped the cap proposal. We had a
7 complete victory on this particular proposal, and I want
8 to thank every Governor for their efforts on this. I know
9 a lot of poor people really who do not have the necessary
10 means to radical medical care are also very thankful of
11 the work this association did. So first thing I want to
12 do is say thank you as chairman of the committee and the
13 job all the Governors did on this issue.

14 The Committee on Human Resources is recommending
15 two policy positions for consideration by the Governors.
16 C-6 on food stamps which updates current policies seeking
17 Federal authority i to continue Puerto Rico's cash
18 nutrition program and an inflation increase in the block
19 grant which is consistent with NGA budget policy; and C-16
20 which is for the prevention and treatment of child abuse,
21 which calls upon states to do everything they can to
22 reduce the child abuse problem and calls upon the Federal
23 Government to continue current funding for training,
24 education and special child abuse prevention and treatment
25 programs. Mr. Chairman, I would like to move the adoption

1 of these two positions as a block.

2 GOVERNOR CARLIN: Moved and seconded. Is there
3 any discussion? If if not, all those in favor, aye.

4 (Chorus of ayes.)

5 GOVERNOR CARLIN: Opposed nay. The motion is
6 carried. Governor Orr.

7 GOVERNOR ORR: Mr. Chairman, the Committee on
8 Transportation, Commerce and Communications has two policy
9 changes, one on F-2, having to do with highway
10 transportation, and F-4, having to do with railroad
11 deregulation. I will ask for their vote en bloc, and let
12 me simply state that the highway transportation policy was
13 worked out over a long span of time, as a means by which
14 we can look to the future, and build our highway program
15 and maintain our highways as part of an overall problem of
16 infrastructure maintenance, and look to the distant future,
17 rather than just to the next year or so.

18 It does reaffirm strong support for preserving
19 and building our National Highway Network and for
20 completion of the interstate system by 1990, and it
21 suggests that we not slow up on the release of interstate
22 funds each year. In other words, to avoid what we have
23 experienced in the past, in the recent past, and that
24 Congress release those funds on a regular basis in such a
25 way that we can anticipate and plan effectively.

1 And that we should recognize that this does put
2 the Governors on the cutting edge of national surface
3 transportation policy by calling for Congress to begin
4 work now on a post-interstate highway program called
5 "Access America" with heavy emphasis on the economic
6 growth of this nation. It calls for a two-year national
7 study to define the post-interstate highway program and it
8 needs to be understood that "Access America" would take a
9 comprehensive approach to modernize, preserve or expand
10 services provided by the National Highway Network and to
11 ensure that investments in facilities serve the needs of
12 commerce, industry and the economic growth of our country.

13 The amendment to policy on the railroad
14 deregulation has already been covered by Governor Earl in
15 relationship to the ICC situation. Let me simply indicate
16 that this policy does not endorse any specific legislative
17 approach, that it is simply a recommendation of the policy
18 of this organization. It would seek to endorse prompt
19 action by the ICC, and if the ICC does not take action by
20 February 15 of next year, then our policy encourages
21 Congress to take action promptly to ensure full protection
22 for captive coal and agricultural shippers. I would move
23 both of those policy amendments.

24 GOVERNOR CARLIN: Moved and seconded. Any
25 discussion. All those in favor say "aye."

1 (Chorus of ayes.)

2 GOVERNOR CARLIN: Opposed nay. Ayes have it.
3 Motion will carry.

4 The Executive Committee has two issues. I will
5 deal with the first one myself, a minor amendment to
6 current policy as it relates to the national holiday in
7 honor of Dr. Martin Luther King, Jr. Simply a matter of
8 technical change, so that our language fits the direction
9 that we are all headed. Any questions? I would ask
10 Governor Alexander will move and Governor Thornburgh will
11 second, so we properly run this. Is there any discussion?
12 If not, all those in favor say "aye."

13 (Chorus of ayes.)

14 GOVERNOR CARLIN: Opposed nay. The motion is
15 carried.

16 The second item on the Executive Committee
17 agenda, a policy A-24, I will call on Governor Dick
18 Thornburgh to carry and explain.

19 GOVERNOR THORNBURGH: Mr. Chairman, every so
20 often we have an opportunity to extend to our colleagues
21 at the Federal level the benefit of lessons we have
22 learned in utilizing certain practices at the state and
23 local level. That was true earlier this year with our
24 recommendation for Constitutional amendment calling for a
25 balanced budget, and the exercise of the line item veto by

1 the President.

2 The resolution that I am offering on behalf of
3 myself and Governor Dukakis, which has been approved by
4 the Executive Committee, would call for the Federal
5 Government to adopt a separate capital budget, as part of
6 the budget process.

7 Separate capital budgets are used by every
8 state government, most local governments and by all
9 business ventures, to separate current expenditures from
10 investments.

11 In this case, investments on the public side in
12 infrastructure, that the present current Federal budget
13 practices distort the true national picture by combining
14 recurring yearly expenditures for entitlements, aid
15 programs and other current programs, with long-term
16 multi-year investments in roads, waterways, buildings and
17 other public works.

18 The thrust of this resolution would be to
19 recommend that the Federal Government adopt a separate
20 capital budget, the result of which not incidentally, in
21 giving a more true and accurate picture of the Federal
22 financial picture, would produce automatically, according
23 to the General Accounting Office, a reduction in the true
24 Federal deficit of about \$30 billion a year, at a minimum.

