NATIONAL GOVERNORS ASSOCIATION

OPENING PLENARY SESSION

Boise, Idaho

Monday, August 5, 1985

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Shoshone Room
Morrison Center for
the Performing Arts
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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.
GOVERNOR CARLIN: Call the first plenary session to order. Welcome to all the Governors and our many guests here this afternoon in Boise. We have a distinguished set of guests. Our Canadian Premiers have joined us today and the Secretary of the Treasury, who will address us first, and given that fact, we will move as quickly as possible to those distinguished guests so that their time can be appropriately used and our dialogue later with the Premiers will be as successful as possible.

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

GOVERNOR ALEXANDER: So moved.

GOVERNOR CARLIN: And a second.

GOVERNOR EVANS: Seconded.

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

I would remind you as I did yesterday that anyone who has a motion for suspension of the rules, it needs to be in writing by the close of business today. We are going to make every effort to be done at 4:30 or very shortly thereafter. Jim Martin -- where are you, Jim? Stand up. Is the gentleman who should receive any motion that you have for suspension of the rules. That will be
the deadline. Those who have been submitted, those rules of suspension that have been submitted will require a 3/4 vote tomorrow for consideration by the body.

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

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

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

SECRETARY BAKER: Thank you very much, Governor Carlin. Ladies and gentlemen, you are here today because you are interested, and because you are concerned about making your states and our nation better for all of us. That is why I am here today too, but with me, it was not ever thus. For some 20 years or so, I was pretty much totally apolitical as a lawyer and with a major law firm in Houston, Texas, but I could gripe and moan with the rest of them about what was wrong with my state and with this country, and I used to spend a lot of time doing that. One day my wife said to me, she said, you know, you really have no right to complain, because you are not willing to roll up your sleeves and get your hands dirty and try and do something about what you see as problems.

I thought about that, and I concluded that she was right, and one thing led to another, and one day I found myself running for state-wide office in Texas against one of your number, and back in those days, Texas was pretty much a democratic state. We have begun to make a few little inroads, but it was pretty much solidly a democratic state back in those days. And I never will forget an experience I had one hot summer afternoon in a bar in Amarillo, Texas, where I was talking to a small
group, and some of you might say what in the world were
you doing talking to a group in a bar and the answer to
that is, if you were a Republican running for statewide
office in Texas in those days, you would talk to anybody
who would listen.

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

So much for being concerned.

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

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

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

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

Since then, reflecting their dependence on one another, both economic and trade growth have generally been slower and more sporadic. In the last several years trade has been a particularly powerful stimulant to growth.
A fast growing United States economy has boosted the incomes of our trading partners dramatically.

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

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

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

You are acutely aware of this issue. Your Committee on International Trade and Foreign Relations speaks eloquently of its meaning to our economy and our working men and women. Some have suggested quick fix, meat axe protectionist solutions that would supposedly solve the trade deficit. But these measures would be dangerously counterproductive because they are based on a misunderstanding of the trade deficit. As the saying goes, it's not wise to try to fool Mother Nature, nor is it wise to ignore the fundamental forces behind the trade deficit.
A large part of the rise in the trade deficit has been caused by the fact that the United States has grown faster than its trading partners, something I alluded to earlier. In the first two years after our recovery began in late 1982, we grew three times as fast as Europe and twice as fast as the rest of the industrialized world.

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

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

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

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

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

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

Distortions are a disservice to all the world's economies. They create inefficiencies and inefficiencies
inevitably mean economic well being is lower than it could and should be.

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

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

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

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

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

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

And as United States growth is slowing to a more moderate pace this year, other economies are beginning to converge with ours. As other countries' economies become more attractive for foreign investors, downward pressure on the dollar will build. At the Bonn
Economic Summit earlier this year, the industrialized nations laid out their goals. The United States committed itself to reducing its budget deficits. The Europeans promised to take action to strengthen employment and non-inflationary growth. Japan pledged to open its markets to imports, and to continue the process of liberalizing its capital markets and internationalizing the yen.

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

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

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

Exchange market intervention can play a role, but only a limited one, in support of other more basic policy changes.
We are convinced that true monetary stability can be attained only if countries cooperate to achieve sound policies at home and compatible performances internationally. This is an ambitious agenda and it's one with a long-time horizon, but we firmly believe it is the right approach. The quick fixes proposed by some in our view will only exacerbate the problem.

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

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

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

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

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

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

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

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

Such negotiations should be broad in scope, since trade barriers are rapidly becoming more sophisticated and more deeply rooted. All barriers to trade in goods and services and flows of direct investment
should be on the table, whether such barriers or tariffs
or some other form of protectionism.

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

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

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

Our tax plan promotes fairness, economic growth
and simplicity by cutting back tax preferences and by
lowering tax rates. Take fairness first. Simply put,
most of the benefits from the state and local deduction go
only to a few well-to-do. Repealing a deduction that
primarily helps the wealthy is at the heart of any tax
reform, and I will add parenthetically that the deduction
works against the progressivity of state taxes and
actually transforms such levies as sales taxes into
regressive taxes that hit hardest at the poor.

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

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

Second, repeal of the state and local tax
deduction is critically important to our efforts to reduce
marginal tax rates, and reducing those rates is essential
to making our economy stronger and more internationally
competitive.
If this deduction is not repealed, we will see a Federal revenue loss of $33 billion in 1987, which increases to $40 billion in 1990. Without recapturing this amount, a substantial tax cut in marginal rates would not be possible.

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

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

Finally, let me address your concerns about how repeal of the deduction will affect your states. While
ending a deduction is crucial to our overall plan, we believe the impact of this change on individual states and localities will be extremely modest. Perhaps the most important fact to consider is that a relatively small portion of state and local spending is financed by deductible taxes. In 1982, taxes claimed as an itemized deduction represented only about 20 percent of all state and local tax spending. In addition, it is frequently overlooked that expanding the national tax base will also expand the tax base of the 32 states that use the Federal system as a reference. That would send state tax revenues up. For example, Colorado recently estimated that our plan would add $50 million to its revenues by expanding its tax base.

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

Now, this is not just idle talk from one man dedicated to the principle of tax reform. Recent independent studies have confirmed the belief that repeal of the deduction would have at most a very limited effect. The National League of Cities found that total state and local spending, now increasing 7 percent annually, is only
about 2 percent higher because of the deduction for state  
and local taxes. Likewise, a study by the Congressional  
Research Service predicted that total state and local  
spending would be only 1.5 percent lower if the deduction  
were repealed. And even these encouraging studies leave  
out two major factors of benefit to state budget makers.  
First, the more than $20 billion of bottom line tax relief  
that our plan would deliver to individual taxpayers; and,  
secondly, the political impact of the non-itemizing  
majority.

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

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

Thank you very much.

(Applause.)
GOVERNOR CARLIN: The Secretary will now take a few questions and I call on Governor Robb.

GOVERNOR ROBB: Thank you, Mr. Chairman.

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

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

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

I should probably begin by prefacing my comments by saying that I happen to be one who has worked very hard with my colleagues on both sides of the political aisle here to maintain what most of us believe
is an important bipartisan approach to some of the things that we have been doing, as the nation's Governors convene each year, occasionally receiving a certain amount of criticism from colleagues on my own side of the aisle, for being insufficiently partisan on particular issues.

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

We are concerned, however, that the request that is implicit in your appearance here, and the remarks that have been made repeatedly, individually, and collectively to Governors on both side of the aisle for bipartisan support for some of the programs, is not
enhanced by a communication that bears his signature.

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

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

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

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

"Walter Mondale and liberal Democrats as usual wanted to raise your taxes. Frankly, I was surprised.
During the past four years, our Administration cut your
taxes by 25 percent, many Democratic Governors turn right
around and increase state sales and income taxes wiping
out the tax cuts given to you by our Administration. In
contrast, our Republican Governors have fought to hold the
line on taxes and spending. Clearly, the huge majority of
Governors the Democrats have represents the last unchallenged
stronghold of the liberal tax and spend philosophy that
nearly brought America to her knees."

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

Our concern, Mr. Secretary, is that we want to
participate, we want to cooperate. Many of us have gone
out of our way continuously at one conference after
another to try to assist the President in his overall
objectives. And we would hope that you could convey to
him, and I convey at this session to the other Republican
Governors whose names have been at least a part of that
effort, and who happen to be very good personal friends,
and Governors that all of us who serve with them hold in
extremely high regard, and they have made some very tough
politically difficult decisions, but they have also
balanced their budgets that Democrats and Republicans
alike, time and time again, and to suggest that Democratic
governors are somehow now responsible for the inability of
the President or the country or the Congress to balance
the budget or to bring the deficit in line, does not seem
to me to contribute to the goals that I think all of us
share.

