TRANSCRIPT OF PROCEEDINGS

NATIONAL GOVERNORS' ASSOCIATION

WINTER MEETING

PLENARY SESSION

Washington, D. C.

Sunday, February 24, 1985

ACE-FEDERAL REPORTERS, INC.

Stenotype Reporters

444 North Capitol Street
Washington, D.C. 20001
(202) 347-3700
Nationwide Coverage
800-336-6646

CR22159.0
COX/sjg

NATIONAL GOVERNORS' ASSOCIATION

WINTER MEETING

PLENARY SESSION

Hyatt Regency Capitol Hill
Regency Ballroom
400 New Jersey Avenue, N.W.
Washington, D. C.

Sunday, February 24, 1985

The plenary session of the winter meeting convened at 3:00 p.m., Governor Carlin presiding.

P R O C E E D I N G S

GOVERNOR CARLIN: If the Governors would take their seats, we will proceed. I would like to call this first plenary session to order of our 1985 winter meeting here in Washington. Given the time and the effort that was made in the Executive Committee, a fine discussion, the decision we had made and given the excellent program we have, we are going to move this agenda as fast as possible and limit my opening comments only to two things. One, I certainly want to welcome all new Governors to their first opportunity to gather with us here in Washington.

I am not going to introduce you individually or take any time, but that's in no disrespect to your importance to this body. You are aware of the agenda, so I am not going to take time to repeat it. We have got a very aggressive, I think very positive, very significant agenda. It is only going to be valuable with your participation. So I encourage you to take advantage of the opportunity you have between now and Tuesday evening.

I would like to call on Governor Alexander for a motion technically that we need to approve regarding the adoption of the rules of procedure.

GOVERNOR ALEXANDER: Move that we adopt the rules of procedure of the NGA.

GOVERNOR SUNUNU: Second.

GOVERNOR CARLIN: Governor Sununu has seconded that motion. Any discussion? All in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: The motion was carried to adopt the rules of procedure.

We are honored this afternoon to have with us two distinguished guests, Senator Dole and Dr. Greenspan. We are going to go to Senator Dole first. Dr. Greenspan agreed to that order. I don't know what he has in plan -- it's alphabetical, okay.

Our procedure here will be to listen to the presentation by Senator Dole and then we will have an opportunity to ask him some questions, so that if his schedule demands, he will have the opportunity to exit and then we will hear from Dr. Greenspan, questions for Dr. Greenspan, and then as indicated in your program we have three Governors who will make presentations as we continue our discussion and our debate on the budget and the deficit issue.

There are a lot of things that I could say in introducing Senator Dole. But given the fact that I am more interested, as I indicated to our distinguished guests in the Executive Committee in what they have to say and the opportunity to discuss with them, I am only going to add that as Governor of Kansas it is my pleasure to present to this body the senior Senator from Kansas, the majority floor leader and certainly one of the key individuals in this country today, one of the key leaders in this budget debate. I ask you to join with me in welcoming Senator Dole.

(Applause.)

SENATOR DOLE: Governor Carlin, I thank you very much. I guess -- well, I guess I am very happy to be here. I will know more later. But I am very pleased to be on the program, and I want to think my distinguished Governor.

The Governor called me several months ago. I was out buying a new suit. And the Governor called me and said, "I have decided not to run for the Senate in '86," so I bought two new suits. So I want to thank you, Governor, and I appreciate that very much.

I know you have had a session with Pete Domenici and his counterpart in the House, and I have just a few remarks. I would rather exchange some ideas and try to respond to questions. Maybe you have questions that will stimulate us in the United States Senate.

I do want to indicate that those who have already indicated that the budget process was dead, I think the obituaries around this town are really premature. As you probably were told in the executive session, at least on the Senate side, we have completed hearings in the Budget Committee. In the next two weeks, you are going to see a lot of action in the Budget Committee, and I am certain that you will see action on the House side, because we are serious. We are very serious about reducing the Federal deficit.

Now, you wouldn't know that from the last two or three days around this place, but we weren't discussing the deficit, really, we were discussing nominations and the farm credit crisis and other things that are very important to many Governors and many of us in the Congress.

There are those of us who are trying to grapple with the problem of record Federal deficits and we are very much aware of some of the great examples that have been set by the states.

Now I have had a chance to visit Governors when I was Chairman of the Finance Committee. I have had disagreements with Governors and the Governors' Associations because they always came to town saying "Cut the Federal deficit," but on the way out of town they asked for a little more money in a number of programs. But I am very encouraged by what I see and what I read that you are not here just advocating higher Federal taxes and defense cuts as a way to solve our deficit problem, because I believe if we are going to succeed, we have to make certain that there is a shared sacrifice or a shared contribution.

And if there are enough of us in the Congress, and I believe there are, enough Democrats and enough Republicans who are willing to take the heat -- and we are going to be more willing to take the heat if we know our Governors, regardless of their party, are sharing that burden to some extent at the state level, at least encouraging us to do what we should do -- then I believe we are going to come to grips with this thing called the Federal deficit.

Now, I would indicate it's going to take Federal leadership; it's a Federal problem, but it's our problem, it's your problem. I would admit that there are some who say it's going to disappear with growth, and I think growth is probably the most important factor in deficit reduction, but I don't share the view that growth is going to make it go away.

So what I see are some who say don't do anything: Don't cut spending, don't cut defense, don't raise taxes, just wait for growth. But I don't believe that's the prevailing view in this town. It's not the President's view, it's a view held by a very small minority, and I hope you will see some action in the next 30 days in the Senate that will lead you to believe that we are serious about what we should do and what you would ask us to do as you work on your resolutions or whatever you may be saying.

We are pretty much in accord with the Governors. We think the deficit ought to be about 2 percent of GNP by the end of fiscal year 1988. I understand from reading some of your preliminary studies, that's about where you would like to have it. Still not a balanced budget, but it's a sharp drop in the deficit.

Now, as we look at our problems in comparison with the states, of course we envy some of the states with surpluses. Some of the states are able to cut taxes. But we also understand that much of that is because of prudent fiscal management in those states and the good economy and a lot of other things that have happened in the past four years.

We are not here to quarrel with the Governors. You have got your problems, we have got our problems, some of us are Republicans, some are Democrats. We have all got problems. There are a lot of positive aspects, but there are some negative aspects.

I have been reading a book by, I think, Converse, on Eisenhower the President. It probably doesn't come to any surprise to many of us that the thing that worried Ike in his second term was a $2 billion deficit and the fact that the generals in the Pentagon wouldn't stop spending all that money. That's a long time ago, a $2 billion deficit. We are running $200 billion deficits like it was just a matter of fact.

When Lyndon Johnson was in office, the Federal budget hadn't reached $100 billion; now we are paying about $130 to $140 billion interest on the debt, headed for $200 billion by the end of the decade. That doesn't help a single farmer, welfare recipient or worker or anybody else. That's just interest on the debt. It's gone.

So I would suggest that maybe traditional Republicanism is no longer in vogue. Maybe we shouldn't worry about deficits. Maybe we shouldn't worry about interest on the debt. Maybe we shouldn't worry about the extraordinary strength of the dollar that drives down exports and puts a lot of people in difficulty around the country, but I am here prepared to say that that is the prevailing view and I would guess there are many of my Democratic colleagues in the Senate who share that view, because they can't be partisan. If we try to knock out a partisan deficit reduction bill, it's probably not going to go anywhere.

I just left a meeting of farm state legislators at a farm conference. They are here by the hundreds, and

I understand by the thousands, because they have problems. The rural economy is in a state of crisis in a number of states, not every state, but particularly in the Midwest, in Iowa and parts of Kansas, Nebraska, Minnesota, Illinois, Missouri and a few other states.

So we have been trying for the past two or three weeks, and I might say at the urging of some of the Governors -- Governor Kerrey has been back here a couple of times saying you shouldn't put a cap on debt-restructuring money, and there is no cap. It's not $625 million, $1 billion or $2 billion or whatever you use. So we have been arguing about that for the last few days, Democrats and Republicans, and I believe the bipartisan debate at least has clarified the assets in that program.

So I just suggest that our biggest responsibility is trying to convince the American public that there is a problem. If you have got a job, business is good, nobody worries about the deficit. I bet if you took a poll -- and I know polls have been taken -- it's not very high. And yet people will say, "You ought to do something, you ought to do it right now." So we have to provide leadership. We have got to go out and pay the price for leadership. The price is getting tough in the right kind of way.

Nothing should be off limits. Nothing should be off limits except those programs that affect low income Americans. We think we have done a fair job in trying to remedy some of the problems in those programs in 1981.

As Chairman of the Nutrition Committee dealing with food stamps and WIC and school lunch programs, I believe we have gone about as far as we can go. Maybe a bit in the school lunch program, but not much else. But the middle-income entitlement programs, certainly, all the spending programs, including the Pentagon, defense budget, are on the table.