25 That, while interesting, is not the sole reason

1 that I urge this upon this body, but in order to enable
2 the Congress and the Administration to deal with a more
3 accurate picture of the Federal finances, and I would move
4 the adoption of the resolution approved by the Executive
5 Committee.

6 GOVERNOR CARLIN: Been moved and seconded. Any
7 discussion? Governor Earl.

8 GOVERNOR EARL: Mr. Chairman, I know that if
9 Governor Riley were able to be here, he would raise a
10 concern that he raised at the Executive Committee session,
11 one which I share. Though I understand and support the
12 notion of the use of the separate capital budget, it is
13 not without peril. And capital budgets are not only as
14 subject to abuse as our regular operational budgets, they
15 are even more subject to abuse it seems to me, and without
16 some sort of notion of constraint in the language of the
17 resolution as offered by Governor Thornburgh, I will not
18 support the resolution. I think that we ought to -- if we
19 are going to advance this concept, it ought to be advanced
20 with some limits on amounts, some limits on those subjects
21 to which it would be applicable, and I would hope that we
22 would be awfully cautious going ahead here because I am
23 afraid there are many in Washington of both political
24 persuasions who would love to use such a device as this to
25 make it appear that a job is being done on reducing the

1 deficit when in fact it has only been a bookkeeping
2 transaction. I don't think this organization collectively
3 or individually would want to be a part of any such effort.
4 I am afraid without some language on constraints for the
5 use of such a concept, it might be used to get around our
6 policies, in trying to reduce the deficit rather than
7 enhance that effort.

8 GOVERNOR CARLIN: Any other comments? I would --
9 I intend to support Governor Thornburgh, but I think out
10 of the debate that did take place and probably would have
11 under the circumstances, for the record, let's have it
12 understood that the support of this in no way shifts us
13 away from our concern about the deficit. It's not in any
14 way to dilute the policy and the effort that we put in to
15 addressing that issue. I still have the motion to second.
16 No further discussion. All those in favor say "aye."

17 (Chorus of ayes.)

18 GOVERNOR CARLIN: Opposed nay.

19 GOVERNOR EARL: No.

20 GOVERNOR CARLIN: The motion is carried.

21 Under "suspensions" we have three items. Could
22 I have a motion, block motion if possible, to move all of
23 them to an order of business. It requires a 3/4ths vote.
24 Could I have that motion?

25 GOVERNOR CARLIN: Moved by Governor Earl,

1 seconded by Governor Branstad. Discussion, all those in
2 favor say "aye."

3 (Chorus of ayes.)

4 GOVERNOR CARLIN: Opposed nay. The motion is
5 carried. The three items under "suspension" are now
6 before us. The Committee on Agriculture, Governor
7 Schwinden.

8 GOVERNOR SCHWINDEN: I will defer to Governor
9 Branstad.

10 GOVERNOR CARLIN: Governor Branstad.

11 SENATOR BRADLEY: This change in the
12 agricultural policy is an update of the very significant
13 position we took at the last meeting, the annual meeting
14 in Nashville last year when the Governors went on record
15 saying that there is a significant problem in agricultural
16 credit which needs to be addressed; and this statement
17 updates the current conditions in agricultural assets, the
18 continuation of the decline that has been occurring,
19 and indicates there is a deterioration occurring in the
20 farm credit system, and there exists a need for review of
21 the liquidation plans with the idea of maintaining the
22 ability of farmers to stay on the farm wherever possible.
23 It is an update of the agricultural finance that
24 recognizes some very significant statistics that were
25 presented to the agriculture committee and were provided

1 by the results of the Wharton econometric study that's
2 been done over the last six months. I think it's very
3 helpful and continues to put the National Governors'
4 Association in a key position of identifying and
5 recommending the kind of positive action that is needed to
6 help restore first confidence, and secondly, profitability
7 to agriculture.

8 GOVERNOR CARLIN: Been moved and seconded. Any
9 discussion? All those in favor say "aye."

10 (Chorus of ayes.)

11 GOVERNOR CARLIN: Opposed nay. The motion is
12 carried. Governor Lamm, Executive Committee resolution on
13 the Garcia case.

14 GOVERNOR LAMM: Mr. Chairman, we all know what
15 the Garcia case is. This resolution is necessary to allow
16 us to work with the National Conference of State
17 Legislators, the League of Cities, the mayors, other
18 people that are trying to get some ameliorations from the
19 Garcia decision. The resolution does not allow the
20 exemption, does not ask for legislation that would exempt
21 state and local employees. It merely asks that we
22 ameliorate the decision to allow us, first of all time to
23 get our house in order; second of all that we not be
24 subject to a lawsuit retroactively back to February 19,
25 the date of the Garcia decision; three, to allow some

1 flexibility on the use of compensatory time and volunteers.
2 I move its adoption.

3 GOVERNOR CARLIN: Been moved and seconded.

4 Discussion. All those in favor say "aye."

5 (Chorus of ayes.)

6 GOVERNOR CARLIN: Opposed nay. The motion is
7 carried. Governor Anaya.

8 GOVERNOR ANAYA: Mr. Chairman, I won't take but
9 about 30 seconds unless there's a question and I will be
10 happy to respond. I was asked to propose the next
11 resolution on declaring a first day without hunger. This
12 is a similar resolution as one adopted by the U.S.
13 Conference of Mayors and numerous other organizations,
14 that would put the NGA on record as encouraging Americans
15 to join together to celebrate Thanksgiving Day as the
16 first day without hunger.