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

I mention that in the context that you are here
before us, and I realize that you may not have seen this
particular letter; but in the context of seeking support
for the budget, and for tax reform, I would offer this in
the hope that this type of activity could be diminished
and that we could continue on in the central bipartisan
basis on the best interests of the entire country.
SECRETARY BAKER: Thank you, Governor. I am tempted to say I am out of politics and into statesmanship, but I won't. I will tell you that I will share those remarks with the President. I will go further and say unless we have bipartisan support, there are a lot of things we are not going to do. One of them is we are not going to enact tax reform, and another is we are probably not going to find the wherewithal to stand up and preserve the free trading system that is so important to the welfare of this country, as I indicated in my remarks. So I will share those views with him.

GOVERNOR CARLIN: Governor Kean.

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

But a lot of us continue to be troubled by the very idea that you just addressed, the idea of state and property taxes, not having those deductible. Not just on some of the basis that you mentioned, but on the basis,
first of all, of constitutional grounds, we question the
taxing of taxes by the Federal Government. Secondly, on
the grounds it's not fair to all states. It hits some
much more heavily than others.

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

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

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

The bottom line of my question is, this program
is financed by about 3/4 by revenues that are now in one
way or another at the state and local level. Is there any
possibility, or do you see any possibility for compromises
in this area. Bill Bradley in his proposal does not go as
far as you do in state and local taxes. Jack Kemp doesn't
go as far as the Administration does. Is there room for
compromise in this area so that all of us can get behind
the program and support it wholeheartedly.

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

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

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

We feel very strongly that, A, it is required,
if you are going to have meaningful reform on the
individual side; and, B, that the fairness argument argues strongly in favor of eliminating the deduction. That being the case, it would be inappropriate for me to indicate that we would compromise that out or negotiate it out before the legislative process begins. So I simply can't do that. We feel very strongly about the elimination of the state and local tax deduction, I am sorry to say to you.

GOVERNOR CARLIN: Governor Sununu.

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

In light of what you said, and I understand over the long haul the points you make are perfectly valid,
and I guess in terms of summarizing what I think you said for the short haul, you pointed out that the reason things are so bad is that they are so good, and things will get better as soon as things get worse.

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

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

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

SECRETARY BAKER: Well, I really am not able to predict with a lot of accuracy, Governor Sununu, when that
might take place.

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

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

I can't tell you when the dollar is going to get to the point that it would mean that the trade balance would be reversed. But, quite frankly, I happen to believe that the dollar is more at fault, honestly, than the unfair trading practices of other nations. I really believe that the dollar has increased as it has because we have been so successful; and because if you are looking for a place to invest today, you are looking for a place to invest your money, where would you put it. You wouldn't put it with some of those economies that are not
growing or haven't grown the way the United States has. You certainly wouldn't put it in the LDCs; you would put it right here.

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

We are doing so, I mentioned in my remarks that we think it's important that the United States reasonably and responsibly enforce its laws against unfair trade practices, that we encourage our trading partners to permit their economies to grow a little bit more. We think they can do that, as ours tends to moderate. And ultimately we think that will turn the situation around. But it's not something that is going to happen overnight.

We would be, I think, taking -- walking down the wrong road if we thought that some sort of Congressional protectionist legislation was the way to go, because that is simply going to exacerbate the problem. It's going to make it worse and it might, in fact, lead us into the kind
of situation we experienced in the 30s.

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

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

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

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

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

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

SECRETARY BAKER: Governor White, before you
ask your question, let me remind you that the Secret
Service is in the room.

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

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

(Applause.)

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

(Applause.)

GOVERNOR CARLIN: We now move on to the second part of this first plenary session. We are honored to have with us today a number of our distinguished friends,
Premiers, Canadian provinces, to discuss trade. As we are all aware, we have extensive ties, we Americans, with Canadians, whether they be political, economic, cultural, commercial or even defense.

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

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

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

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

(Applause.)

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

We recognize that there will be, by the very magnitude, differences between our two countries on trade, so we welcome an opportunity for this dialogue. Many of
us have been involved with many of you on a regional basis
and in other ways bilaterally over the years that we have
been involved in office. I can't resist just one side
comment. We all agreed at our lunch today that we would
try to learn and take back some ideas to our country, but
we did decide that one thing we didn't want to take back
was any of you who have the provision that you are limited
to two terms in office. That was one of the things as 10
premiers we were in full accord.

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

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

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

(Applause.)

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

(Applause.)

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

In the early years of Newfoundland's settlement, trade links were maintained regardless of war and depressions. A two-way trade with the New England states and New York was especially important to early development in Newfoundland as in the maritime provinces. That trade, needless to say, also played a part in the success of
cities like Boston and New York well into this century. I would be very remiss indeed, ladies and gentlemen, if I did not remind you as well of another footnote in history, very germane I think to the discussion today. In 1890, the then separate dominion of Newfoundland concluded a treaty of free trade and reciprocal fishing rights with the United States. This was the first such free trade reciprocity agreement negotiated by any part of Canada with the United States since the U.S. Civil War.

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

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

To take us to the present, our problem still has, on the whole, an economy based on the export of
natural resources. In 1984, international trade accounted for over $1.5 billion to our small economy, and over half of this trade is directly with the United States. Our three main exports to the U.S.A. are approximately $400 million worth in fish products, $250 million worth in newsprint and $650 million in iron ore.

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

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

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

The third major area of present Newfoundland/U.S. trade is in tourism. Here you are the chief beneficiary by far. Many Americans do travel to our province to experience our special cultural heritage and wilderness, but we have many tens of thousands more Newfoundlers who
make that annual trip, especially to Florida, to break up our long winter.

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

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

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

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

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

I have a short slogan which I would like to leave with you, and that, is simply, exports mean jobs. The export led sectors of the Canadian economy have been in a better position to preserve what employment they create now and expand employment as export sales grow. We believe that the same is true of the American economy. The dynamic growing sectors of your economy will be those which meet early the competitive demands of the international marketplace.
I hope that our discussions here today will facilitate a better understanding of the need for all of us to work together to promote not only greater understanding but also greater appreciation of the mutual benefits of our trade with one another. Thank you for listening to me.

(Applause.)

GOVERNOR CARLIN: Thank you, Premier.

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

Premier Buchanan.

PREMIER BUCHANAN: Thank you very much, Mr. Chairman. Governors, Premiers, ladies and gentlemen. First of all, I want to also extend my thanks to you, Mr. Chairman, and your colleagues, for inviting us to participate with you in your conference. I being the recipient of Governor Evans' hospitality since Saturday night, and I want to tell you all that I thoroughly enjoyed every minute of my stay here in Idaho.
It's significant to note that historically and to the present, the United States and Canada not only are closest neighbors but probably closest friends and particularly now. Relations at the present time are very good. In fact, I don't think it's an overexaggeration to say that relationships are excellent. I believe we must keep it that way.

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

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

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

I look upon the United States, as do the vast number and the vast majority of Nova Scotians, as family. For instance, our naval bases, our harbors, are open to
the United States. Your servicemen are as at home in Nova
Scotia and other parts of Canada as they are here in the
United States. They are like our own. That kind of
relationship in the world today is unique.

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

(Applause.)

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

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

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

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

U.S. exports to Canada in 1984 grew by more
than 20 percent, as opposed to an average growth of 8.7
for other U.S. export markets. The United States exports
twice as much to Canada than it does to Japan. The
exports to Canada are equal to total U.S. exports to the European economic community.

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

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

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

In addition to that, we welcome investment from the United States to Canada, particularly now with investment in Canada. But we have always welcomed investment from the United States and Nova Scotia, so you have another traffic that way with profits from investment going back to the United States. So that's another account that must be taken into consideration.
Canada is the biggest market for American exports. And Canada is a rapidly growing open and free market.

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

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

(Applause.)

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

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

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

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

Of the products that we produce in Prince Edward Island, 58 percent of our products are exported to the U.S.A.. And the major part of that is in the fishing area. Therefore, deep ties developed between the eastern provinces and the eastern states because of that. This is probably most clearly reflected in the existence of the conference of the eastern Governors and Premiers as has already been mentioned. I hope there are some points we can all learn from the interaction of the states and the provincial officials as this conference has been going on
now for about 12, 14 years.

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

With this relationship that we have entered into, certainly is noted, it's already been said, we are the largest trading partners between our two countries. This relationship, ladies and gentlemen, did not develop without difficulties. It required understanding, sometimes trade-offs, but the end result has been that we have strong ties.

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

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

(Applause.)

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

PREMIER HATFIELD: Thank you, Governor Carlin. First of all I want to express my appreciation to Governor Evans and to you, Governor Carlin, for your invitation to be here, but especially to Governor Evans because it gave me an opportunity to discover your undiscovered state. I must say I have been charmed by the hospitality of the people, and I have been impressed by the pride that the people of this state have in being residents of Idaho, which has come through loud and clear in the way they have
greeted us individually and in the way that they have participated in organizing and becoming involved in this conference.