I had a little visit last weekend with Tip O'Neill. We both happened to be in the same place in Florida, with Bob Strauss along to make it bipartisan, and we talked about some of these problems. Lane Kirkland was there too. As I said to my Governor, if anybody got pictures of the four of us, we would all be finished in politics.

But we were discussing to some extent what is on the table. I think it's no secret to indicate that Tip O'Neill says it's all on the table, and I think that's probably what you heard from Senator Domenici. There isn't any easy way, because I tell you right off the bat, taxes are not one of those things that are really on the table.

I don't want to be partisan, but the President believes that the people spoke in November, and since that was an issue, we shouldn't start talking about tax increases, because then some of us would say, "Oh, let's just raise taxes and not cut spending." So the emphasis is going to be where I think it belongs, and that's on the Federal spending programs.

Having said that, let me see if there's anything else here that I think might be -- a couple other things we need, and then I will be happy to get to questions. We would like to have a line item veto for the President. I am certain many of you have used it from time to time and you don't abuse it, you use it.

But I would also like to have a balanced budget amendment. There are a couple of states that haven't acted yet that might -- at least one more state would push Congress into either passing a balanced budget amendment or at least do something that would help us down the road in the out years -- I am talking about five, six, seven years from now. That's in the long term. That will not help Ronald Reagan because he will probably not be here after 1988. But for the long term we need to look at the line item veto and the balanced budget amendment to help the Federal Government do what many of you have been able to do in your states.

So I want to underscore that we are serious about it. I want to underscore that we want to work with the National Governors' Association; we are going to meet with a number of Governors on Tuesday, a bipartisan group, meet with the bipartisan leadership in the Senate. As far as I am concerned, politics ought to be set aside for about 60 days. We all ought to make the hard choices, we all ought to work together. I happen to believe that the American people not only believe it's good policy, they may believe it's good politics. So having said that, I will be very happy to respond to questions.

GOVERNOR CARLIN: I want to suggest that we will take six questions, Governors Thompson first, Babbitt second and I will look for four more hands. Jim, you are on.

GOVERNOR THOMPSON: Just two quick clarifiers: When you say taxes are not on the table, Bob, do you mean except in the sense, as the President put it, we do the spending cuts first and if they are not sufficient then we go there as a last resort; is that right?

SENATOR DOLE: Right. I don't want to say the wrong thing, I am new on the job, and I say the wrong thing quite often as it is.

But I am not sure where that last resort is, I don't think the President's spotted it anywhere out there yet, so if you are hopeful for new taxes, don't be too hopeful.

I really believe there's a lot we can do on the Federal spending side before we reach that last resort, so the answer is "yes." I happen to believe if there's a loophole out there, that it ought to be closed if somebody is getting away without paying taxes. That may be a tax increase, but it's also tax equity, which gets into the tax simplification program which the Governors generally support, and that's another big thing we ought to start working on.

GOVERNOR THOMPSON: On the line item veto, while I think most of us agree that the President ought to have that Constitutional power, until we get there can't Congress in the meantime give him a statutory line item veto and why don't you guys just go do it?

SENATOR DOLE: There is a chance of getting a statutory line item veto and in fact Senator Mattingly's been sort of leading the effort along with a number of Democrats and other Republicans. The President mentioned it in his State of the Union message by title. So the answer is yes, I think there's an opportunity. But let's face it, some of the people on the Appropriations Committee, Democrats and Republicans, aren't willing to cede that power to any President, Democrat or Republican. So it's probably marginal.

GOVERNOR BABBITT: Senator Dole, I join with many Governors, Republicans and certainly Democrats, in suggesting that this idea that you put everything on the table and then take taxes off by saying we won't consider taxes until we determine that cuts will not be sufficient, is patently an evasion. I would urge you -- and I believe from your own record on this issue that you really frankly don't need much urging -- to revisit that subject and see if we can't, in the spirit of comprehensive attack on this issue, admit what every American already knows, and that is that revenue increases must indeed be part of the solution.

Now, having said that, I greatly admire your courage and initiative on this issue of entitlements. I commend you for the specificity of your proposals and I would ask you specifically if you would elaborate on your proposal to freeze Social Security COLAs with the exception of low income Americans. I frankly think that should have been a Democratic proposal. I endorse it, and I would just ask you if still stand behind that proposal.

SENATOR DOLE: I am not certain I want it named after me, but I think it's a great idea. We'll call it the Babbitt-Dole proposal and I can slip away if I have to.

But in any event, we have got a problem there. People run for President from time to time. They make a lot of promises, and in response to a question Ronald Reagan said we weren't going to touch Social Security. We are not going to touch the basic benefits. Nobody ever said we were. But that's been construed now, though we can't find the exact statement, that that also includes COLAs. But nearly everyone who gets Social Security benefits has children or grandchildren out there trying to stay on the farm, trying to find a job, coping with high interest rates or whatever. We don't believe there's that much antagonism if it's perceived as across the board. We will take care of those that might drop below the poverty line. I think that's in essence what you are suggesting.

Now, again, I wasn't there for the executive session, but, again, if this gets into politics, obviously everybody is going to run from it. And we had a little experience as Republicans in '82 when Claude Pepper went around the country -- he is very effective -- saying if you vote Republican, you may lose some of your benefits. And that was very effective and we lost a lot of our members.

But if we can work it out so it is bipartisan, then I think we can do some work. And there are a number of Democratic Senators who support it right now. A number voted for it last year. So the answer is "yes." Not that we want to take away the COLA; maybe we shouldn't have had it. It was a Republican idea long ago. I think Arch may have been in Congress then; maybe not. Richard Nixon thought it was a good idea so Congress wouldn't do it every two years. But the answer is "yes," we ought to put it on the table; we ought to deal with it.

GOVERNOR CARLIN: Governor Janklow.

GOVERNOR JANKLOW: Senator Dole, two questions. One, do I hear you correctly that there is absolutely nothing in the Federal budget at all on the expenditure side that is not on the table, right squarely on the table, to be considered in terms of the deficit reductions that have to be made; and, two, there's a lot of political posturing that always go on. Does the courage really lie in the Congress, after having wrestled with this since the Deficit Reduction Act of really '81 and the revenue enhancement measures of last year, the closing of some loopholes, do they really have the courage, as a majority in both parties, in both houses, to act with any kind of expediency?

SENATOR DOLE: Well, you all deal with legislative bodies, so you know how much courage we have. And I will move on to something else.

But in any event, I believe there is the courage. The problem is, how do you get the people out there demanding we do something, and that can come from

Governors and state legislators, as well as members of Congress of both parties. I am of the view we only needed one speechwriter last year for every campaign in America. Democrat or Republican, we all made the same speeches: "You vote for me and I am going to reduce the deficit."

Now we are back here and the speeches have been made and I have to believe there are enough of us. We may have a little different view on how it ought to be done. Maybe some would say we have got to put something in on taxes; maybe some would say something else. But everything is on the table except some of those programs that affect the most vulnerable groups in the country, low income Americans who haven't anyplace else to turn. Even in some of those -- Medicaid, we think we can make adjustments, give the states more flexibility, and you can help us a little in some of those areas.

But as far as I know the will is here. We haven't had a vote yet. We hope to have one, I hope, in April.

GOVERNOR JANKLOW: Senator Dole, let me just finish with a two-sentence comment. Would you please, please, when they make the reductions this time, take off the Congressionally mandated regulatory controls that the states have to deal with and give them the freedom to really make these expenditures that the states get, or have to make, fit each unique state, as opposed to fitting in all these categories within all the programs. Let us decide how many activities directors are required in each nursing home, as opposed to federal rules.

SENATOR DOLE: That's what we have done in Medicaid, for example: Even though we were reducing the amount you receive, we at least gave the Governors a little flexibility and we think it works for the most part.

GOVERNOR CARLIN: Governor Nigh.

GOVERNOR NIGH: Senator Dole, in your neighboring state of Oklahoma that has a balanced budget, we require that the Governor submit to the legislature a balanced budget and that the legislature when they adjourn have passed a balanced budget. Would it be possible to consider in the demand for a balanced budget at the Federal level, which I support, a requirement, even before law, but either voluntary or by statute or Constitution, that the President submit a balanced budget? It would seem to me that the way you get the subject on the table is that you say to the chief executive of the state or the country that we believe in a balanced budget, therefore submit a balanced budget.

SENATOR DOLE: Well, obviously, the President can submit a balanced budget. It probably wouldn't go anywhere in this Congress. We submitted a budget that still had a big $140 billion deficit; even in '88 it was not balanced. That's one reason many of us feel we need the same propping up that you have in some states with cash basis laws and constitutional provisions on you can't spend more than you take in. I am not certain whether if the President submitted a balanced budget what would have happened. We have a statute; as I recall, Senator Harry Byrd from Virginia introduced an amendment years ago saying you have to balance your budget. We just ignore it, so an amendment to the Constitution would be much better.