17 The motion, the resolution is very short,
18 self-explanatory, and I would move its adoption and would
19 be happy to respond to any questions.

20 GOVERNOR CARLIN: Any questions? We have had
21 the motion and a second. All those in favor say "aye."

22 (Chorus of ayes.)

23 GOVERNOR CARLIN: Opposed nay. The motion is
24 carried.

25 If there is no objection, I would like

1 unanimous consent to return to that order of business, the
2 resolution that was passed just a few moments ago.
3 Governor Clinton was to carry an amendment for Governor
4 Graham. Governor Clinton was doing more important
5 business, and could not be here, and I think Governor
6 Thornburgh has agreed to that. Any objection? If not, so
7 ordered. I would call on Governor Clinton, and do you
8 have your motion that you want to make?

9 GOVERNOR CLINTON: I do have the motion I want
10 to make. I think Governor Graham's staff has copies of it.
11 I am offering this amendment to Governor Thornburgh's
12 capital budget resolution on behalf of Governor Graham,
13 who had to leave and catch a plane. I understand,
14 according to Governor Thornburgh, that this amendment was
15 essentially supported by the President in the statement
16 today, is that right? And I would like to read it, to
17 insert at the end of the second paragraph of Governor
18 Thornburgh's resolution on capital budget.

19 "In addition, Social Security, which is funded
20 through dedicated payroll taxes, would reflect a more
21 accurate picture of Federal budgetary responsibilities if
22 maintained as a separate trust fund, and removed from
23 Federal unified budget. Social Security represents a
24 Federal contractual commitment between the government and
25 its citizens, which is essential to the health and welfare

1 of many Americans. The government should not make
2 unilateral changes to Social Security, which would
3 adversely affect the health and welfare of its citizens."

4 And then amend the third or last paragraph of
5 the Thornburgh resolution by inserting before the period,
6 "and by separating the Social Security trust fund from the
7 Federal unified budget." That is Governor Graham's
8 amendment. I offer it.

9 GOVERNOR CARLIN: Governor Thornburgh.

10 GOVERNOR THORNBURGH: As Governor Clinton noted,
11 the President took a similar position this morning, and I
12 want to assure this body that I will exert every effort to
13 get a letter from President Reagan addressed to Governor
14 Clinton thanking him for his support of this important
15 Administration initiative, in a further spurt of
16 bipartisan cooperation, the amendment is acceptable. I
17 would hope that you would support it as well.

18 GOVERNOR CARLIN: Almost disgusting but --
19 further comment or question. Governor Earl.

20 GOVERNOR EARL: Mr. Chairman and members, this
21 is precisely the kind of thing that led me to oppose the
22 principal motion. By a simple bookkeeping effort, we will
23 be able to make the Federal deficit look in better shape,
24 when it truly isn't, and I don't think there is a person
25 here of whichever political persuasion thinks that any

1 efforts at resolving our Federal budgetary problems can
2 exempt entitlement programs, even important entitlement
3 programs such as Social Security. This is the kind of
4 thing that will enable us through bookkeeping techniques
5 to look as though we are doing a better job when in fact
6 we will be taking off the table one of the very important
7 items that ought to be on the table and ought to be
8 subject to the same kind of scrutiny as every other
9 Federal program. I would hope that the amendment does not
10 pass.

11 GOVERNOR CARLIN: Further discussion.

12 GOVERNOR CARLIN: Governor Sinner.

13 GOVERNOR SINNER: I share that concern of
14 Governor Earl. The states contribute about as much to the
15 deficit of this country as do the Federal Government. The
16 Federal borrowing today is about 50 percent of all the
17 borrowing in this country, borrowing from the states and
18 local jurisdictions amount to about 23 or 24 percent.
19 This country never had a deficit in excess of 2 percent of
20 its gross national product prior to 1980. It's been
21 running between 5 and 6 percent of the gross national
22 product ever since. We can't -- simply cannot allow any
23 disguise of what is happening because it's going to kill
24 us if we let it go on, and the attempt to disguise it may
25 actually do, as Governor Earl has suggested, make it more

1 possible for it to go on. I have to resist both this
2 motion and the major motion.

3 GOVERNOR CARLIN: Governor Lamm.

4 GOVERNOR LAMM: Mr. Chairman, I totally agree.
5 30 percent of the people that get Social Security have
6 other retirement income of over \$25,000 a year. I really
7 think we have a question of intergenerational equity, where
8 we are rapidly approaching a day when our fathers get
9 returned 14 times what they paid in and our children are
10 going to get paid 73 percent of what they paid in. It is
11 not above a political agenda to look seriously at all of
12 the entitlements. I totally agree with Governor Earl, and
13 really think that this is excessive.

14 GOVERNOR MARTIN: Mr. Chairman.

15 GOVERNOR CARLIN: Governor Martin.

16 GOVERNOR MARTIN: March I would like to speak
17 to the Earl/Sinner/Lamm objection that has been noted here.
18 Let me give you a little historical note about Social
19 Security trust fund in relation to the unified budget. If
20 you go back you will find that the reason and the only
21 reason that the Social Security trust fund was ever
22 included in the Federal unified budget was to create an
23 illusion that the budget was balanced, because all the
24 rest of the fund was out of balance, while Social Security
25 at that time was running up rather heavy surpluses.