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

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

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

We export to the United States $76 million in fish products, $56 million in lumber and lumber
products, $300 million in electricity, $110 million in refined oil, $500 million in newsprint and wood pulp, $130 million in wood products, including potatoes, and over $40 million in beverages. That moose that is loose in many of your states is Moosehead from New Brunswick.

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

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

Thank you.

(Applause.)

GOVERNOR CARLIN: Thank you very much. Next, Premier Rene Levesque of Quebec, Premier since 1976, served as minister of public works, minister of hydraulic resources, minister of natural resources and minister of
family and social welfare, elected to the Quebec National Assembly in 1960 and in that capacity introduced many social reforms. Premier.

PREMIER LEVESQUE: Merci beaucoup.

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

This has led me, like my colleagues, as you have noticed, to emphasize just one key topic that goes straight right to the heart of the matter, namely, trade, which doesn't mean there aren't other issues of great importance. For example, just one: the growing danger for us, in the east especially, of pollution by acid rain and other forms of contamination. You know, we are slowly but surely poisoning thousands of our streams and rivers, lakes and forest resources all over the east on both sides of the border. That was a crucial issue that we discussed
at the recent Eastern Governors and Premiers Conference that Premier Buchanan has mentioned. Our recent developments have given that problem I think a renewed growing urgency and made a few reactions, if possible, positive, could come from this great national forum of yours in order that we also look clearly at that problem.

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

In flying over America yesterday afternoon, I saw reminders all over the map: Joliet, Detroit, Michigan, to a refueling stop at Duluth, Minnesota. I am sure Governor Evans and other Idahoans, contrary to Premier Hatfield, who called you an undiscovered state, I am sure you are well aware that Boise, which means a good piece of timberland, Boise, was and is Boise with an accent, we call it an acute accent in French, and it started by being Fort Boise. I have also been told that the oldest building in the state, Cataldo mission, was first established by Reverend Father DesMans, one of our roving imperialist Jesuits from Quebec. Jesuits have always been
All told, and that you may not believe, but all
told, 31 of the 50 American states, were either discovered,
explored or pioneered, as far as the white man's presence
is concerned, by our own forefathers from Quebec, which
gives you an idea of how big a stake we have in this
continent historically. In fact, if history had been fair,
America would be French.

(Laughter.)

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

In a nutshell, almost five of every hundred
dollars100 that you earn abroad originate from Quebec, not
counting, for instance, tourism or very lucrative and
ever-growing under-the-counter, which means also uncounted,
cigarette sales, ours being right now twice the price of
yours, so you can imagine what goes on around the border,
that great undefended border.
Now, the obvious counterpart is that we ourselves are very dedicated exporters to the U.S. market, because otherwise we couldn't live. Each year we ship over 10 percent of our total production to your country, mainly to New York, New Jersey, Pennsylvania, New England, the whole of New England, and the Midwest. The range of goods and services involved is so diverse that it's no use going into it chapter and verse, but I shall single out as a Quebecan, just hydroelectric power, whose development has been a long time personal commitment for yours truly. Now our fast growing sales of low cost and obviously clean, since it's hydro, power to New York and to New England, should reach just about $1 billion a year by 1990. It's about half of that right now, but new contracts are there.

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

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

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

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

(Applause.)

GOVERNOR CARLIN: Premier, I apologize for not mentioning your approaching retirement.
PREMIER LEVESQUE: Oh, I may change my mind yet.

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

PREMIER BENNETT: Thank you very much, Governor Carlin, Governor Evans, and of course thank you to all Governors for giving us this opportunity at this forum. I guess you have noticed some similarities in our countries. Those of us who live in the West are used to voting last, speaking last, and here we are in the same position again. That's one of the natures of our two economies, is that we have grown in a westerly fashion, and as a westerner we have a unique economy in British Columbia inasmuch as our economy reaches south to the U.S., it reaches west to the Pacific rim, and the changing geography of international trade. It is now put in the position of British Columbia, Canada's western doorway to the Pacific, similarly to that of Washington and Oregon.
and California as being the western doorway to a much
greater global market than has existed before and one in
which there is great tension.

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

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

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

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

While we built our economy on our resources,
like all other resource areas we must diversify our
economy and stabilize it in a way in which our two
countries have worked very well in the past.

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

We have an industry that even during the international recession, when the auto industry faced its severest challenge, survived in both our countries. And it is a splendid model for other products we trade between us, whether they be resources in lumber and forestry, or manufactured products, that if we have a clearly defined rules under a comprehensive trade agreement, we can bring stability for investment decisions on behalf of industry on both sides of the border, industry investment that will bring greater stability than if we have to respond to what is happening now in some areas on both sides of the border. And we face a difficult international economy, and that is moves to introduce protectionist measures, but while they might be politically pervasive during this particular time, would in the long term and the midterm, be destructive to
the growth of both our economies, the long and midterm
employment of our people, and we will have missed an
opportunity to establish in a more formal way the
strongest market economy in the world, the North American
trade agreement between what is now the strongest market
economy in the world, but with mostly informal
arrangements and greater opportunity that lie ahead.

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

We take it for granted and it's been stated by
others, but you know, Canada buys almost twice as much
from the United States as the United States sells to Japan.
Twice as much, and that's to your next largest trading
partner. We are an open trading partner, unlike the
difficulties that you have stated, and which I understand, as the Premier of a province who provides 55 percent of all Canadian sales to Japan come out of British Columbia, as I understand, dealing specifically with that market.

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

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

We have a history of mutually successful, satisfactory negotiation behind us. Therefore, the
positive way to deal with international trade now and trade between us, is not to have beggar-thy-neighbor policies, but to recognize that together we are part of a North American economy that can face the world.

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

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

You talk about Japan being a tough market. As I said, you can do it. We in British Columbia now take 55 percent of their market, of all Canadian products. We take 60 percent of Korea's, of all Canadian exports, and we have done it by the way we built both our countries,
not through protectionism, not through subsidy but hard
salesmanship, being competitive and productive, which is
the way your country built as well.

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

It will be the only time that the countries of
Russia, the country of -- the countries of Russia, the
United States, the Peoples Republic of China, to name a
few, will have been together on a single site in North
America, displaying the technologies of the future and the
trading opportunities of the future, because we hope that
through those expositions, we can expand our understanding
amongst countries, just as you and I are trying to expand
our understanding and trade opportunities today. I hope
that each and every one of you will take the opportunity
to be part of a peaceful international event that points
in a positive way to the future, and come to Vancouver,
British Columbia between May 2nd and October 15th in 1986,
because I believe you will have an opportunity to be
entertained and educated, but we all have an opportunity
to marvel that from time to time, East Bloc and the free
governments of the world are able to meet together in a
positive way, particularly in matters of future trade.

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

(Applause.)

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

PREMIER LOUGHEED: Mr. Chairman, first of all,
if there's going to be a commercial, Bill, I want to
invite all the Governors to come to the next Olympics in
Calgary, Alberta, Canada, in 1988. In any event, you have
heard Governors from seven of the provinces. I want to
make a few brief words with regard to my province of
Alberta. The other three provinces not represented here, Ontario, Manitoba and Saskatchewan, their Premiers are not here for good and valid reasons, and they will get a full report from the seven of us at our Premier's conference in a couple of weeks. As far as Alberta is concerned, most of you know we are on the eastern slopes of the Rockies, that province that produces over 80 percent of Canada's crude oil and natural gas. Some of you probably do not know that in terms of crude oil now, we are second in terms of the country, after Mexico, providing crude oil imports, primarily into the Midwest area.

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

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

We believe that this discussion, both in terms of our province and overall, should help the focus upon
the potential that we have and the need to work together
and to understand each other, and I hope that all of you
have gone through the exercise that the Premiers have gone
through. We try to evaluate our particular trade with
your country, and at the same time, what we buy from you.

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

Thank you, Governors.

(Applause.)

GOVERNOR CARLIN: Thank you, very much, Premier.

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

GOVERNOR SUNUNU: Thank you very much, Governor
Carlin. As chairman of the New England Governors'
Conference, we have had a very good working relationship
with the Governors and Premiers of the eastern provinces.
They quite often speak enthusiastically about the energy
resources they have. I wonder if the Premiers could take
a 30- or 60-second opportunity to give us a commercial,
each individually, on what they think the potential for
energy sales from their part to our country is at the risk of offending our states who consider themselves the only resources of our energy supplies in North America. I thought it might be informative for the other Governors to get a little bit of a quick summary. I know it was touched on briefly, but maybe in one fell swoop we could get a good overall summary.

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

PREMIER PECKFORD: Mr. Chairman, if I can quickly go through where we are, we are on the verge right now of developing the Hibernia oil field which is being led by Mobile of New York. It is a field of somewhere around 1 billion to 1.5 billion barrels. The development plan for the field will be coming in August 15. We are looking at green lights towards development next year. The probabilities for the future, there are three or four
other fields that have been already discovered, are now
being delineated. The predictions are there is a greater
than 50 percent chance there is between 10 and 15 billion
barrels of oil off Newfoundland, also tremendous amounts
of gas. We do now have a developed hydroelectric resource
of 5200 megawatts in Labrador which is being sold to
Quebec which is then being resold to the United States, or
some of it.