GOVERNOR NIGH: As a follow-up, the way you balance the budget in Oklahoma when the Governor submits a balanced budget is not necessarily up on what has been certified you can appropriate, but if the chief executive wants to recommend a program, he also has to recommend a funding source from that, so that the chief executive not within the confines of the money available submits a balanced budget, but on what he or she wants to do for their state or their country and then says this is the way we pay for it.

It seems to me if we were serious about wanting a balanced budget from the executive branch, that you just submit a balanced budget and say here is how much we have, here is what I want to do and here is what it costs to do it.

I think that is the place it ought to be started.

SENATOR DOLE: I would guess -- I don't know who made -- you know, the President made a decision to submit it with a deficit, but I guess when you in effect said we are not going to change revenues and you are not going to do much on defense and Social Security is off limits and you can't change interest on the debt, that's 70 percent of the package. It's pretty hard to balance the budget with what you have left.

But, again, I think it's a good suggestion, and if I am ever President, I will be glad to look at it.

GOVERNOR CARLIN: Governor Earl.

GOVERNOR EARL: Senator Dole, we have not been here very long, but we have heard several people now say everything is on the table and then proceed to take them off one by one. You followed suit in a way, though you didn't take as much off as they did.

It seems to me that if we are going to make any progress at all -- and I must say at the outset this didn't appeal to me much, but I am persuaded more of the wisdom of it -- that Senator Hollings and Senator Andrews' proposal for a freeze may be the point where we have to start. It seems to be the only way where you can keep everything on the table by freezing everything there.

Once people start going discipline by discipline, item by item, everything is back up on the table again.

Why is it that the Hollings-Andrews freeze proposal has not so far gained greater support among your colleagues?

SENATOR DOLE: I think one reason is it contains some revenues which we are not yet prepared to address. But I went to a breakfast meeting last Monday with the Committee for a Responsible Budget Policy, a bipartisan group, Senator Hollings was there, former Congressman Giamo and others that have been very active in the budget process. There is going to be some focus on the Hollings proposal, but I think right now the Budget Committee has to see what they can come up with. Fritz is on the Budget Committee, he will have input on the Budget Committee, and I don't think you have heard the last of that proposal.

But as a Republican, I must say that unless we can put a package together that has at least 45 Republican Senate votes, it's pretty hard for us to go to the Democrats and say, "Well, we have a great package here, but we have only one problem: we are short 25 votes." Now, it ought to be bipartisan, but when we go to the Democratic leadership and Senator Hollings, who has been out front on this issue for a long time, we ought to be prepared to say: "We think we have just about got a package, we believe we have the votes for it. What can we do to interest a lot of Democrats?" Because they have the same view that we have in most cases or in many cases.

And we haven't reached that point yet; we have had reports in the Wall Street Journal and other columnists have said: "The process is dead. The Senate has failed to reduce the budget." We haven't had a vote yet. We are really going to try to do it. We are going to need Fritz Hollings' help and Mark Andrews and everyone else. But I have got to say, though, don't get any idea that we are going to raise taxes.

I mean, the President has made it very clear, crystal clear, that we are not going to raise taxes. Now, he does want to simplify the tax code, as I think the Governors do with certain exceptions, but that's another matter. So we have got to do all we can on the spending side, see what we can wring out of the budget and do a little bit more on the defense side, and then if we reach that last resort, then I think we go to the President and say, "Mr. President, we are at the last resort, what do we do now?"

GOVERNOR CARLIN: Governor Sinner.

GOVERNOR SINNER: Senator, I just have to comment that I am a businessman, and that's a hell of a way to run a railroad. I never saw a business board deal with its oncoming budget and rule out the possibility of finding some new revenue, and of finding some new ways to fund the projects that it needs to fund. I don't throw that burden on your shoulder, because I have applauded your efforts two years ago to do some things in that regard.

But from the point of view of this country, believe me, I think it's idiotic. A Republican economist, in whom I have a great deal of respect, told me not long ago that the so-called Tax Reform Act of 1981 was probably the most ignominious act ever passed by the Congress of the United States, because of what it has done to the deficit and the budget and the budget situation in this country.

I don't think, myself, I don't think we can go on with this sort of a syndrome. I think both of us in both parties have to say very loud and clear, "Mr. President, you are dead wrong, we can't go on this way." The whole productive sector of this economy is going to explode sooner or later just as agriculture has.

SENATOR DOLE: I appreciate that comment, but again, I don't want to beat a dead horse, but I think the Democrats have made it clear in the House that they want to help the President keep his campaign promise on no tax increases. That could change. We have all been around long enough to know that things do change.

But I just believe that for one good reason, if we even let it be known we might even be being looking at a tax increase or some change to take the heat off the spending restraint, we are never going to get any spending cut.

As long as we know we can't raise taxes, only as a last resort, then we are going to put the pressure on the spending. We may not eliminate every program that has been listed, but I will bet we give every one a nick, starting with agriculture, which is dear to my heart and the Governor's heart. So we start right down that list and we go to Amtrak and other things. We have got them all on the table, and they are all painful; I don't know of anybody that likes to cut a program. But on the other hand we have got to understand -- I think the Democrats feel the same way, with some exceptions -- we are not going to come up with some big tax program to replace what we ought to do on the spending side.

Well, again, I appreciate, Governor Carlin, the chance to share what little I know with this group. I want to underscore again that to make it work, it's got to be bipartisan. I know that Democrats outnumber Republicans at the Governors' Conference, and we need your help. But I listened to Governor Robb on TV last night and I liked what he is saying. He is not ducking any reductions in programs that might affect the State of Virginia if in fact we are doing it to everyone else and we are not doing it disproportionately to some program where the states benefit.

We may fail. We may not be able to put it together. The problem is the longer we wait the more difficult it is. Because we already have 2- or 3000 farmers in town this week, and they don't want to spend less money. They didn't come here to ask us to spend less. They have got a real problem, and we think we have addressed it, but others want to address it more.

When you start addressing it more, it costs money. I don't pick out agriculture, they are just the first group that came to town. We met with the Business Roundtable, and all these business people and CEOs, they want to cut spending, until it got to the Export-Import Bank. Now that they can justify, that program, because they use it; they use it in my state. Boeing is one of the big users of it. I don't quarrel with that, except how are we ever going to get there if everybody that walks into town has a veto?

Our view has to be and your view has to be that everything is on the table. But it's easy to put it on the table. Somebody has to pick it up. Tip O'Neill says everything is on the table. That's great, but I haven't seen his budget plan. I know the Governors are sincere when they say everything is on the table. But if you could be specific, that you believe we ought to address an entitlement program -- you don't have to put down the precise formula -- then that's very helpful.

If you believe something else we ought to address, and be specific about it, it's helpful. If you think we ought to address taxes, and I have read where you think there should be some change, then that's helpful from the standpoint that when we reach that last resort we have got a place to go look for some ideas.

So we are serious about it, and you are going to see in the next 30 days, I hope, not only talk, but some votes. I am going to be working with the National Governors' Association, as I said, to help put it together. Thank you very much.

(Applause.)

GOVERNOR CARLIN: Thank you very much, Senator Dole. I only wish we had more time and I apologize to those Governors who wanted to ask questions, but at some point, in order to get to the White House tonight, and given what we really want to say tomorrow, and we don't want to be late to our social engagement this evening, we will keep our agenda moving as fast as possible.

Next I want to call on Dr. Greenspan. Again, I am going to be very brief. Dr. Greenspan can be remembered for his leadership on the Social Security Commission, for his part in the Ford Administration and for his outspoken and very positive leadership on many economic issues, including the budget and the deficit. We are honored to have you with us. I have asked Dr. Greenspan to make some brief remarks, and then we will let Dr. Greenspan entertain a number of questions from the Governors.

Dr. Greenspan, welcome to our conference.

(Applause.)

DR. GREENSPAN: Thank you, Governor. Bob Dole was indicating just the last 20 or 30 seconds, he just had the answers, but he had to leave and wanted me to give them to you.

What I would like to do is just take a few minutes to discuss several crucial issues with respect to the deficit and the economy. First of all, I would like to reiterate that the general discussion that we heard today largely reflects the view of what the so-called current services budgets are.

When Pete Domenici and Congressman Gray were discussing the numbers that we are dealing with, implicit in that was a significant suppression of any new programs. Even though we are acutely aware that those things continuously arose in the budget process, I don't think we all are aware that it sneaks in almost inevitably. I think the issue that Bob Dole was raising, namely the question of the farmers being here and someone else being here the next time, is that it's one thing to talk about a current services budget as a problem, it is another thing to talk about where the actual deficits are really going; and current services has invariably been, over the very long term, something which is a minimum, not a maximum, from which we start to cut.