1 That's the only reason it was ever put into the unified
2 budget was because of the surplus of Social Security
3 revenues at that time exceeding expenditures could create
4 that illusion that everything was fine and everything was
5 in balance.

6 Now, the reason I believe we ought to agree to
7 this, not just because it never should have been put into
8 the unified budget in the first place, but because if we
9 can get it out of the unified budget, it will enable us to
10 address the fiscal problems of the Social Security trust
11 fund itself, to address the question of maintaining the
12 actuarial balance of the Social Security trust fund itself
13 without thereby being accused of doing that in order to
14 balance the other budget. I think if you separate it, it
15 allows this nation to address the needs and the
16 responsibilities of the Social Security trust fund without
17 all these side arguments cropping up.

18 GOVERNOR CARLIN: Governor Clinton.

19 GOVERNOR CLINTON: I would just like to support
20 what Governor Martin has said. I don't see this, Governor
21 Lamm, and other Governors, as a way of insulating Social
22 Security system from further scrutiny as opposed to other
23 entitlements. I see it as a way of examining the funding
24 mechanism and the benefits in the future, in a way that
25 stands on its own merits. I think it's very important

1 when you consider the dramatic escalation of Social
2 Security taxes which have been necessary to maintain the
3 system as it exists. I do not see this in my own mind as
4 a way of forever insulating the Social Security system but
5 rather as Governor Martin says, letting it stand on its
6 own merits.

7 Secondly, if you look at, Governor Sinner, the
8 major escalators in the deficit increasing as a percentage
9 of GNP are really interest on the national debt and the
10 defense budget. Whether we agree or disagree on those
11 matters is to the side, but I don't believe we can make a
12 case that this has been a major contributor to the deficit.

13 GOVERNOR CARLIN: Governor Sununu.

14 GOVERNOR SUNUNU: Mr. Chairman, I support
15 anything that clarifies the actual fiscal condition of the
16 Federal Government and certainly on the states themselves,
17 but the Federal Government is the focus of this issue.
18 And pulling Social Security out will clear up the
19 accounting process. I have no problem at all, if it's in
20 the deficit that its number be tallied in total with the
21 deficit on the operating budget and be called the total
22 Federal deficit. But right now the Social Security debate
23 is being inhibited by the obscure nature of it being
24 clustered in that overall budget and it is difficult to
25 see clearly what its particular status is. And the

1 difficulty that I see that addressing it as a clear and
2 unambiguous accounting function will provide an
3 opportunity for those that have to make the decisions on
4 issues such as those raised by Governor Lamm, have to
5 carry the burden of the debate on their own weight rather
6 than being tucked into a corner here and there in the
7 budget.

8 GOVERNOR CARLIN: I am going to recognize
9 Governor Lamm next. But before I do so, Governor
10 Alexander, underlying this whole debate is just a desire
11 that my chairmanship continue as long as possible, or at
12 least that's the way I am interpreting it. Governor Lamm.

13 GOVERNOR LAMM: Mr. Chairman, the reason the
14 debate on Social Security is so confused is because of a
15 couple of fictions that politicians continue to press.
16 Number 1 is that there is some separate trust fund out
17 there that is funded and that is inviolate. It is not
18 true. And second of all is that a dollar that is saved in
19 Social Security somehow wouldn't translate into a
20 reduction of the deficit which is also not true, which is
21 the reason that Governor Earl originally objected to this.
22 I think it may be -- I think it is a real serious problem
23 for the Governors' Association that has really shown
24 courage in terms of what we are taking on entitlements, in
25 terms of our past resolutions. All of a sudden now to

1 start protecting our political basis by backing down from
2 this, I think this would be confusing, it would be a
3 backdown from our previous strong position. I think it's
4 a mistake.

5 GOVERNOR CARLIN: Governor Martin.

6 GOVERNOR MARTIN: Thank you, Mr. Chairman.
7 Since there's some reference to an illusion, some
8 criticism of the remarks I made earlier, I would like to
9 say that there would be millions of Americans who are
10 receiving benefits from the Social Security trust fund who
11 would be very discouraged at the way in which the Governor
12 just characterized that as not being a trust fund at all.
13 They believe it is.

14 GOVERNOR LAMM: Well, but they are mistaken.
15 It is an unfunded \$6 trillion liability in this nation's
16 future. And one of the problems that we have, it is not
17 funded. It is a generational tax where we are taxing the
18 working poor in Boise to send down to a great number of
19 people in Florida to drive their boats around. It is one
20 of the most successful antiproperty programs that has ever
21 been devised. We ought to congratulate it. But to say
22 that it is above examination, I think is a real mistake.
23 If you are going to balance the budget, you are going to
24 have to look at Social Security.

25 GOVERNOR MARTIN: Where does it say it's above

1 examination?

2 GOVERNOR SUNUNU: Mr. Chairman, I do not want
3 it to be above examination, I want it to be subject to
4 scrutiny so that it will stick out there like a sore thumb.
5 I think the accounting should be seen visibly, and
6 explicitly and clearly. And all I think -- and unless I
7 have missed the thrust of this proposal, and I will be
8 happy to recognize your point, Dick -- I thought this
9 proposal suggested that Social Security accounting should
10 be clear accounting outside of the budget so that we can
11 examine it clearly. I am absolutely supportive of every
12 point you have made there, and it is because I am
13 supportive of those that I want this to stand out there so
14 that people can see the numbers.