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

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

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

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

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

GOVERNOR CARLIN: Any other Premier?
PREMIER HATFIELD: We sell, New Brunswick sells over $300 million worth of electricity, most of it hydro or imported from Quebec, and some of it nuclear, to New England utilities.

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

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

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

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

Now, if I may emphasize, in closing, the fact that my junior partners here have forgotten, Quebec, you know, there is a sort of oil barrel equivalent in energy, so it's not all transferable, but there is that kind of calculation. In oil barrel equivalency, about 3/5 of all of Canada's energy resources -- clean, firm, perpetually
renewable -- 3/5 of all Canada's energy reserves or resources lie in Quebec. So when those guys are out of the market, we will still be there perpetuating.

GOVERNOR CARLIN: Thank you very much, Premier Bennett.

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

Quite frankly, we have a number of energy options that may well be in the mutual interests of both our people, and the people of the United States, the western states, in coming to some agreement, which is not, so far being achievable, although California and Los Angeles Power & Light and others have signed agreements, that we have not been able to wheel that power on a mid- or
Another source of power we have which may surprise you is the second 30 years of the Columbia River Treaty, which is actually power that is produced in the U.S. that was a benefit of the treaty, but belongs to us and is available to us for either continued sale into the U.S. or return to Canada. It's an additional hydro development in which we actually have your energy produced in your area but is ours to disposed of for 30 years. So we have an important role to play in continued development of the western part of North America.

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

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

GOVERNOR CARLIN: Thank you very much. Going
to Governor Sinner next. Before I do I want to advise
staff and host committee that given the commercials that
we have just heard, if they are properly and totally paid
for, we should net a very nice profit at this conference.
Governor Sinner.

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

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

We have heard that from lots of people in this room
in the last two days; and in my state, the situation is critical, and I must deal with the problems. The same is true with electrical generation. We are electrical generators, and we have to fight to protect our industry and our jobs for our people.

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

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

PREMIER LOUGHEED: Thank you, Mr. Chairman.

Governor, you mentioned two elements with regard to agriculture, trade in our province, and almost all of the Canadian provinces are involved in that trade. I'm not sure that I can fully comprehend how Canadians can be blamed for the monetary differential or the value of the currency that is involved. We have actually had a difficult time. Your currency, for reasons that you are
well aware of, has of course appreciated significantly, because we are in a Northern America geographic context, ours is appreciated with yours.

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

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

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

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

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

My purpose in speaking is simply that several years ago, when it became apparent to me that Indiana was beginning to enjoy a considerable investment on the part of industry coming from abroad, from overseas, from beyond our borders, I got somebody onto the job of trying to identify where those investments have come from, in the belief that it might be Germany or United Kingdom, this was before the recent interest on the part of the Japanese. And to my astonishment, I found that none of those were the major investors in Indiana, but Canada was; this was a surprise to me and a surprise to other people as well.
So, I want to express appreciation to all of you for the fact that you have that much involvement in my state.

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

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

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

GOVERNOR CARLIN: Thank you, Governor Orr.
We'll now no longer will be able to charge our friends because, with that extensive commercial, I think it's a wash.

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

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

We talked about irritants, and you all said it would be a terrible mistake for us to get into protectionism. A lot of Governors in this room of both parties have resisted domestic context legislation, have not supported the present bill on import surcharges before the Congress, believe in free trade whenever possible. It appears to those of us who come from states where thousands of our people work in the wood products industry, that we are at an unfair competitive disadvantage in the importation of timber from Canada, for the simple reason that we believe that your stumpage practices permit that timber to be sold at a cost that is far below the cost of administering the land, the cost of replanting the land and a return on capital that is reasonable. I believe, I have read all the documents, or most of them that have
been filed on our behalf before the United States International Trade Commission, I am always reluctant to do anything to increase tariffs or barriers in our relationships with Canada. But I would like to just ask first of all, do you acknowledge that the stumpage practices result in the sale of the timber below the cost of maintaining the land, and if so, what should we do about it? And if we think that it's unfair, what should we do about it?

GOVERNOR CARLIN: Premier Bennett.

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

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

There's also -- as I say right now, under 322,
I think it is, further fact finding. Quite frankly, I am always prepared to have that type of determination when it comes to trade, because British Columbia, of course, in lumber, supplies a large part of the lumber that goes to the U.S. Our stumpage practices are modeled on the U.S. Forest Service. The difference in our country is that you have a mix of public timber and private timber.

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

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

Within two years our reforestation, if that's what you are talking about, will be equal to Finland's, which is the highest standard in the world. But you have also got to know our cutting practice, because it's later than in the U.S., where in many cases you're into second and third growth timber. We are still cutting mature timber and will be for the next 100 years. That mature timber will be lost, as we get fall-down of the timber.

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

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

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

If the only reason is that all of your lands are crown lands or owned by government and ours are privately owned, and we have to calculate the price based on competitive bidding, should we then just be prepared
for the demise of a lot of the private forest products industry in our country, or should we take over the management of their land for them so they can compete with you on a competitive basis?

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

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

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

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

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

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

GOVERNOR CARLIN: Governor Edwards.

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

I would like to know to what extent --

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

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

GOVERNOR CARLIN: Premier Lougheed.

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

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

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

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

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

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

GOVERNOR CARLIN: Premier Levesque.

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

GOVERNOR CARLIN: Governor Evans.

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

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

GOVERNOR CARLIN: Thank you, Governor Evans.

Governor Martin.

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

One issue that I raised with Premier Bennett and would share with others is a concern on the part of our North Carolina furniture industry, which has in the past enjoyed very good markets in Canada and they have expressed their concern to me about the relative about imbalance of tariffs between our countries on that line of goods. I understand there is a similar situation with regard to fiberglass sailboats, which you manufacture of very excellent quality, as we do in the U.S., and yet that raises the question as to the need for a high tariff there versus, in effect, a trivial tariff, which we impose on those products coming into our country, and raises the
further question, since that would not be free trade, how do we resolve that, is that just one of the issues that has to be negotiated between our federal governments, or if we were to impose similar tariffs would that be protectionist or counterprotectionist?

GOVERNOR CARLIN: Premier Bennett.

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

That will have to take place on that level.

PREMIER PECKFORD: Could I just mention, for the benefit of the Governor of North Carolina, who just spoke, and I think Premier Bennett's comments are very apropos to the problem that the Premiers are getting more involved with the Federal Government in matters related to
trade, and just recently, the Federal Government and the
provinces agreed to meet once each year and talk about
economic matters. It's a memorandum of understanding
between the provinces and the Federal Government. We met
in Regina, Saskatchewan, and we will be meeting in
November in Halifax, Nova Scotia. As a lead up to that
there is an annual meeting of Premiers which are meeting
in my province this year in August. So I think the
prospects -- if you look at the process, both from the New
England Governors, Eastern Premiers, throughout the
interactions that you have with other provinces and states,
I think the process is being established whereby Premiers,
with the Federal Government of Canada, are getting more
together and talking about our trade problems, then being
able to relay them on through the Administration of the
United States and so on.

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

But my point is, you must have a process. I
think we are getting into that, so we can gladly enlarge
and get into the comprehensive kind of approach that
Premier Bennett is talking about. Over the next five
years I think we are going to see a lot more of this from
Canada jointly, as provinces and the Federal Government,
as opposed to the historic pattern which has been almost
singularly that of the Federal Government of Canada.
There's been more of a cooperative arrangement developing
in Canada, so I think we can get at a lot of these
irritants that are there, and begin that comprehensive
process, which I think is the only way we can solve it.

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

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

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

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

PREMIER BENNETT: -- with a more expensive
dollar, rather than -- I really do have a puzzlement how
you do it.
GOVERNOR MARTIN: Well, we are trying to be as competitive --

PREMIER BENNETT: Are you subsidized?

GOVERNOR MARTIN: Do we subsidize our furniture industry?

PREMIER BENNETT: Yes.

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

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

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

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

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

GOVERNOR CARLIN: Governor Anaya.

GOVERNOR ANAYA: Mr. Chairman, very quickly, a question in terms of a state like New Mexico that is just
now trying to establish an international trade relationship with other countries, we have already seen how long it does take to try to establish those kinds of relationships. We don't do very much business at all with Canada, to or from. I wondered if you had any quick how-to recommendations in terms of a state like New Mexico establishing a trade relation with one of your provinces?

GOVERNOR CARLIN: Premier Lougheed.

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

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

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

GOVERNOR CARLIN: Governor Graham.