That's the reason why the financial community around the world, which is terribly cynical about our ability to come to grips with this issue, has, in effect, set dollar-denominated interest rates at historic high levels: It has, in effect, presumed that eventually, not now, inflation will be reignited in this country and that it is necessary, if you are a long-term lender, to impose an inflation premium on long-term interest rates, which essentially reflects the expectation that these hug Federal borrowing requirements will eventually crowd out private investment in a manner which will induce the Federal Reserve to come in, essentially print money, and set inflation at an 8, 9, 10 percent rate.

It's only if there is a presumption within the financial community worldwide that that process has been staunched that interest rates could come down significantly.

I notice, for example, that Governors Janklow, Dukakis and Blanchard are on the program discussing how the budget deficit is affecting various different aspects of our economy. But let me tell you one of the things which sticks out very sharply is the issue that these very high interest rates, and very high real cost of capital, has had the effect of foreshortening our investment process. That is, there is an extraordinary tendency not to invest in anything which is a long-lived investment, anything that is durable: that is, heavy industry, steel-related, for example.

The reason that happens is in the arithmetic of the investment process, whether or not you look at inflation expectations or risks in a so-called gut, analytical way, whether you are going through the full arithmetic of it, what tends to happen and indeed what has happened is a tremendous concentration on the short-lived investments.

Therefore we find that in our industrial belt, we are losing an awful lot of activity, essentially because interest rates are too high, and we find that the high-tech area, because it tends to be a very quick turnover, high-technology type of item, that it is not as affected by the high cost of capital as is steel.

I think what we are finding is that the effect of the deficit is already very substantially distorting the structure of our economy.

The question, therefore, which we must obviously answer, if these deficits are so bad, why isn't the economy in far worse shape? And I think the reasons are readily understandable, if you basically look at the forces which ultimately create what we call crowding out; namely, the issue of very heavy Treasury borrowing, preempting the savings of the society and leaving increasingly less for capital investment, for growth capacities, and for the ability to maintain high employment.

What has happened in the last several years are two offsetting forces, which has essentially temporarily diluted the full economic impact of these deficits.

The first is a reflection of the fact that we have, in fact, significantly concentrated on short-lived investments and equipment with very quick depreciation and hence quick cash payoff.

Another way of looking at that process is that rather than invest in long-lived infrastructure, plant, big capital projects which depreciate over a long period of time, we are, in effect, getting depreciation back very rapidly; and that, essentially, has become the means of financing.

Even though plant equipment expenditures, capital investment is, by historical standards, high, what we find is that the net investment -- that is, the total investment minus the depreciation -- is actually quite low.

We are, in effect, adding only a very modest amount to our net plant facilities; and what this is is a reflection of the fact that the deficit effect on interest rates and cost of capital is having a significant impact, but it is creating jobs and employment because we are emphasizing short-lived quick cash payoff, quick depreciation of assets, rather than what we usually invest in in this country, something which lasts 10, 15, 20 years. That has a major effect on preventing crowding out, because we are not using the net savings of the society.

More important is the issue of this extraordinary inflow of capital from abroad, which as you know is running in excess of $100 billion a year. That particular capital flow will continue quite significantly so long as interest rates remain high. But it cannot continue indefinitely, because in the last two years most of the net capital inflow is not the fact that foreigners have decided that the United States is a terrific place to invest and are moving their funds in here. What we find is largely as a consequence of the significant weakening of our international debt markets, basically reflecting the Mexico problem in 1982, we have had a dramatic decline in American investment abroad.

The amount of lending abroad, directly and indirectly, has fallen very sharply, and what we have found is that the demand for foreign currencies, in terms of dollars, has fallen very dramatically. We forget that there are two sides to this coin. Essentially, something which weakens the demand for foreign currencies has the effect of strengthening the dollar. That process, for reasons which are rather technical, cannot go on very much longer and eventually we are going to find that our ability to finance these deficits is going to decline, and the real danger to us is it is going to decline at a pace which gives us very little time to respond.

So what we find at this particular stage is a situation in which we have got a sense of tranquility about this deficit problem which is inevitably short-lived. We have a shot at resolving the deficit problem now, when the economy is doing well, when the political pressures from issues of the economy directly are minor. We will not be able to address that issue if, and when, the economy really begins to run into trouble because of this deficit.

So let me just say quickly in summary that it is an extraordinarily difficult problem, I think far more difficult than we as yet realize. The intractability of this is going to require the Federal Government to do what you have done in the states. I think it was Governor Sununu who said you can't lay a guide plan there. We may not be able to. We may be caught in a very significant problem, if all of a sudden this tremendous pressure of foreign capital coming in and the extraordinary decline of what now is a liquidation of capitalization of United States residents cease.

So we have an opportunity now, probably until Labor Day, to resolve this question. I am not sure whether we have as easy a means of doing this at the next window of opportunity, which is after the 1986 elections. Thank you.

(Applause.)

GOVERNOR CARLIN: Governor Clinton, a question for Dr. Greenspan, then Governor Thompson.

GOVERNOR CLINTON: Dr. Greenspan, I would like to play out the scenario you just mentioned at the closing of your remarks. I take it from what you say that you think the dollar value will inevitably begin to fall sometime in the fall, and if that happens, could you describe in a little more detail what you think the consequences will be if we have not moved on the deficit by then?

DR. GREENSPAN: Governor, we have no historical base to be able to make a judgment when the dollar turns in the other direction.

What we do know, by looking at the structure of the figures, is it has to turn. We now in terms of what we call purchasing power parity -- that is, ability to buy the same amount of goods in other countries in their currency -- the dollar is now overvalued by 30 percent. It can maintain that overvaluation only to the extent that capital flows can be sustained at these levels. It's possible to conceive of maintaining them for a while.

Certainly there's no evidence at this stage that foreign purchases of U.S. investments or U.S. deposits or U.S. securities has slackened down. There's no evidence of that. In fact they probably can go a good deal further.

What cannot continue, however, is the continued reduction now of U.S. residents' holding of foreign ass ts. That has to come to an end. When it does, this tremendous support for the dollar has to ease. And that when that occurs, what we will be removing is a supply of savings from the American system; and that, in effect, means that while the demand for credit hasn't changed, the supply will, and interest rates will automatically go up.

And then the Federal Reserve will be caught in a terrible dilemma whether to accommodate that by trying to pump money into the system and create inflationary expectations, or stand back, allow interest rates to rise significantly, create even more problems for agriculture, for everybody else, and it will be the type of problem which we will not be readily able to deal with. We have never confronted that type of problem before.

I wish I could tell you I know it's going to happen in six months or a year. We don't know, but eventually it must.

GOVERNOR CLINTON: Would it be fair to say that the strong dollar is a precondition or required condition of the present success of the Administration's economic policies? That we wouldn't have had the recovery we have had, the growth we have had, with the deficit we have got, if the dollar hadn't been as strong as it's been in the last two years?

DR. GREENSPAN: It's tough to conclude that, Governor, because the evidence is mixed on that question.

What you certainly can argue is that, one, the strength of the dollar has kept interest rates lower than they would have otherwise have been; and, two, that it's clearly kept the inflation rate less than it would have been; and that, therefore, the risks involved in capital investment, even at these high interest rates, were lower, and we did get more capital investment, and that's a stronger economy than we would have gotten.

On the other side, however, is that the strong dollar has drained off a tremendous amount of purchasing power because of the rapid rise of the share of imports in the GNP. I think it's probably a trade-off, so I would have to argue that the mix of the recovery would be significantly different. I am not sure, however, one could say that if the dollar had not been strong, that the aggregate levels would have been significantly different.

GOVERNOR CARLIN: Governor Thompson.

GOVERNOR THOMPSON: This may be a different way of asking Bill's first question. My state is very much hurt by the strong dollar, from Caterpillar to the farmer in the field with ag exports to high-tech industries that are being undercut by foreign products.

If I as a Governor in company with my fellow Governors urge the Congress to get the deficit down in the hopes of getting interest rates down, in the hopes of getting the dollar down, so that there is a more reasonable balance between the ability of my citizens to go off for a weekend in London to buy at Harrod's -- that's great, but most of us can't go -- what success will I meet with?

In other words, can you quantify, in terms of the strength of the dollar, how much of this is the result of the deficit, how much of this is the result of the safe haven political theory of foreign investment that is not going to change even if we get the interest rates down -- In fact, they may even increase if they think we are handling our economy in an even safer fashion, they may pump more money in -- how much of it is currency speculation? Can you help us on that?