15 GOVERNOR CARLIN: Governor Earl.

16 GOVERNOR EARL: Mr. Chairman and members, this
17 is no resolution offered by a shiny pants accountant to
18 say let's get ready for taking a look at the numbers.
19 This is a political statement. It talks about the
20 contract between government and its citizens, the program
21 which is essential to the health and welfare of many
22 Americans shouldn't be changed and laterally, et cetera,
23 et cetera. This is meant to be, and I understand the
24 reason Governor Graham would support it, a reassurance for
25 his constituents in Florida, many of whom were formerly

1 constituents of ours.

2 But Governor Sununu, it is not meant to clarify
3 accounting practices, it is meant to send a signal to
4 people that Social Security is going to be treated
5 differently from other programs and we will not have to
6 weigh the priority of that entitlement program against
7 education, against protection of the environment, against
8 defense. And I think it is quite clear what the author
9 and I assume the mover of the motion had in mind. It was
10 not simply to clarify bookkeeping, or to put more scrutiny
11 on Social Security. Quite the contrary.

12 GOVERNOR CARLIN: Governor Clinton.

13 GOVERNOR CLINTON: The necessary consequence of
14 the position taken by Governors Lamm and Earl is that it
15 would be all right to use payroll taxes to reduce the debt
16 as opposed to paying for the retirement of senior citizens.
17 I don't think the working poor in Boise ought to pay
18 payroll taxes to pay for education, defense or interest on
19 the national debt. So if there is a surplus in the Social
20 Security account, we ought to reduce the payroll taxes and
21 raise other taxes. I just dispute the fact that what we
22 are trying to do is protect that, and I agree with
23 Governor Martin. I am worried about the payroll taxes of
24 the working poor too. It's a very regressive tax. If it
25 turns out to be that they are too high and we get a

1 surplus in the fund, then I don't think that money should
2 be used to pay off the national debt. We ought to get a
3 more progressive tax to pay off the national debt than the
4 payroll tax. It's not right. It was never intended for
5 that.

6 GOVERNOR CARLIN: Governor Lamm.

7 GOVERNOR LAMM: Governor Clinton, I can
8 understand that argument. But the other argument is we
9 are looking at the benefit side, not the tax side. We are
10 saying in fact that either this country is going to freeze
11 benefits for an awful lot of people or we are going to
12 focus them to those that really need it. I think instead
13 of freezing we should focus. Why should somebody that
14 makes a million dollars a year and other retirement income,
15 has already received their and their employer's contribution
16 back 14 or 15 times and living someplace else, why should
17 we tax the working poor to send them yet more money and
18 then not tax it on top of that.

19 GOVERNOR CLINTON: What is there in this motion
20 that would prohibit that? You have already said that
21 everybody that is retired now is getting a lot more out of
22 the system than they paid into it.

23 GOVERNOR CARLIN: Governor Clinton, may I just
24 read to you, "Social Security represents a Federal and
25 contractual agreement between the government and its

1 citizens which is essential to the health and welfare of
2 many Americans." I think one can interpret that as being
3 in contrast and conflict with what was passed in February
4 and Governor Graham didn't like or support that.

5 I think that is what we are talking about, as
6 much as anything, not the separation or the bookkeeping
7 part of it.

8 GOVERNOR CLINTON: Would you be more amenable
9 to the motion if some language change were made in that?

10 GOVERNOR CARLIN: Governor Lamm? Governor Earl.

11 GOVERNOR CLINTON: I think it is a contractual
12 commitment, but I think it's subject to change.

13 GOVERNOR EARL: I am the wrong person to ask in
14 this regard, because I opposed Governor Thornburgh's
15 principal motion and I oppose this variation of it. I
16 guess it could be made more palatable if the language
17 about the contractual obligation in the whole clear
18 inference that there would never be a reduction in
19 benefits were stricken, but frankly on a philosophical
20 basis I am opposed to the entire proposition.

21 GOVERNOR CARLIN: Governor Dukakis.

22 GOVERNOR DUKAKIS: I support this motion, and
23 let me tell you why. Congress, in its effort to balance
24 the budget, has just decided that state and local
25 governments which have never been part of the Social

1 Security system are now going to have to pay in, and so
2 are employees. I don't believe that step has been taken
3 to assure the financial integrity of the Social Security
4 system; it's been taken to balance the Federal budget.
5 And my state and its local governments will now have to
6 fork over 150 million additional dollars because somebody
7 in Congress doesn't want to raise revenue the way it ought
8 to be raised if you want to raise it. 150 million
9 additional dollars will now be dropped on my state
10 treasury and on the treasuries of my local governments
11 without a "by your leave."

12 Now, if somebody had wanted to do that in the
13 context of the financial integrity of the Social Security
14 system, I would understand that, but that's not what has
15 happened. Let me also say, Dick, that it seems to me the
16 issue of whether or not we are going to tax Social
17 Security benefits to people who make substantial income is
18 a very different issue. It doesn't have anything to do
19 with the integrity of the Social Security system, it's
20 whether or not you want to get some of that revenue for
21 the purpose of balancing the Federal budget. That's a
22 perfectly legitimate issue on which there ought to be
23 legitimate debate, but I don't really think it has much to
24 do with this revolution.