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

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

PREMIER LEVESQUE: Which leads me, just for a
moment, to the question about lumber, we are the northern
most state or province. It takes anywhere between 40 and
75 years for our lumber to mature, which means that
without stumpage fees or what have you, I mean our
stumpage fees are low, we know that. There is no subsidy.
But there is that problem, there is this value on account
of time in what we produce. I am referring to the south. In the south, we were hurt when you people found out, not necessarily New Mexico, found out that you could bring in second grade newsprint, but, anyway, newsprint from trees that grow inside of 20 years. That was tough on us. So it works both ways.

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

GOVERNOR CARLIN: Governor Graham.

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

Could you tell us what is likely to be the status in terms of aviation agreements between Canada and
the United States, and what might we do in order to assure
that there will be an adequate supply of opportunities for
Canadians to get to Florida and vice versa.

GOVERNOR CARLIN: Premier Hatfield.

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

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

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

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

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

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

We must say that one of the situations we are concerned about, we think our forefathers did a pretty good job in setting up Canada; but, frankly, I wish to heck they had never called our unit of currency a dollar. I'd like it to be 38-1/4 beavers equal one U.S. dollar, and have most of the people figure that out. It's a
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.
GOVERNOR CARLIN: I would like to call the plenary session to order. I would ask all Governors to be seated. I know there are a number of Governors coming in, and staff, if you would suggest to your Governors to proceed. I intend in a few moments to introduce our distinguished guest, John Young. He will make his remarks and respond to questions that we have, and unless I am brought another message which I don't anticipate it will happen in that time frame, I will declare a recess until the sound of the gavel. So if the Governors would come in, please.

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

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

(Appplause.)

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

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

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

Here is a corollary of that truth: Competitiveness is a prerequisite for attaining almost any other national goal we wish to achieve. We can be divided
on whether we should spend our public funds on guns or butter, but before we can make those choices, there have to be resources to spend and I think we all can agree on that. So competitiveness really is a unifying agenda, a thematic lens through which we should view and evaluate all of our public policies and private practices.

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

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

First, record trade deficits. Second, productivity growth that is surpassed by all of our major trading partners. Third, stagnant and declining real wages. Fourth, declining rates of return, our vital manufacturing sector; and, finally, the loss of world
market share in our high technology industries.

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

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

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

Neither can we dismiss the poor performance of manufacturing by pointing to our growing service industries. Manufacturing is the foundation upon which many services are built. Advertising, insuring, financing, distributing, all are services performed on some manufactured product. Many of our service sectors depend on manufactured products for their key competitive advantages. Can you imagine, for example, that New York's financial services community excelling in a way that they do without the sophisticated computer and communications networks that they employ.
Now, after we came to a consensus on the fact that the U.S. does, indeed, have a declining ability to compete, the commission began looking for reasons and remedies.

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

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

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

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

Let me discuss them in that order.

International trade, we concluded that trade simply has not been a national priority. Responsibility for trade is splintered. U.S. trade representative makes trade policy, the Commerce Department implements it.
Those two agencies aren't even always on speaking terms. Major pieces of the action are owned by the departments of Defense, Treasury, Agriculture, State; and a host of other executive agencies and Congressional committees. Their actions affect our competitiveness, but they don't often view their decisions through that lens.

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

Here are some of the other trade items we should put on our agendas. First we need a new omnibus trade bill that helps U.S. industry respond to international competition before the damage is irreparable. Second, we need to review export controls. As a nation we tend to act unilaterally and oppose controls our allies don't have. The commission heard testimony that put the cost of these stricter controls at more than $12 billion a year in lost sales. Third, we need to look for ways to encourage U.S. exports. Fully 85 percent of export sales are done by
just 1 percent of the nation's businesses.

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

So free trade in many cases is just a myth.

It's a process that has to be managed, we have to manage it well and make it work or look for appropriate remedial actions.

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

We are looking for ways to explain the dismal productivity record and capital formation record. Let me just dimension this problem for you. If you you take our six major trading partners, and you rank them from top to bottom in terms of capital formation since 1960, and listing those on the other side of the productivity growth
rate, you will find those two lists correspond exactly. By the way, you will find Japan at the top of that last, you will find the United States at the bottom. You know how economists are and you can imagine our surprise at finding this consensus about the cause for this low investment level. Capital costs are substantially higher for American firms than they are for foreign competitors.

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

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

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

Second, government has to stop competing with
industry for the scarce capital resources we have created.

That means cutting the deficit. It's effect has been
amassed by a record influx of foreign funds but we pay a
strong price for this. A strong dollar has made American
products more expensive both abroad and here at home.

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

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

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

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

So much for -- since so much of Federal R&D is
either unavailable or unconnected to commercial pursuits, we ought to continue to encourage the private sector to spend more in this area.

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

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

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

You can count on one hand the number of American universities that are doing significant research
in manufacturing technologies. I don't fault the universities; their disinterest simply reflects industry attitudes, where manufacturing managers too often receive lower pay and less glory than their counterparts in manufacturing and finance.

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

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

Let me just briefly recap what I have said so far. First two areas I have discussed, trade and capital resources, pose competitive disadvantages for the American industry. The third, technology, represents an advantage, but one we could use more effectively; and the final area
the commission addressed was human resources. Here we have one disadvantage and one advantage. On the liability side, we have to place the high cost of human resources. Americans get paid more than their counterparts abroad, no matter what kind of job they hold.

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

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

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

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

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

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

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

Almost a tenth of the key engineering faculty positions in the U.S. are vacant, and cannot be filled. The number of PhD's we produce has declined, and a growing number of those that do receive their PhD in the United States are foreign students. Now, these students may represent a welcome addition to our scientific expertise, but just as in the case of foreign capital, we have them only temporarily. They can always go home.
One reason that so many faculty positions are vacant is that salaries are simply not competitive with opportunities in industry. University research equipment is also often obsolete, makes jobs in industry doubly attractive. I see some hope for remedying this dangerous situation. This past year the National Science Foundation's budget for engineering research was up 22 percent, and six cross disciplinary research centers funded by NSF were approved just last month.

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

Now, preparing for these remarks, I had a chance to read a wealth of material about what states are doing to improve our ability to compete. Half a century ago, Justice Brandeis described states as laboratories of democracy, and there are a lot of experiments under way. I think that's a healthy sign for competitive renewal.
I am no expert in federalism, but it seems to me that some of the competitive issues I discussed today are most appropriately addressed by the Federal Government. The thorniest issues in trade policy and capital costs fall in that category. Here Federal policy has to set the competitive environment.

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

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

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

Bob Noyce, a Silicon Valley entrepreneur, who was a member of our commission, has a great story that illustrates this point. Bob is widely recognized as the inventor of the microprocessor, a device that has dramatically influenced today's computer industry. A few years ago Bob's wife came to him and described an investment opportunity in a young firm that had a new
product idea. After thinking about it, he advised her against it. He felt this idea would go nowhere. That product idea was the personal computer, the firm, Apple, and indeed it has gone quite a ways.

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

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

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

I would have told them that government can't
legislate success in world markets, that government can only create a climate for competitiveness, and that the responsibility for being competitive rests with the millions of people in the private sector.

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

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

(Applause.)

GOVERNOR CARLIN: Mr. Young has agreed to answer some questions. I would call on Governor Sinner to ask the first question, followed by Governor Kunin. As you identify yourselves I will recognize you. Governor
GOVERNOR SINNER: Mr. Young, thank you very much for a superb presentation. Many months ago, Phillip Caldwell gave a similar speech to the Washington Press Club in which he identified exactly the same problems. I really do, on behalf, I think, of everybody here, thank you for a superb presentation.

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

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

My personal view about why competitiveness is a hard agenda to get up in front of people is that basically people take being competitive for granted. It's just something we grew up with. We were leaders in technology,
for 100 years, and the leadership we had of productivity
and the infrastructure development, we all grew up with it
thinking Americans were leading the world, and indeed we
did.

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

I think it's a hard message to get across.

It's a complex of issues all woven together.

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

So I don't know whether there is some imminent
collapse of the dollar that could really hurt our country. I know many are fearful of that, and I hope we can see a more orderly retreat to a more normal value of the dollar. I think any dislocation would be quite unfortunate.

GOVERNOR CARLIN: Governor Kunin.

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

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

There was a meeting of manufacturers in my state recently and asked the question, what should we be teaching in vocational education, for example, in order to prepare people for the next three to five years. The answer was we don't know, because of the fast-changing technology. And a real debate: Should we have specific vocational education at all at that level, and that's the
kind of dilemma that some of us are facing. We have
invested in this structure very heavily, assuming that
would prepare students for the future jobs, and now we
don't know what that future is going to be like. So what
general principles could you abide by?