DR. GREENSPAN: Governor, from what we can gather from the data, roughly 1/3 of the strong dollar coming up from the bottom, so to speak, is interest rates, that is, in a sense, technically differential, real interest rates of U.S. dollars vis-a-vis other currencies. The rest, most is the safe haven concept or, more exactly, instead of using that term, let me use it in terms of capital flows. Clearly the tremendous flow of capital into the United States is very heavily safe haven. It's not directly related to interest rates as much as I think the conventional wisdom thinks it is. It is in part, but not a great deal.

The other part of the problem -- that is, the safe haven aspects as viewed for American residents -- American commercial banks, for example, are lending far less abroad and are, in a sense, saying, "Here is the safe haven, invest in the United States" -- that is the major issue. So I would say if we were to reduce the Federal deficit in a way which the financial markets perceive that was permanent or quasi-permanent, interest rates would fall and that would do extraordinary things for the American economy.

I am not sure, however, how much it would affect the exchange rate. I don't think that one should be endeavoring to bring the deficit down and interest rates down because it will bring the exchange rate down. I think there are so many in many respects more important issues involved. I think the exchange rate will come down when, in effect, we have run out of capital to put in it, on balance.

GOVERNOR CARLIN: Governor Sununu.

GOVERNOR SUNUNU: Dr. Greenspan, in your presentation you suggested that one of the strategic problems we had was that as a nation we were making investments that by nature had a rapid return by virtue of the shorter-term depreciation. Is that an artifact of the tax code and the accounting process, or are we not investing in long-term plant?

DR. GREENSPAN: I think it's the latter, Governor. There's no question that ERTA originally did have that effect, but it was evident before.

Where it comes from is the fact that when you raise the discount rate in the capital investment process, raise the cost of capital, it turns out that whether you do it by a very sophisticated analytical way, or whether or not you just sort of behave in a normal small business way, the higher the cost of capital, the greater the incentive to make certain that what you invest in has a very short life and that the payoff is quick. You need low long-term interest rates to entice people into investing into longer-term projects.

GOVERNOR SUNUNU: One other clarification on another item, you indicated that we might be masking our problem by a large inflow of capital, and that a lot of it is coming in more on a safe haven basis. Does that suggest that we ought to put a surcharge or tariff on the inflow of capital, A to take advantage of the fact it's going to come in anyway, and B perhaps discourage it as a band-aid solution?

DR. GREENSPAN: I suspect if you try to do that you will discourage it, but in a very rapid manner.

The reason that you would is basically the reason why that capital is coming here, is that there is a perception that investment is given high incentives in the United States and no discrimination is being made between domestic and foreign source.

If we endeavored in the slightest to try to suggest that we were going to inhibit capital inflow or we were going to move in a protectionist way, I think that what we will find is that this tremendous capital inflow would reverse, and if we have problems with a strong dollar, they would be mild compared to the problems we might have with a weak dollar.

GOVERNOR CARLIN: Governor Blanchard.

GOVERNOR BLANCHARD: Dr. Greenspan, I found your presentation most interesting. I recall that you were saying the same thing three years ago, and probably long before that, so I want to commend you for being consistent.

I am curious, from your experience having advised Presidents, having served on various Councils of Economic Advisors, as to whether or not the current President isn't really a monetarist or at least heavily influenced by the monetarist school to the point where he really doesn't think deficits matter, even though he may say so. It would certainly appear that there are p ople around him who believe that really essentially only the rate of growth of money matters, not deficits at all. That's the feeling of Jack Kemp, Beryl Sprinkel and so many others that seem to have had his ear. I wonder if that isn't the core of the inability to confront the issue head on.

I am curious as to your reaction to my comment.

DR. GREENSPAN: The best I can judge, the President is very concerned about the deficits. It is certainly true that he is partly monetarist, as I guess all Republican and an increasing proportion of Democratic economists are. But as best I can remember, the President has always been very strongly against budget deficits.

I think the problem is that he finds it difficult to get a handle on getting it down, because, in his judgment, unless you come to grips with the deficit from the expenditure side, you create the potential problem of raising taxes which, for the purpose of reducing the deficit, would ultimately only fund expenditures later on. I think he does have a dilemma. The dilemma, however, is not that he takes the issue of deficits unseriously.

GOVERNOR CARLIN: Governor Schwinden -- okay, you are yielding to Governor Evans for the last question of Dr. Greenspan.

GOVERNOR EVANS: Thank you very much, Mr. Chairman. We have been listening to Chairman Volcker this last couple of weeks, talking in terms that he is not going to expand the money supply any further, he is not going to try to get the interest rates any lower.

We were visiting with Dr. Hjarl, an economist from the University of Iowa, in the agricultural committee this morning. I asked him if there was one economic issue that he would recommend that we initiate, and he suggested lowering interest rates still further would solve the dilemma of we states who have very serious problems with the natural resource industries, such as agriculture, forestry, mining, et cetera, et cetera.

Would you recommend to Mr. Volcker at this point that we move that direction and maybe that would influence the reduction of the strong dollar, et cetera, eliminate a lot of the problems we are facing?

DR. GREENSPAN: I would if I thought he had the capacity to do so. I think there is a belief in Washington, and I suspect elsewhere, that interest rates are, in fact, determined by the Federal Reserve. In fact, one often gets the impression that it is they who either turn the knob up or turn the knob down.

The problem is basically that the interest rate levels are largely made by the marketplace; and what is creating these very high interest rates is not tight money by the Federal Reserve, but an expectation in the financial community that inflation is indigenous to our system; and as a consequence will create a situation in which lenders will not lend except under conditions which they get their inflationary expectation back.

If the Federal Reserve were to ease, just to drive interest rates down, in today's conditions, in which I would assume the markets are saying interest rates should not go down, that could only be done by creating a major increase in inflationary expectations, which would, in the end, make interest rates higher, not lower.

So the answer to the question is, yes, I would certainly like to see interest rates lower. It is what is hobbling our economy, our raw materials industries, farm, et cetera. But it cannot be done from the Federal Reserve. It's got to be done from the budget side.

GOVERNOR CARLIN: Dr. Greenspan, we have had a request from Governor Graham to ask a question that sounded interesting to me, so I am going to make an exception. Governor Graham.

GOVERNOR GRAHAM: You indicated in response to a previous question that different approaches to monetary budget tax policy might have had the same cumulative effect but would have distributed the pain and pleasure of what we just experienced. Clearly two areas that have taken an inordinate amount of pain have been export-sensitive industries and agriculture. Has there been a conscious policy, in your judgment, in the Administration that those two sectors of our economy should be asked to carry an inordinate amount of the nation's responsibility for economic reform; and if you were advising the President today, what would your advice be relative to the future of those two sectors of our economy?

DR. GREENSPAN: Governor, I am certain there hasn't, if for no other reason than that I know, like most economists, the Administration was caught off guard by the extraordinary strength of the dollar in the last year or two years.

So having spoken virtually to everyone who makes policy for the President on down, I can say without any qualification that that has not been the conscious policy, that they are as surprised and I might say, as concerned about the strength of the dollar's impact on so much of American industry as you and I think the other Governors are.

GOVERNOR GRAHAM: Now that we know what this reality is, what would your advice be to the President as to what policy changes to initiate at this time to respond to the circumstances in agriculture and the export industry?

DR. GREENSPAN: Well, first thing, on the issue of the dollar, my impression is that by the time we had a program in place which could change the strength, which I'm not sure we could, it probably already would be turning. The only way we know for certain we can get the dollar down is to print an inordinately large amount of money, which would create an inflationary expectation and, in a sense, force foreign holders of American securities out of dollar-denominated assets.

That is not a feasible policy and would probably wreck the economy overall.

GOVERNOR CARLIN: Dr. Greenspan, Governor Hughes has a short yes-or-no question. Governor Hughes.

GOVERNOR HUGHES: Doctor, we all heard the magnitude of the problems, the complexities. We all agree there has to be a reduction in spending. Do you also think that there has to be an increase in taxes and revenues?

DR. GREENSPAN: The answer is, technically, no, they need not be. We can solve this wholly from the spending side.

GOVERNOR HUGHES: Thank you for your technical answer.

(Applause.)

GOVERNOR CARLIN: Dr. Greenspan, you have been around Congress too long to start answering questions like that or following our advice, I guess; anybody in politics can get off a "yes" or "no" if they want to. We now to close this afternoon's plenary session emphasizing the budget will hear from three of our colleagues. We've talked a lot about the big picture, the general statistics and the devastating effects of the deficit and the results that are coming.

We will now hear from three speakers who will talk about segments of our economy that are affected today. I will start by calling on Governor Janklow who will talk about agriculture. I want to advise you Governor Janklow is fresh from his appearance before Meet the Press and is on a roll. I would only ask, Bill, that the roll be relatively short. As you continue, make it as powerful as possible, but do keep in mind we want to make it to the White House. Bill Janklow and a little applause here.