25 GOVERNOR CARLIN: Governor Lamm.

1 GOVERNOR LAMM: Governor Dukakis, I believe
2 that the tax issue is a separate issue, but I think that
3 your issue that you raised, one of the reasons that they
4 have asked for state and local governments, that you have
5 to pay up another \$150 million is that they are only
6 looking at the tax side of this equation. I think we are
7 arguing if you do, in fact, isolate this, as a separate
8 issue and say that it's an inviolate contractual
9 obligation, that we will be unable to look at the benefit
10 side of it. You can either solve Social Security by
11 raising taxes and adding more people, like you just
12 complained about, or you can start to limit the benefits
13 to those really truly in need, and say that those 30
14 percent of the people who have other retirement incomes of
15 over \$25,000, that we ought to look at that. Now I am
16 sympathetic to what you are saying, but I'm simply saying
17 that you are going to have to have Social Security on the
18 table, look both at the tax side and the benefit side, and
19 I'd like to continue to do that.

20 GOVERNOR CARLIN: Governor Bryan.

21 GOVERNOR BRYAN: I move the previous question.

22 GOVERNOR CARLIN: Motion moved for the previous
23 question. Second. All those in favor say "aye."

24 (Chorus of ayes.)

25 GOVERNOR CARLIN: Opposed nay.

1 (Chorus of nays.)

2 GOVERNOR CARLIN: The motion carries. We have
3 before us a vote on an amendment. All those in favor of
4 the amendment offered by Governor Clinton to A-24. All
5 those in favor say "aye."

6 (Chorus of ayes.)

7 GOVERNOR CARLIN: Opposed nay.

8 (Chorus of nays.)

9 GOVERNOR CARLIN: Chair is in doubt. All those
10 in favor raise your right hand.

11 All those opposed, raise your right hand.

12 The Parliamentarian advises me the vote was 16
13 to 9. The motion fails. It requires a 2/3rds vote.
14 Governor Sununu.

15 GOVERNOR SUNUNU: Mr. Chairman, is it in order
16 for me to submit a proposed amendment?

17 GOVERNOR CARLIN: It certainly is. We are back
18 on the original motion to adopt A-24.

19 GOVERNOR SUNUNU: I would like to propose
20 exactly the same amendment that was proposed except
21 striking the last two sentences of that large paragraph in
22 the middle there, and I cannot find my copy. It would
23 read as follows. The title is amended to read as follows:
24 "Federal capital budget and Social Security." Insert at
25 the end of the second paragraph the following new

1 paragraph to read as follows: "In addition Social
2 Security, which is funded through dedicated payroll taxes,
3 would reflect a more accurate picture of Federal budgetary
4 responsibilities if maintained as a separate trust fund
5 and removed from the Federal unified budget." No
6 remaining words in that paragraph. Amend the third or
7 last paragraph by inserting before the period thereof the
8 following: "and by separating the Social Security trust
9 fund from the Federal unified trust budget."

10 GOVERNOR CARLIN: That's a motion. Is there a
11 second.

12 Been seconded. Discussion on the amendment.
13 Governor Earl.

14 GOVERNOR EARL: I appreciate the tone in which
15 the amendment is offered, but what we are simply doing now
16 is saying we will make implicit what the principal motion
17 made explicit. I have the same objection to this effort.
18 I think that no matter how you word it, the result ought
19 to be the same as the result taken on the last motion, and
20 I hope we don't think we are kidding anybody by simply
21 saying this is not going to be explicitly said.

22 GOVERNOR CARLIN: Further discussion?

23 GOVERNOR SUNUNU: May I speak to my motion?

24 GOVERNOR CARLIN: You are closing on your
25 motion.

1 GOVERNOR SUNUNU: Mr. Chairman, I think this
2 says what I thought the first one said, and I now
3 understand, having talked to a couple of folks, what
4 Governor Lamm, I think what he had read into those two
5 sentences. I did not read that originally and I recognize
6 that that ambiguity might have existed. So that there be
7 no ambiguity and so that they cannot be misread, I have
8 asked in my proposed motion that they be stricken, so that
9 what I originally thought was the thrust of the motion is
10 retained in the motion that I have now made.

11 GOVERNOR CARLIN: We have the amendment before
12 us. All those in favor say "aye."

13 (Chorus of ayes.)

14 GOVERNOR CARLIN: Opposed nay.

15 (Chorus of nays.)

16 GOVERNOR CARLIN: Amendment is carried. We are
17 back on the originally motion as amended. I have a motion
18 and a second. Further discussion? All those in favor say
19 "aye."

20 (Chorus of ayes.)

21 GOVERNOR CARLIN: Opposed nay.

22 (Chorus of nays.)

23 GOVERNOR CARLIN: The motion is carried. At
24 this time I would like to thank John and Lola Evans for
25 the tremendous job they have done hosting this conference.

1 Join me, please.

2 (Applause.)

3 GOVERNOR CARLIN: You can always remember, John,
4 that you hosted the conference that had the longest
5 plenary session in history. I call on Governor Orr,
6 chairman of the nominating committee.

7 GOVERNOR ORR: Mr. Chairman, on behalf of the
8 nominating committee, which consisted of Governor Martin
9 of North Carolina, Governor Bangerter of Utah, Governor
10 Hughes of Maryland and Governor Brennan of Maine, I submit
11 the following nominations as members of the Executive
12 Committee: Governor William J. Janklow, South Dakota;
13 Governor Dick Thornburgh, Pennsylvania; Governor James R.
14 Thompson of Illinois; Governor Madeline M. Kunin of
15 Vermont; Governor Richard D. Lamm of Colorado; Governor
16 Charles S. Robb of Virginia until he leaves office in
17 early January, at which time Governor Richard W. Riley of
18 South Carolina will replace him; Governor John Carlin of
19 Kansas; Governor Bill Clinton of Arkansas, both as a
20 member of the Executive Committee and as vice chairman of
21 this National Governors' Association; and Governor Lamar
22 Alexander of Tennessee who now succeeds to the chairmanship
23 of the National Governors' Association. I make that in
24 the form of a motion.