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

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

In my personal experience, at the
Hewlett-Packard Company in the 27 years I have worked
there, I have lived through four complete changes in
technology. I came to work at the end of the vacuum tube
era, we are now in large-scale integration. We spend more
time in our company training people than we probably do in
any one enterprise. What gives people that personal
mobility? A confidence to meet change and to meet it with
the expectation that they can succeed? Well, it's that
set of personal skills that have the confidence that I can
master these new technologies, that I can learn, that I
can grow with the changing environment. I think the
single most important thing is that set of credentials
that gives personal mobility to every person in the
workforce.

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

MR. YOUNG: Well, I like the idea as expressed
in the Job Training Partnership Act. I wonder if there
just aren't ways in which that format could be draped over
particularly the vocational education things. I know in
looking at our own company's personal interaction and so
much of vocational education, we have steering committees,
industry partnership activities with local vocational
institutions. We supply, in many cases, a lot of the
teachers, a lot of the equipment. It's a real partnership,
and I think it should be viewed as a partnership, and look
for formats in which we can get local industry to take
some ownership of this problem, and to put some of their
energies into the steering and development of education at
that level.
Our report comes down very strongly on the adopt-a-school format. I think anything we can do to strengthen that intersection between public education and private sector firms is one you ought to seize on and make work in your behalf.

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

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

MR. YOUNG: I think that laboratory equipment in general is quite obsolete. Unfortunately, I have to tell you that the right kinds of laboratory equipment in many cases are extraordinarily expensive. I participated in leading a small fund drive at Stanford to create something called a Center for Integrated Systems. This is an integrated circuit laboratory that can do advanced LFVOSI research and look at associated digital systems. This is going to cost about $20 million and out of that you get 100 MS's and 30 PhD's every year. But these are
exactly the kind of people we must have to be successful in many of the cutting edge technologies that we have.

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

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

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

GOVERNOR CARLIN: Governor Sinner. Excuse me,
Governor Sinner, Governor Orr wanted to be recognized.

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

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

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

We had hoped that our report would stimulate more attention from, let's say industrial sectors and trade association. I can give you a specific example, one I am personally most familiar with. The American
Electronics Association has about 2000 member firms. It is the electronics industry. And as a result of having to think about some of these issues more concisely over the period of this report, there are a whole new set of industry-wide activities, literally industry schools that you can send people to to learn about quality control, to learn about more effective manufacturing methods, pooled research activities. There is a whole electronic co-op, a research co-op, that has been funded at about $20 million this year, voluntary contributions to put back into the university system, to accelerate and steer development. So I think you could look at a lot of these areas and find real actions that have taken place. I think it's just beginning.

GOVERNOR ORR: Let me follow on, if I may, Governor Carlin. When the "Nation at Risk" was published, many of the states followed suit by -- and some of us were ahead of that particular episode -- bringing commissions or groups of people together to carry forward with that kind of concept or to relate it to our own particular states and their needs. Would you think that it would be a good idea for the Governors to create some kind of a vehicle comparable to the commission which you headed within their states in order to try to stimulate greater interest in the kinds of things that you identify, bring
them even to the local level, to the small companies that
may not have nearly the reason for understanding the need
for competitiveness as the big ones do.

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

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

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

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

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

GOVERNOR BRENNAN: Mr. Young, did your
commission explore great or real profit-sharing by
industry with workers in order to improve productivity and
to improve competitiveness?

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

Again, Governor Carlin, thank you for having me.

(Applause.)

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

Thank you.

(Appplause.)

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

(Recess.)

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

GOVERNOR THORNBURGH: Thank you, Mr. Chairman.

Yesterday our Democratic colleagues, through our good friend Governor Chuck Robb of Virginia, raised the question on this floor about a fund-raising letter sent on behalf of the Republican Governors' Association by President Reagan. Considerable additional time has been lavished on this matter this morning, and I want to say to our Democratic friends, and on behalf of the Republican Governors' Association, offer the following comments:

We, as Republican Governors, recognize, as all Governors recognize, that if we are to continue to effectively address major national issues with our Democratic colleagues, we must attempt to work together on a bipartisan basis. Language in a recent Republican Governors' campaign fund-raising letter was not intended to unfairly, and I repeat unfairly, characterize the
position or record of any specific Democratic Governor, 
and we obviously do not believe that we should do so. 
Future fund-raising letters on behalf of the Republican 
Governors' Association will be framed in terms consistent 
with this conviction and with that intention, and will 
avoid any such characterizations.

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

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

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

I ask for a second of your approval.

GOVERNOR CARLIN: It's been seconded. No 
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,
acronym CLER, and urging greater state participation and a
civil defense policy regarding disaster assistance.
Without objection, I move the adoption of these proposed
policies en bloc.

GOVERNOR CARLIN: Is there a second? Been
seconded. Discussion.
All those in favor say "aye."
(Chorus of ayes.)

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

GOVERNOR EARL: Thank you, Mr. Chairman. The
Committee on Energy Environment yesterday adopted 12
policies on a wide range of subjects, everything from
ground water and asbestos to low level waste and liability
for nuclear facilities. All of those policies were
adopted without any serious controversy and I plan to move
them en bloc. However, there is one discrepancy between
an otherwise identical policy adopted by Governor Orr's
Transportation Committee and the Energy and Environment
Committee. That has to do with the deadline for ICC
action on the captive shipper problem. The Energy and
Environment Committee adopted a date of January 1st, the
Transportation Committee adopted a deadline of February 15,
and I am going to ask unanimous consent that my motion to
adopt the Energy Environment Committee's policies en bloc include the February 15, 1986 date, the date that is in the Transportation Committee, so that we will be wholly consistent.

GOVERNOR CARLIN: Any objection?

GOVERNOR ASHCROFT: Mr. Chairman.

GOVERNOR CARLIN: Governor Ashcroft.

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

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

All those in favor say "aye."

(Chorus of ayes.)

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

GOVERNOR ASHCROFT: D-4, as I understand it, is a policy position that recommends the continuation of two federally mandated programs, and basically the programs
require that electric and gas utilities offer $15 energy audits to all requesting residential customers. I will try and be short with this, but the real cost, the audited cost to the utilities of doing this averages about $65 to $95. Since they can only collect $15 in order to do this, and our information is that only people at the very top end of the income structure ever have these audits, public utilities are putting back into their rate base the other $50 to $60 in costs and they cause our utility rates to be higher, and really people at the low end of the scale end up paying more for utilities in order to finance these audits for people at the high income level.

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

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

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

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, nay.

(Chorus of nays.)

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

GOVERNOR ASHCROFT: D-13 would change the proposal that calls for a repeal of the Federal law that currently prohibits the use of natural gas and oil in large and industrial boilers and boilers in new electric power plants. We have had in my state about a 576 percent increase for natural gas users and residential consumers over the last 13 years. As soon as we are through with
the old gas under the pricing structure, I think we are
going to see a lot more natural gas cost increases. It
seems to me that we are really providing an increased
universe of demand for natural gas if we follow the tack
in this particular instance, and in so doing, we are going
to find ourselves with another monumental increase for
homeowners, because we will have injected a whole series
of consumers into the competitive arena for natural gas
that is going to raise prices down the road. I don't
think we ought to be doing it, so I would like to see the
motion defeated.

GOVERNOR CARLIN: Governor Earl.

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

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

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

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

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed nay.

(Chorus of nays.)

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

GOVERNOR KEAN: Mr. Chairman, I might mention that our highest legislative priority in the committee since the winter meeting was the protection of the Medicaid program. I mention that because it was a wonderful example of how this organization can work together to achieve an end. And in a bipartisan sense,
this committee and those Governors have been on the Hill
and talked to their individual Congressmen and the result
is that letter that most of us signed, was delivered to
all 535 members of Congress, it was cited in committee,
our letter, our support was cited on the floor. And in
the spring Congress dropped the cap proposal. We had a
complete victory on this particular proposal, and I want
to thank every Governor for their efforts on this. I know
a lot of poor people really who do not have the necessary
means to radical medical care are also very thankful of
the work this association did. So first thing I want to
do is say thank you as chairman of the committee and the
job all the Governors did on this issue.

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

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

(Chorus of ayes.)

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

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

It does reaffirm strong support for preserving and building our National Highway Network and for completion of the interstate system by 1990, and it suggests that we not slow up on the release of interstate funds each year. In other words, to avoid what we have experienced in the past, in the recent past, and that Congress release those funds on a regular basis in such a way that we can anticipate and plan effectively.
And that we should recognize that this does put the Governors on the cutting edge of national surface transportation policy by calling for Congress to begin work now on a post-interstate highway program called "Access America" with heavy emphasis on the economic growth of this nation. It calls for a two-year national study to define the post-interstate highway program and it needs to be understood that "Access America" would take a comprehensive approach to modernize, preserve or expand services provided by the National Highway Network and to ensure that investments in facilities serve the needs of commerce, industry and the economic growth of our country.

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

GOVERNOR CARLIN: Moved and seconded. Any discussion. All those in favor say "aye."
(Chorus of ayes.)