(Applause.)

GOVERNOR JANKLOW: I am going to, if I can, pick up really where the last two speakers left off. I am going to give you some statistics for two minutes just to show you the magnitude of this real significant problem that we have now. I am in an unusual position. My background is as a lawyer, a businessman and a politician. For the next eight minutes I am going to be a doctor, trying to save a terminally ill patient who really doesn't have any guts, and that isn't a very easy thing to do.

We can go back to Harry Truman's time. Harry Truman increased the budget 4.4 billion in terms of deficits. Then Eisenhower came along. In his eight years he increased it 15.8 billion. Then Kennedy and Johnson came along and they increased it 53.9 billion. Then Nixon and Ford came around and they increased it 193 billion. Then Jimmy Carter came on the scene and increased it 181 billion, and our friend Ronald Reagan came and in four years increased it $728 billion. In the last eight years in this country we have run up $909 billion worth of additional deficit that we have to face.

We are dealing with an infectious disease, something you Democrats really created, and we Republicans have tuned really to a fine art in terms of the problems that we have in this country.

We talk about supply side solutions to this problem. If you want a supply side solution to this problem, by 1989, just to grow our way out of these deficits, we are going to have to have have an unemployment rate in this country of 2 percent. We are going to have to have an inflation rate that doesn't exceed 3.5 percent. We are going to have an ongoing rate of interest of 5 percent.

This country has become a debtor nation. By 1989, America will owe $800 billion to outside forces outside this country. $800 billion is 10 times the total debt of Mexico that everybody is so concerned about and whether or not they will be able to make their payments.

As a matter of fact, right today, the Federal Government spends -- I should say takes in, from the American people, in terms of debt, 20 cents more on every single dollar that they spend.

The Federal deficit last year exceeded all the money that the Federal Government spent for all purposes just 13 years ago.

As a matter of fact, last year, at the close of the year, we were spending $457 million a day just to service the national debt, which is $157 million more than the total income of the state of South Dakota will be in the year 1985.

The debt service this year, on the national debt, will be more money than Lyndon Johnson spent on the War on Poverty, the Great Society and to fund the Vietnam war.

As a matter of fact, the last three years, the President of this country has sent budgets to the Congress that have totaled spending requests of $2.4 trillion. For all their heroic efforts to cut the budget, straighten it out and deal with the deficit in a courageous Congressional way, they debated it for a whole year, passed some appropriations measures, turned a lot of the rest of them into continuing resolutions, added $26 billion to his spending requests, and sent it back to the President for signature.

23.5 percent of all the Gross National Product in the United States of America today is spent by the Federal Government, and they are only taking in 19.5 percent of the Gross National Product of this nation. The difference is the structural deficit that somehow this country has to deal with.

One of the things that we talk about is the great economic expansion that we have had over the last few years. You can fuel any kind of expansion with $700 billion worth of spending over a three-year period of time. The question is whether or not $700 billion worth of deficit spending has really financed any real growth, any real healing, any real improvement, in the situation that we deal with in America.

Now let me get down to specifics with respect to agriculture. We are in an unusual situation when we talk about agriculture. A 1 percent drop in interest rates for the American farmer will fall through to the bottom line of $1.5 billion in cashflow/net income. I use both those terms, cashflow/net income, because it's $1.5 billion they won't have to pay some lender in terms of financing or to service their debt; and at the same time it will fall through to their bottom line to help increase it with respect to their net profit.

When you talk about the high dollar, we are talking about something that is truly really wrecking American agriculture. 10 francs are to the point now where they will purchase an American dollar. At that particular level, the French franc is worth about as much as a French puff, a French kiss or a French truffle or a French anything other than something of real value.

The climbing value of the American dollar has placed a 26 to 30 percent export tax -- not import, but export tax -- on the American foodstuffs that we try to ship out of this country.

1/3 of our total soybean crop is sold in Europe. In 1982, it cost 10.2 German marks to buy a bushel of soybeans. In 1984, it cost 18.1 German marks to buy a bushel of soybeans. In two years that was an 80 percent increase in what it cost the Germans to buy our soybeans by purchasing dollars, when you recognize that 80 percent of all the world trade is really conducted in American dollars.

In 1975-80 the developing countries provided the fastest-growing markets for United States agriculture. In their share of the total United States agriculture commercial sales, the third world grew from 30 to 35 percent.

Now we are in an unusual position. A 1 percent increase in interest rates in this country, and in the world, reduces the purchasing power of these foreign nations by $4 billion for every 1 percent in interest. More of their money goes to pay their debt service and less is used to pay for their agricultural products that they have to buy to eat.

Under normal exchange rates the American farmer is the most efficient in the entire world. There isn't anybody that is on such a capital-intensive basis. Most of the rest of the world, with a few exceptions, are on a labor-intensive basis, but a strong dollar, this incredibly strong dollar has encouraged foreign nations to jump in with both feet and compete against America. In the past five years the share of American world trade, in grain, which is our principal farm export, has fallen 12 percent.

As a matter of fact there was a tremendous news story just a couple of weeks ago when Cargill found it cheaper to go down to Argentina and buy their wheat and attempt at that point in time to ship it to one of the Gulf points for 4 to 6 percent less than you could buy it in Omaha, Nebraska, and ship it by barge down to New Orleans, just an incredible problem that has been brought about by the exchange rate.

The recent dollar appreciations over the last year have cost American farmers $3 billion in export sales.

That means 1/6 of the total farm program that everybody is complaining about, that we spend in our Federal Treasury, 1/6 of it is due to American macroeconomic policies. The real issue is not the cost of U.S. farm programs in this country. The issue is the fiscal policy that demands immediate reform if we are going to straighten out the problem.

A 10 percent decline, just a 10 percent decline in the value of the dollar on the world markets will restore 10 to 12 cents to a bushel of corn. It will bring 20 cents to a bushel of wheat. It will bring a 20-cent reduction in the value of the dollar. At the same time, and this is what is incredible, at the same time, this 10 percent reduction would cause the European Economic Community to lose $15 billion in worldwide sales of captured American products that they have now taken over.

10 years ago, the European community imported 20 million metric tons of wheat from the United States. Last year they exported to world markets 20 million metric tons of wheat. In a world that only has 100 million metric tons of wheat trade, a $40 billion difference by one little group of countries makes the difference between who is going to make it and who isn't going to make it.

Frankly we can talk an awful lot about all these things to drive down interest rates. We can come up with all kinds of creative programs. There isn't a single problem in this nation that can't be taken care of and solved, if our Congress had the guts, if they had the energy, if they had the will, if they had the courage. Lord knows they've got the brains, they just don't have what it takes to go with it. Farmers mix water, they mix soil, they mix work to grow crops and do a good job of it. Those folks in the executive branch can't mix their brains, their talents and their energy to bring about a solution to a problem that holds the potential to totally destroy a sector of America.

My final comment I want to make on this is there is a lot of rhetoric today about farmers have gotten themselves into trouble. Our friend David Stockman finds nothing better to do than go around and bash farmers because he can't find anybody else to bash this week. But in the final analysis what we are really talking about are the Government programs that put the farmers in this problem.

They did it when Gerald Ford put an embargo on wheat and soybeans in 1974, not because of any other reason than the fact that the housewives of America got tired of a 25-cent increase in the price of a loaf of bread; it was a national food policy that made that decision. In 1979 President Carter determined that he was mad at Russia for invading Afghanistan, so he embargoed wheat and corn to the Soviet Union. The net result was that it destroyed world markets and the reliability factor in America.

In 1973 America bought 80 percent of its imported oil from the Persian Gulf. Today it's 5. Very quietly over the last decade we have turned our resources to find them in the North Sea, Venezuela, Canada and Mexico. The American farmer can out-compete, out-grow at a cheaper cost any farmer in the entire world. But we cannot beat the treasury of France, we cannot beat the treasury of Argentina, we cannot beat the treasury of Brazil, the last two countries being propped up by America for foreign policy considerations. We cannot beat the treasury of New Zealand and Australia. We can whip their farmers, and it's our responsibility to make sure in the marketplace our farmers get a fair fight. Thank you.

(Applause.)

GOVERNOR CARLIN: Thank you very much, Bill. I call on Governor Dukakis at this time to make some comments on this issue as it relates to high technology. Governor Dukakis.

GOVERNOR DUKAKIS: Hold your applause. We have already heard this afternoon from Dr. Greenspan and Governor Janklow. I am not going to repeat again what they have said in general about this problem.

But as the Governor of one of the preeminent high-tech states in the country and one of the preeminent high-tech centers in the world, I would ask you to focus on one aspect of the dangerously large Federal deficit that we have been debating that hasn't received much public attention yet. That is the damage it is doing to our long-term economic future.