25 GOVERNOR CARLIN: You heard the report. Is

1 there a second? All those in favor say "aye."

2 (Chorus of ayes.)

3 GOVERNOR CARLIN: Opposed nay.

4 The motion is carried. We have accepted the
5 motion of the nominating committee and before I yield the
6 gavel, Governor Alexander, I would simply request that the
7 remarks that I worked on for six hours during the night be
8 submitted into the record. With that, I thank you for
9 your cooperation, and the show is yours. Welcome.

10 (Applause.)

11 GOVERNOR ALEXANDER: John, thank you very much.

12 I am grateful to the members of the National Governors'
13 Association for this honor. I look forward to the year.
14 I have a few phone calls to make to some of my friends to
15 make sure I know exactly their feelings. I am dedicated
16 to the notion that the National Governors' Association is
17 an important bipartisan organization that can do a great
18 deal to help us do a better job as chief executives and on
19 occasion has an important message to the nation and one
20 which we carefully ought to preserve and carefully ought
21 to make.

22 I should say that as the Governor of Tennessee,
23 I am accustomed to being a proud Republican, but serving
24 by the grace of the Democrats. We have so many of them
25 there, and we have a great many in this association, and I

1 respect them and look forward to that opportunity too.

2 Governor Evans and to Mrs. Evans, we are very
3 grateful, thank you. We have had a wonderful week, and I
4 had planned a long vacation in Idaho anyway. I am staying
5 for another few days.

6 John Carlin, I would like to say something to
7 you. You have handled your job with skill and with
8 diplomacy. It is never easy to try to bring together into
9 a majority vote the views of Governors who are accustomed
10 to being in chief executive positions and who don't work
11 day-to-day in this sort of activity. You have done it
12 extraordinarily well on the budget. You have permitted us
13 to make a strong statement in that way. The meeting has
14 been structured here and in Washington, I think, were both
15 important. The trade issue is an emerging issue, and you
16 are responsible for putting that forward in this debate.
17 We are extraordinarily grateful to you, the time you spent,
18 for your skill as a leader, and on behalf of all of us,
19 let me thank you for a wonderful year as the Chairman of
20 the NGA.

21 (Applause.)

22 GOVERNOR ALEXANDER: Now, I know that the
23 Governors have schedules to meet, and let me -- this is
24 what I suggest we do. We have an Executive Committee
25 meeting scheduled following this, which would require us

1 all to be moving over to another place. The new committee
2 chairmen are invited to go to that, as well as the
3 chairmen of the education task forces. What I would like
4 to do is to take the time, which I think will be about
5 four minutes, to make the remarks that I have prepared to
6 make, and then I would like to ask everyone to just stay
7 here and let us take 15 or 20 minutes and conclude the
8 business we have to conclude and then we will go on. That
9 will save us all about a half an hour, 45 minutes. There
10 will be lunch available for those who are doing that.
11 Those who have to leave during that Executive Committee
12 meeting, I hope you do it real quietly so we can continue
13 our work.

14 I would like to continue a direction that John
15 Carlin and his predecessors have started with the National
16 Governors' Association. It is a direction that I believe
17 has the support of almost all the Governors that I have
18 talked with, both Republican and Democrat. It is this:
19 that the National Governors' Association should spend more
20 time helping Governors to be better chief executives, and
21 that we should spend less time helping Governors act like
22 United States Senators. We should spend more time on
23 better schools, on better roads and better jobs, on
24 cleaner water, on better-managed prisons and finding more
25 appropriate places for outdoor recreation. Those things

1 are our job. We should spend less time arguing about war,
2 welfare, Social Security and debt. That's what they do in
3 Washington.

4 Sometimes Governors should speak to the nation.
5 John Carlin made sure we did that at this meeting. We
6 have debated world trade, an issue that emerges in the
7 states but demands strong leadership in Washington.
8 Governors should help lead that debate, the debate about
9 how America gets ready to compete in the world in the 1990s.
10 Sometimes Governors ought to speak out when Congressional
11 action affects states. For example, states could swap the
12 national government our part of Medicaid responsibility
13 for its role in elementary and secondary education. Other
14 times the Governors need to jump feet first into
15 Washington-centered arguments. For example, the Federal
16 budget deficit is outrageous. We ought to support and
17 have supported tough action to bring it under control.

18 For those reasons, I have asked Governor Carlin
19 for the next year to be our lead Governor on the budget
20 deficit, to continue to advocate the bipartisan position
21 we worked out with a great deal of difficulty over the
22 last two years, but which we worked out.

23 And I have asked Governor Lamm to continue the
24 structure that we have already formed to try to express
25 the Governors' point of view on tax reform. We don't all

1 agree on that, but Dick has done a painstakingly careful
2 job of presenting a point of view -- for example, on state
3 and local tax deductions and which differs from the view I
4 had, but which is a little more representative of the view
5 that most Governors seem to have.