GOVERNOR CARLIN: Opposed nay. Ayes have it.

Motion will carry.

The Executive Committee has two issues. I will deal with the first one myself, a minor amendment to current policy as it relates to the national holiday in honor of Dr. Martin Luther King, Jr. Simply a matter of technical change, so that our language fits the direction that we are all headed. Any questions? I would ask Governor Alexander will move and Governor Thornburgh will second, so we properly run this. Is there any discussion?

If not, all those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed nay. The motion is carried.

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

GOVERNOR THORNBURGH: Mr. Chairman, every so often we have an opportunity to extend to our colleagues at the Federal level the benefit of lessons we have learned in utilizing certain practices at the state and local level. That was true earlier this year with our recommendation for Constitutional amendment calling for a balanced budget, and the excercise of the line item veto by
the President.
The resolution that I am offering on behalf of myself and Governor Dukakis, which has been approved by the Executive Committee, would call for the Federal Government to adopt a separate capital budget, as part of the budget process.
Separate capital budgets are used by every state government, most local governments and by all business ventures, to separate current expenditures from investments.
In this case, investments on the public side in infrastructure, that the present current Federal budget practices distort the true national picture by combining recurring yearly expenditures for entitlements, aid programs and other current programs, with long-term multi-year investments in roads, waterways, buildings and other public works.
The thrust of this resolution would be to recommend that the Federal Government adopt a separate capital budget, the result of which not incidentally, in giving a more true and accurate picture of the Federal financial picture, would produce automatically, according to the General Accounting Office, a reduction in the true Federal deficit of about $30 billion a year, at a minimum.
That, while interesting, is not the sole reason
that I urge this upon this body, but in order to enable
the Congress and the Administration to deal with a more
accurate picture of the Federal finances, and I would move
the adoption of the resolution approved by the Executive
Committee.

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

GOVERNOR EARL: Mr. Chairman, I know that if
Governor Riley were able to be here, he would raise a
concern that he raised at the Executive Committee session,
one which I share. Though I understand and support the
notion of the use of the separate capital budget, it is
not without peril. And capital budgets are not only as
subject to abuse as our regular operational budgets, they
are even more subject to abuse it seems to me, and without
some sort of notion of constraint in the language of the
resolution as offered by Governor Thornburgh, I will not
support the resolution. I think that we ought to -- if we
are going to advance this concept, it ought to be advanced
with some limits on amounts, some limits on those subjects
to which it would be applicable, and I would hope that we
would be awfully cautious going ahead here because I am
afraid there are many in Washington of both political
persuasions who would love to use such a device as this to
make it appear that a job is being done on reducing the
deficit when in fact it has only been a bookkeeping transaction. I don't think this organization collectively or individually would want to be a part of any such effort. I am afraid without some language on constraints for the use of such a concept, it might be used to get around our policies, in trying to reduce the deficit rather than enhance that effort.

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

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed nay.

GOVERNOR EARL: No.

GOVERNOR CARLIN: The motion is carried.

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

GOVERNOR CARLIN: Moved by Governor Earl,
seconded by Governor Branstad. Discussion, all those in favor say "aye."

(Chorus of ayes.)

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

GOVERNOR SCHWINDEN: I will defer to Governor Branstad.

GOVERNOR CARLIN: Governor Branstad.

SENATOR BRADLEY: This change in the agricultural policy is an update of the very significant position we took at the last meeting, the annual meeting in Nashville last year when the Governors went on record saying that there is a significant problem in agricultural credit which needs to be addressed; and this statement updates the current conditions in agricultural assets, the continuation of the decline that has been occurring, and indicates there is a deterioration occurring in the farm credit system, and there exists a need for review of the liquidation plans with the idea of maintaining the ability of farmers to stay on the farm wherever possible. It is an update of the agricultural finance that recognizes some very significant statistics that were presented to the agriculture committee and were provided
by the results of the Wharton econometric study that's been done over the last six months. I think it's very helpful and continues to put the National Governors' Association in a key position of identifying and recommending the kind of positive action that is needed to help restore first confidence, and secondly, profitability to agriculture.

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

(Chorus of ayes.)

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

GOVERNOR LAMM: Mr. Chairman, we all know what the Garcia case is. This resolution is necessary to allow us to work with the National Conference of State Legislators, the League of Cities, the mayors, other people that are trying to get some ameliorations from the Garcia decision. The resolution does not allow the exemption, does not ask for legislation that would exempt state and local employees. It merely asks that we ameliorate the decision to allow us, first of all time to get our house in order; second of all that we not be subject to a lawsuit retroactively back to February 19, the date of the Garcia decision; three, to allow some
flexibility on the use of compensatory time and volunteers.
I move its adoption.

GOVERNOR CARLIN: Been moved and seconded.

Discussion. All those in favor say "aye."

(Chorus of ayes.)

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

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

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

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

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed nay. The motion is carried.

If there is no objection, I would like
unanimous consent to return to that order of business, the resolution that was passed just a few moments ago. Governor Clinton was to carry an amendment for Governor Graham. Governor Clinton was doing more important business, and could not be here, and I think Governor Thornburgh has agreed to that. Any objection? If not, so ordered. I would call on Governor Clinton, and do you have your motion that you want to make?

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

"In addition, Social Security, which is funded through dedicated payroll taxes, would reflect a more accurate picture of Federal budgetary responsibilities if maintained as a separate trust fund, and removed from Federal unified budget. Social Security represents a Federal contractual commitment between the government and its citizens, which is essential to the health and welfare
of many Americans. The government should not make unilateral changes to Social Security, which would adversely affect the health and welfare of its citizens."

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

GOVERNOR CARLIN: Governor Thornburgh.

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

GOVERNOR CARLIN: Almost disgusting but --

further comment or question. Governor Earl.

GOVERNOR EARL: Mr. Chairman and members, this is precisely the kind of thing that led me to oppose the principal motion. By a simple bookkeeping effort, we will be able to make the Federal deficit look in better shape, when it truly isn't, and I don't think there is a person here of whichever political persuasion thinks that any
efforts at resolving our Federal budgetary problems can exempt entitlement programs, even important entitlement programs such as Social Security. This is the kind of thing that will enable us through bookkeeping techniques to look as though we are doing a better job when in fact we will be taking off the table one of the very important items that ought to be on the table and ought to be subject to the same kind of scrutiny as every other Federal program. I would hope that the amendment does not pass.

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

GOVERNOR CARLIN: Governor Lamm.

GOVERNOR LAMM: Mr. Chairman, I totally agree.

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

GOVERNOR MARTIN: Mr. Chairman.

GOVERNOR CARLIN: Governor Martin.

GOVERNOR MARTIN: March I would like to speak
to the Earl/Sinner/Lamm objection that has been noted here.
Let me give you a little historical note about Social
Security trust fund in relation to the unified budget. If
you go back you will find that the reason and the only
reason that the Social Security trust fund was ever
included in the Federal unified budget was to create an
illusion that the budget was balanced, because all the
rest of the fund was out of balance, while Social Security
at that time was running up rather heavy surpluses.
That's the only reason it was ever put into the unified budget was because of the surplus of Social Security revenues at that time exceeding expenditures could create that illusion that everything was fine and everything was in balance.

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

GOVERNOR CARLIN: Governor Clinton.

GOVERNOR CLINTON: I would just like to support what Governor Martin has said. I don't see this, Governor Lamm, and other Governors, as a way of insulating Social Security system from further scrutiny as opposed to other entitlements. I see it as a way of examining the funding mechanism and the benefits in the future, in a way that stands on its own merits. I think it's very important
when you consider the dramatic escalation of Social Security taxes which have been necessary to maintain the system as it exists. I do not see this in my own mind as a way of forever insulating the Social Security system but rather as Governor Martin says, letting it stand on its own merits.

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

GOVERNOR CARLIN: Governor Sununu.

GOVERNOR SUNUNU: Mr. Chairman, I support anything that clarifies the actual fiscal condition of the Federal Government and certainly on the states themselves, but the Federal Government is the focus of this issue. And pulling Social Security out will clear up the accounting process. I have no problem at all, if it's in the deficit that its number be tallied in total with the deficit on the operating budget and be called the total Federal deficit. But right now the Social Security debate is being inhibited by the obscure nature of it being clustered in that overall budget and it is difficult to see clearly what its particular status is. And the
difficulty that I see that addressing it as a clear and
unambiguous accounting function will provide an
opportunity for those that have to make the decisions on
issues such as those raised by Governor Lamm, have to
carry the burden of the debate on their own weight rather
than being tucked into a corner here and there in the
budget.