The fact is, as Dr. Greenspan told us this afternoon, that the deficit's effects are corrosive rather than explosive. We are, quite simply, gambling with the nation's future, tomorrow's jobs, tomorrow's paychecks, tomorrow's industries, tomorrow's communities.

Let me explain.

We are all aware that the extraordinarily high deficits are attracting foreign investments to finance our debts. This has led to the strengthening of the overvalued dollar.

What is even more troubling is that this overvalued dollar is having a profound effect on the outlook of the nation's high technology industry. Our high-tech companies are losing significant sales abroad, not because their goods are inferior, but rather because the overvalued dollar is adding 25 to 50 percent to the cost of American goods that are exported, and as Governor

Janklow pointed out, this, in effect, imposes a penalty, an export tax, if you will, on American products.

This phenomenon affects particularly high-tech companies like Digital Equipment and Wang, which look to international sales for 30 to 40 percent of their revenue. Now high-tech companies in Massachusetts and across the nation don't mind competing, but when you are competing with one arm tied behind your back, then it gets exceedingly difficult.

And the loss of export sales, because of our dollar disadvantage, has one very direct effect on our future. Because fewer revenues mean fewer dollars to invest in the research and development that keeps our companies competitive with new products and new production processes. R&D, as I think all of you know, is the life blood of technology large and small. Firms in my state like Prime Computer and Cullinet Software typically invest between 8 and 10 percent of their profits in R&D; that's the way they stay innovative, that's the way they stay competitive, that's the way they stay dynamic.

So a loss in sales means both a short-term loss of jobs for people and the long-term loss of investments in future jobs for those companies, and that's not all. The fiscal irresponsibility here in Washington that has produced our overvalued dollar is also forcing high-tech companies -- much, Bill, as you suggested is happening in the grain trade -- to move dollars overseas in search of lower-cost locations. That means lost jobs for our people, lost prosperity for our community. Once the decision has been made to expand offshore, even if we get the deficit down and the dollar drops, those jobs and that work is unlikely to come back to us.

Now the overvalued dollar is not the only reason for a company's difficulties in competing in the global marketplace. But it is a very important factor, maybe the most important factor in today's marketplace, a factor caused by runaway Federal deficits a factor that is having subtle, profound, far-reaching and not quickly or easily reversible consequences for our future economy.

Furthermore, the high interest rates caused by the deficit are also hurting high-tech. It is, after all, the entrepreneurial spirit of our country that has given birth to the high-tech industry. Artificially high interest rates can kill or dampen that spirit by denying dynamic high-tech companies the capital they need at a cost they can afford.

A final point I would like to make concerns some of the Administration's deficit reduction proposals, which are not directly related to the overvalued dollar, but clearly related to high-tech industry, and this whole concept of investing in our future. Those proposals, as I think all of us now know, include reduced spending for education and student loans and for employment and training programs and for nonmilitary R&D. Our knowledge-based industries' most valuable resource is well-trained minds, and training programs such as the Job Training Partnership Act are a critical resource for producing trained technicians.

In short, as every Governor at this conference knows, spending in these areas is an investment, not a cost. We are a nation that has believed in passing along to future generations better conditions and more opportunity than we inherited. Yet the deficit and overvalued dollar threaten the very underpinnings of our task to pass along a better economic future. We have got to invest in education and we have got to provide a climate in which companies can invest in R&D and in which they can grow and expand. Both of these dimensions to staying competitive are being seriously undermined by the failure of the Administration and the Congress to deal quickly and effectively with the Federal deficit. Thank you.

(Applause.)

GOVERNOR CARLIN: Thank you very much, Mike. Now for our final presentation, Governor Blanchard will make his remarks on heavy industry and the effects the deficit has had on that segment of our economy. Governor Blanchard.

GOVERNOR BLANCHARD: I think we have all heard the litany of the sins of the deficits. I have a feeling we will be sitting here next year and a year later and a year later talking over the same issues we were last year and the year before. We have also heard a disavowal of any notion of tax increases and I think 43 of us, having had to raise taxes in the past couple of years, know that a tax increase has to be a last and not a first resort.

But to disabuse any of you of the notion that we don't really have a tax placed on us, I would like to point out that if you simply divide the interest on the national debt for this next year as projected by the President, you will find that every man, woman and child in this country is taxed to the tune of $615 a year, for the rest of their lives. By the way, that hidden tax to pay the interest on the debt is more than twice the income tax of Michigan. We researched it. It's more than twice the income taxes from any state represented by the Governors.

I want to compliment Bob Dole, because I think he has been a consistent critic of the problem we are facing; and Alan Greenspan has steadily for several years pointed out that the structural problems related to the deficit were severe. Dr. Greenspan, I know you mentioned the problem of a loose fiscal policy and what that would do to monetary policy and the fact that it essentially chokes off long-term investment. From Michigan, I understand that. I think that's the basic message from industrial America.

We know things are tough on the farm. We heard about high-tech. My sense is ultimately the global struggle we face, the international competition, whether it's heavy industry or any kind of manufacturing, is going to be lost if we don't have continuous long-term investment. That necessitates a reduction in the rate of interest, on long-term borrowing. The real rate of interest right now is 6 to 7 percent.

You are not going to get long-term borrowing or the kinds of investments we need in autos, steel or any other kind of manufacturing of machine tools, without substantial capital investment. That is the single worst problem facing, I think, heavy industry or manufacturing generally, one which could cause a shift, ultimately, because of loss of productivity and ingenuity, of thousands, if not ultimately millions of jobs.

We also mentioned that there's a spinoff effect on high-tech. As I think Governor Dukakis knows, the largest consumer of computers happens to be General Motors. The second largest consumer is Ford. The third largest consumer is Chrysler. And the same is true for robots and other high-technology machinery, from machine visions to everything else you can dream up. So the ripple effect as we know from agriculture also extends in manufacturing to high-tech in every kind of R&D activity you and I might champion for the future strength of our economy.

Now we can debate the value of the dollar, and I would be interested in Dr. Greenspan's analysis as to how it affects automobiles, but I can tell you that the auto industry sincerely believes, and there is some evidence that suggests they are correct, that the deficits which have strengthened unnecessarily high the dollar, do perhaps cost or make for a lower cost for car imports of up to $1000 and $1500 per car, and the industry, like the farmers, is going to be in this town lobbying for help, whether it's a voluntary restraint agreement or, like the farmers, for financial assistance, to combat what they believe -- and I think they are right -- a very serious imbalance in the price of domestic goods because of the strength of the dollar.

As a matter of fact, 75 percent of our domestic manufactured goods are subject to intense competition. Automobiles are just one part, perhaps a part that has had a stronger recovery than most, but 75 percent are subject to intense competition, and I think we will find, because of the value of the dollar, very serious inequities in pricing.

So the protest on the farms could well spread to the factories. As I said, you are going to be hearing all of them talk about continuation of voluntary restraint agreements as we hear farmers talk about farm credit. We are going to be ending up watching the Administration and the Congress react again to the symptoms of the problem rather than treating the cause, of course, the deficit. Because we have to protect jobs from shifting overseas, and we have to protect our basic industries and our farmers as well.

So, as I look at it from the state of Michigan, we have had a great resurgence of the auto industry, but that's only part of the manufacturing. You need to know that manufacturing profits in America right now are only half of what they normally are in the third year of a normal business recovery, and we don't know if that will continue if trade restraint with Japan is not continued.

I might add with regard to the dollar, as something we will all talk about, the President and his people negotiated an arrangement with the Japanese regarding the yen last May to try to, I guess, as they say "internationalize" the yen, so that it's pegging or its value vis-a-vis the dollar would be more realistic. Since that time things have gotten worse. The dollar has appreciated by 25 percent, and we are going to see a call to the President, when he goes to Bonn with his advisors again in May, to negotiate this dollar value problem with our allies.

When he does it, they are going to look right back at the President and the Congress and say, "How can we take your concern over the strength of the dollar seriously if you won't take the huge deficits you have adopted seriously as well?" Because I think what they are really going to say as Bill Janklow tried to say politely, essentially -- and I will get my pitchfork and march out there with you, Bill -- essentially what we have done in this country is we have borrowed $1 trillion to finance a recovery, and we have sent the bill to you and me and our children and our grandchildren.

I would question whether that means we are going to have a future as prosperous as our past with this kind of free-and-easy borrow now and worry later policy. Thank you.

(Applause.)

GOVERNOR CARLIN: Thank you very much, Jim, and my thanks again to Bill and Mike and everyone who helped make this afternoon plenary such a success. I have some closing announcements and then we will adjourn, but please pay attention. We will be going to the White House this evening. You are to provide your own transportation, arrive at the southeast gate between 6:45 and 7:15 at the latest. Parking, of course, will be available and the security will be handled as it has been in the past.