6 But, still, Governors ought not to try to write
7 the Federal budget just because we care about the Federal
8 deficit. We have a different job. We are chief
9 executives of states, and it's up to us, number 1, to see
10 our state's most urgent needs; number 2, to plan action to
11 meet those needs; and number 3, to persuade at least half
12 the people we are right. We lead our political parties,
13 we symbolize our state's best hopes for itself, and
14 understand -- and oversee the management of agencies that
15 in many states are larger than any private industry in the
16 state. We enjoy more of the credit and suffer more of the
17 blame for what goes right and what goes wrong. We have
18 plenty to do at home without looking to Washington for
19 more work. There is no need for our meetings to have more
20 Washington speakers on Washington issues when Americans
21 care more and more about what state capitols are doing on
22 local issues.

23 During the next 12 months the National
24 Governors' Association will spend more time helping
25 Governors do better what we spend most of our time doing

1 at home. First is the Governors Report on U.S. Education
2 1991. Many of you will be involved in that. All the
3 Governors will be dividing into seven task forces and
4 there is room for everybody to take a major role. We will
5 collect the information we need as Governors to deal with
6 seven of the hardest issues facing U.S. public education.
7 They are listed in what you have. But, for example,
8 number 1, readiness. Aren't there better ways to help
9 poor children with weak preparation get ready to learn and
10 succeed in school? Every Governor ought to know what
11 Governor Riley, for example, is doing in South Carolina,
12 and what Dick Thornburgh is doing in Pennsylvania.

13 Number 2, parent involvement and choice. Why
14 not let parents choose the public school their children
15 attend? Not every state may want to do that, but if they
16 want strong public schools, they ought to know what is
17 going on in Minnesota about that, what is going on in
18 Vermont and Colorado and Washington state about that.
19 It's worth knowing, it might help.

20 And in teaching, are there better ways to pay
21 teachers more for teaching well, and should there be new
22 paths into the classroom for people who should be teaching.
23 Governor Kean and Governor Babbitt are going to lead the
24 effort to get into that, and every one of us will benefit
25 from finding out what they come up with.

1 School facilities, college quality, new
2 technology, school leadership and management. Not all of
3 the issues, not new big studies, just seven tough issues
4 where we as Governors will collect information as
5 Governors, present it to ourselves and by doing that, help
6 to set the American agenda for better schools over the
7 next five years.

8 By next year at our meeting in South Carolina
9 at this time, we should have seven chapters of our
10 Governors report on those seven issues available to all of
11 us and to the rest of the world. It ought to be a
12 powerful part of the new agenda for better schools, and
13 then we will develop our own report cards to see how well
14 we do on those issues during the next five years and what
15 we can learn from it. It will make sure that Governors
16 who sometimes only learn these difficult education issues
17 after a number of years in office learn them early and
18 learn from other Governors. I learned most of what I know
19 that is helpful to Tennessee about education from
20 Governors in other states, and we are forever indebted to
21 them for that.

22 Governor Kean and Governor Clinton, the leaders
23 of the education commission of the states, and Bill now is
24 the new vice chairman of this organization, will join me
25 in overseeing the task forces, and we are delighted about

1 this special role of the education of the state, Tom, in
2 working on this plus all the other things you have outlined
3 for next year.

4 Second, the Executive Committee will assess
5 where federalism will be in 1991. New Federalism has
6 abruptly become a reality. We don't need to negotiate
7 about it, we have got it. As a result the states will be
8 doing more, not less, in some areas five years from now
9 and I would like to know what that will be. The Federal
10 Government is withdrawing. That suits me fine. But we
11 better look ahead to what our new responsibilities will be
12 and get ready to pay the bills for it, because it will
13 cost new money.

14 Third, we will begin seminars for Governors
15 that focus on how we become more effective chief
16 executives. Governor Graham is going to take the lead in
17 doing that, we are all looking forward to it. It's one
18 thing to be elect, it's another thing to occupy the office,
19 it's a third thing to do anything. That's what the
20 seminars will be about.

21 Fourth, we will take an active role in the
22 President's Commission on American Outdoors, which will be
23 appointed in the next few weeks. More outdoor recreation
24 responsibilities shifting to state and local agencies into
25 the private sector. That's one of the responsibilities we

1 are likely to get as a part of the New Federalism.
2 Governor Earl and I have talked about this, it's part of
3 his committee's action. I have asked each of you to
4 consider forming in your own state what I have done.
5 Tennesseans, the Governors' Commission on Tennesseans
6 Outdoors, so that the states can say to the national
7 commission what you think and be in existence to carry out
8 some of the good suggestions.

9 This will be a responsibility I think you will
10 enjoy, and one which you will find is important.

11 Except for the presidency, except for the
12 presidency, our jobs have become the most satisfying, the
13 most unique, and institutionally the most valuable jobs in
14 America. It is the NGA's job to help us do those jobs in
15 our states as well as we possibly can.

16 I look forward to the privilege of working with
17 you and I thank you for that privilege.

18 (Applause.)

19 GOVERNOR ALEXANDER: Is there any other
20 business? If not, the meeting of the NGA, with thanks to
21 the Evanses, comes to a conclusion after a wonderful time
22 in Idaho, and the meeting of the Executive Committee will
23 begin instantly on the spot, and I will ask all the other
24 Governors who are chairmen of the various committees to
25 stay for those few minutes, and any other Governor who

1 wants to stay is welcome. Anyone who is leaving, we would
2 like you to do that as quietly as possible. The meeting
3 of the GNA is adjourned.

4 (Whereupon, at 2:07 p.m., the plenary session
5 was adjourned.)

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