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

GOVERNOR LAMM: Mr. Chairman, the reason the
debate on Social Security is so confused is because of a
couple of fictions that politicians continue to press.
Number 1 is that there is some separate trust fund out
there that is funded and that is inviolate. It is not
true. And second of all is that a dollar that is saved in
Social Security somehow wouldn't translate into a
reduction of the deficit which is also not true, which is
the reason that Governor Earl originally objected to this.
I think it may be -- I think it is a real serious problem
for the Governors' Association that has really shown
courage in terms of what we are taking on entitlements, in
terms of our past resolutions. All of a sudden now to
start protecting our political basis by backing down from this, I think this would be confusing, it would be a backdown from our previous strong position. I think it's a mistake.

GOVERNOR CARLIN: Governor Martin.

GOVERNOR MARTIN: Thank you, Mr. Chairman.

Since there's some reference to an illusion, some criticism of the remarks I made earlier, I would like to say that there would be millions of Americans who are receiving benefits from the Social Security trust fund who would be very discouraged at the way in which the Governor just characterized that as not being a trust fund at all. They believe it is.

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

GOVERNOR MARTIN: Where does it say it's above
examination?

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

GOVERNOR CARLIN: Governor Earl.

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

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

GOVERNOR CARLIN: Governor Clinton.

GOVERNOR CLINTON: The necessary consequence of the position taken by Governors Lamm and Earl is that it would be all right to use payroll taxes to reduce the debt as opposed to paying for the retirement of senior citizens. I don't think the working poor in Boise ought to pay payroll taxes to pay for education, defense or interest on the national debt. So if there is a surplus in the Social Security account, we ought to reduce the payroll taxes and raise other taxes. I just dispute the fact that what we are trying to do is protect that, and I agree with Governor Martin. I am worried about the payroll taxes of the working poor too. It's a very regressive tax. If it turns out to be that they are too high and we get a
surplus in the fund, then I don't think that money should be used to pay off the national debt. We ought to get a more progressive tax to pay off the national debt than the payroll tax. It's not right. It was never intended for that.

GOVERNOR CARLIN: Governor Lamm.

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

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

GOVERNOR CARLIN: Governor Clinton, may I just read to you, "Social Security represents a Federal and contractual agreement between the government and its
citizens which is essential to the health and welfare of many Americans." I think one can interpret that as being in contrast and conflict with what was passed in February and Governor Graham didn't like or support that. I think that is what we are talking about, as much as anything, not the separation or the bookkeeping part of it.

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

GOVERNOR CARLIN: Governor Lamm? Governor Earl.

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

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

GOVERNOR CARLIN: Governor Dukakis.

GOVERNOR DUKAKIS: I support this motion, and let me tell you why. Congress, in its effort to balance the budget, has just decided that state and local governments which have never been part of the Social
Security system are now going to have to pay in, and so are employees. I don't believe that step has been taken to assure the financial integrity of the Social Security system; it's been taken to balance the Federal budget. And my state and its local governments will now have to fork over 150 million additional dollars because somebody in Congress doesn't want to raise revenue the way it ought to be raised if you want to raise it. 150 million additional dollars will now be dropped on my state treasury and on the treasuries of my local governments without a "by your leave."

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

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

GOVERNOR CARLIN: Governor Bryan.

GOVERNOR BRYAN: I move the previous question.

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

(Chorus of ayes.)

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

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed nay.

(Chorus of nays.)

GOVERNOR CARLIN: Chair is in doubt. All those in favor raise your right hand. All those opposed, raise your right hand. The Parliamentarian advises me the vote was 16 to 9. The motion fails. It requires a 2/3rds vote.

Governor Sununu.

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

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

GOVERNOR SUNUNU: I would like to propose exactly the same amendment that was proposed except striking the last two sentences of that large paragraph in the middle there, and I cannot find my copy. It would read as follows. The title is amended to read as follows: "Federal capital budget and Social Security." Insert at the end of the second paragraph the following new
paragraph to read as follows: "In addition Social
Security, which is funded through dedicated payroll taxes,
would reflect a more accurate picture of Federal budgetary
responsibilities if maintained as a separate trust fund
and removed from the Federal unified budget." No
remaining words in that paragraph. Amend the third or
last paragraph by inserting before the period thereof the
following: "and by separating the Social Security trust
fund from the Federal unified trust budget."

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

Been seconded. Discussion on the amendment.

Governor Earl.

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

GOVERNOR CARLIN: Further discussion?

GOVERNOR SUNUNU: May I speak to my motion?

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

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

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed nay.

(Chorus of nays.)

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

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed nay.

(Chorus of nays.)

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

(Applause.)

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

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

GOVERNOR CARLIN: You heard the report. Is
there a second? All those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed nay.

The motion is carried. We have accepted the

term of the nominating committee and before I yield the
gavel, Governor Alexander, I would simply request that the
remarks that I worked on for six hours during the night be
submitted into the record. With that, I thank you for
your cooperation, and the show is yours. Welcome.

(Appause.)

GOVERNOR ALEXANDER: John, thank you very much.

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

I should say that as the Governor of Tennessee,
I am accustomed to being a proud Republican, but serving
by the grace of the Democrats. We have so many of them
there, and we have a great many in this association, and I
respect them and look forward to that opportunity too.

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

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

(Applause.)

GOVERNOR ALEXANDER: Now, I know that the Governors have schedules to meet, and let me -- this is what I suggest we do. We have an Executive Committee meeting scheduled following this, which would require us
all to be moving over to another place. The new committee
chairmen are invited to go to that, as well as the
chairmen of the education task forces. What I would like
to do is to take the time, which I think will be about
four minutes, to make the remarks that I have prepared to
make, and then I would like to ask everyone to just stay
here and let us take 15 or 20 minutes and conclude the
business we have to conclude and then we will go on. That
will save us all about a half an hour, 45 minutes. There
will be lunch available for those who are doing that.
Those who have to leave during that Executive Committee
meeting, I hope you do it real quietly so we can continue
our work.

I would like to continue a direction that John
Carlin and his predecessors have started with the National
Governors' Association. It is a direction that I believe
has the support of almost all the Governors that I have
talked with, both Republican and Democrat. It is this:
that the National Governors' Association should spend more
time helping Governors to be better chief executives, and
that we should spend less time helping Governors act like
United States Senators. We should spend more time on
better schools, on better roads and better jobs, on
cleaner water, on better-managed prisons and finding more
appropriate places for outdoor recreation. Those things
are our job. We should spend less time arguing about war, welfare, Social Security and debt. That's what they do in Washington.

Sometimes Governors should speak to the nation. John Carlin made sure we did that at this meeting. We have debated world trade, an issue that emerges in the states but demands strong leadership in Washington. Governors should help lead that debate, the debate about how America gets ready to compete in the world in the 1990s.

Sometimes Governors ought to speak out when Congressional action affects states. For example, states could swap the national government our part of Medicaid responsibility for its role in elementary and secondary education. Other times the Governors need to jump feet first into Washington-centered arguments. For example, the Federal budget deficit is outrageous. We ought to support and have supported tough action to bring it under control.

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

And I have asked Governor Lamm to continue the structure that we have already formed to try to express the Governors' point of view on tax reform. We don't all
agree on that, but Dick has done a painstakingly careful job of presenting a point of view -- for example, on state and local tax deductions and which differs from the view I had, but which is a little more representative of the view that most Governors seem to have.

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

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

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

And in teaching, are there better ways to pay teachers more for teaching well, and should there be new paths into the classroom for people who should be teaching. Governor Kean and Governor Babbitt are going to lead the effort to get into that, and every one of us will benefit from finding out what they come up with.
School facilities, college quality, new technology, school leadership and management. Not all of the issues, not new big studies, just seven tough issues where we as Governors will collect information as Governors, present it to ourselves and by doing that, help to set the American agenda for better schools over the next five years.

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

Governor Kean and Governor Clinton, the leaders of the education commission of the states, and Bill now is the new vice chairman of this organization, will join me in overseeing the task forces, and we are delighted about
this special role of the education of the state, Tom, in working on this plus all the other things you have outlined for next year.

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

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

Fourth, we will take an active role in the President's Commission on American Outdoors, which will be appointed in the next few weeks. More outdoor recreation responsibilities shifting to state and local agencies into the private sector. That's one of the responsibilities we
are likely to get as a part of the New Federalism.
Governor Earl and I have talked about this, it's part of
his committee's action. I have asked each of you to
consider forming in your own state what I have done.
Tennesseans, the Governors' Commission on Tennesseans
Outdoors, so that the states can say to the national
commission what you think and be in existence to carry out
some of the good suggestions.

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

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

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

(Applause.)

GOVERNOR ALEXANDER: Is there any other
business? If not, the meeting of the NGA, with thanks to
the Evenses, comes to a conclusion after a wonderful time
in Idaho, and the meeting of the Executive Committee will
begin instantly on the spot, and I will ask all the other
Governors who are chairmen of the various committees to
stay for those few minutes, and any other Governor who
wants to stay is welcome. Anyone who is leaving, we would
like you to do that as quietly as possible. The meeting
of the GNA is adjourned.

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