Tomorrow, when we go to the White House for our meeting with the President, the Vice-President, and members of the cabinet, transportation will be provided. We will depart from the main entrance of the Hyatt here at 10:30 a.m.

On Tuesday, in regard to the plenary session, we will take up the reports in alphabetical order, with the Executive Committee going last. We will make one exception in terms of interruptions. Congressman Kemp, in order to accommodate his schedule, may be moved in between adoption and resolution. I would advise you that anyone who is interested in suspending the rules for any action on Tuesday must submit that in writing to Jim Martin of NGA staff before 5:00 p.m. tomorrow, Monday. That's for any suspension of the rules on Tuesday morning.

If I don't see any hand or quick draw for attention, we will stand adjourned. See you at the White House.

(Whereupon, at 5:10 p.m., the plenary session was adjourned.)

TRANSCRIPT OF PROCEEDINGS

NATIONAL GOVERNORS' ASSOCIATION

WINTER MEETING

PLENARY SESSION

Washington, D. C.

Tuesday, February 26, 1985

ACE-FEDERAL REPORTERS, INC.

Stenotype Reporters

444 North Capitol Street
Washington, D.C. 20001
(202) 347-3700
Nationwide Coverage
800-336-6646

NATIONAL GOVERNORS' ASSOCIATION

WINTER MEETING

PLENARY SESSION

Hyatt Regency Capitol Hill
Regency Ballroom
400 New Jersey Avenue, N.W.
Washington, D. C.

Tuesday, February 26, 1985

The pleary session of the wenter meeting convened at 9:30 a.m., Governor Carlin presiding.

P R O C E E D I N G S

GOVERNOR CARLIN: I will call the meeting to order. Given the extensive agenda that we have this morning, and the many decisions we need to make and the schedules that we all individually and collectively need to follow, I will dispense with any opening remarks other than to say that the agenda that we do have is significant and important, and I hope we can move at a speed that will allow not only full participation but allow us to complete that agenda. We are talking about major issues: tax reform, the budget, agriculture and on and on.

I think we have had a very good meeting. This obviously is the wind-up, this is obviously where we decide policy, the policy for which we individually and collectively will work with Congress and the Administration on the various issues that are before this country.

We are honored this morning to have two very distinguished guests. Because of their individual schedules, we are going to make an effort to not only accommodate theirs but ours, and take them individually, which means after our first speaker and questions and comments, we will go to some committee reports, and then Congressman Kemp will arrive later, and when he does arrive, we will immediately move to that order and allow him to speak and for us to have an opportunity to question him.

Our guests this morning are to comment, obviously, about the tax issue -- tax reform, more specifically. We are honored to have the individuals that we have on our program. I, at this time, will call on Governor Kean to make the first introduction. Governor Kean.

GOVERNOR KEAN: The State of New Jersey is very, very proud of Bill Bradley. He is here today to talk to us about his pioneering approach to tax policy. He is a leader in so very many other areas that it would be impossible at this point to list them all, but he has represented our state and the national interest on superfund, resource conservation and recovery, natural gas deregulation, health care, education, international economic policy and simply a host of other issues. He has crafted new ideas in long-term care for our elderly population. He proposed legislation to encourage innovation in home health care and whatever other alternatives there are to nursing homes.

As a member of the Senate Finance Committee, Bill was very early exposed to the incredible complexity of our tax system in this country, and unlike so many of his colleagues, he decided to do something about it. The result of that effort is what brings him here to talk to us today.

Let me say, on a very personal basis, all of you know the relationship, and the importance of the relationship, that the Governor's office has with the office of the United States Senate. There has not been an occasion since I've been Governor of New Jersey, when I have gone to Bill Bradley on something in the state's interest that Bill has not responded in every way that I could have hoped, and he has been -- we have had a wonderful working relationship that I think has benefited the state very well.

So it is with tremendous pride, as Governor of the State of New Jersey, I introduce our Senator -- who, by the way, has just won reelection with 65 percent of the vote -- Senator Bill Bradley.

(Applause.)

SENATOR BRADLEY: Thank you very much, Tom, for the very kind introduction, and Governor Carlin and ladies and gentlemen.

I appreciate the chance to come by today and have a chance to talk to you about tax reform. It has occupied a great deal of my time over the last four years, and I think that this year will be a decisive year nationally for tax reform. I think there is a window of opportunity. I think that window of opportunity will extend throughout most of this year, but I believe that we have a real chance of getting a major tax reform bill passed by August of this year.

And the reason I say that is because we now have the bill that Dick Gephardt and I put out about three or four years ago. Jack Kemp, who will speak later today, has a bill with Bob Kasten of Wisconsin, and the Treasury Department has also come out with its tax reform proposal. All three of these tax reform proposals head in the same direction of lowering tax rates and eliminating many of the tax expenditures.

We are finding now that more and more business and labor people are coming to support the idea of fundamental tax reform.

I am also quite pleased when I read the working draft that your Executive Committee wrote for your tax policy statement.

I would like to commend that committee, and I think that it is an outstanding statement. I think that it is clearly going to be something that will require both Governors and Senators if indeed we are going to get tax reform passed, and I am extremely pleased to see that we are on the same wavelength.

I would like to explain the fair tax, if I could, which is what Dick Gephardt and I call our bill, and then make some general points about what will happen in the next several months; and I hope also toward the end to talk about what you could do.

The fair tax which Dick Gephardt and I introduced does three things. The first thing it does is to drop the tax rates dramatically to a range of 14 to 30 percent. Four out of five people in America who pay taxes would pay no more than a 14 percent rate. The top rate drops from 50 to 30 percent.

We, as a second thing, raise the amount of income that a person can earn before they have to pay any tax. For example, under our proposal, a couple with two children would have to earn over $11,200 before they got their first dollar of taxable income.

The third thing that we do is eliminate the bulk of the tax expenditures that have been put in the code over the last 30 or so years. But we are careful not to eliminate those deductions that are used by middle income people, such as mortgage interest, property tax, state income, charitable contributions, as well as keeping things like IRAs and Keoughs and the tax-exempt status of general obligation bond interest, business and medical expenses.

So with this bill, we lower tax rates that I believe will stimulate work, savings and investment. We make the tax system fair through the elimination of many of the so-called loopholes. We make it fair because equal incomes will, under the new system, pay about equal tax. And, third, we also help reduce the deficit, because in the course of four to five years after the enactment of the fair tax, we will, in about the fourth or fifth year, raise an additional $40 billion in Federal revenue.

So that with one bill we lower rates, stimulating work, savings and investment, we make the system fairer so that equal incomes will pay about equal tax, and we help reduce the budget deficit.

As with any tax proposal, as I am sure all of you are aware as you do your state taxes, there are winners and losers. In the fair tax, about 70 percent of the people will pay the same or less tax, and 30 percent will pay more. Now, keep in mind that that figure is simply a snapshot; that is, a snapshot of one year, the last year available for tax returns, in which you have juxtaposed over that year the provisions of the fair tax.

So you say, well, you are not in a bad circumstance, I am sure you would like to have any tax bill where 70 percent of the people pay the same or less and 30 percent pay more. But let's assume the person is in that bracket that is going to pay more. Let's assume that person pays $100 more in tax, and further let's assume that they are in the 30 percent bracket.

Well, in the first calculation, it turns out that they are in the 30 percent that pay more, and on the surface it might appear that therefore they would be opposed. But in the second year that the tax would be in effect, if that individual simply earned another $300, they would be paying less tax than they would under the current law.

So you have to see tax reform not in the static numbers of the year of analysis, but over time, and the benefit from lowering the rates is simply if you earn more, you will keep more, and I tend to believe that most Americans sense that they are going to earn more over time.

Let me assure you that this system is not going to be accepted in Congress by acclamation. There are many people and groups that have, over the last 30 years, gotten things into the tax code that they want to keep in the tax code, never mind that the result of these special provisions has been that the rest of the American people end up paying higher tax rates. This will be a battle, I think, between the general interest and the narrower interests.

Now, a friend of mine here in Washington said the other day, "Well, this fair tax isn't going to go anywhere." I said, "Why?" They said, "Because the special interests are organized and the people don't care."

If he was right about the people, this bill isn't going to go anywhere. But I think he was wrong about the people. I think the people do care, and they want a tax system with lower rates and fewer loopholes, and they are willing to make that decision once the choice is put forward to them.

Now so often you will hear in this debate about what will be lost -- this will be lost, that will be lost -- and you will, I think, and I predict in the n xt several months, see national television advertisements and print advertisements -- and they are already beginning to appear -- that will tell individual Americans what tax reform will mean to them in terms of what they will lose.

What it will not tell them is what they will gain. In other words, it won't give them the honest shake of what the lower rate will mean to them in terms of after-tax dollars.

I really think that once the choice is put out there, you will get an overwhelming support for tax reform. That's the only way this is going to happen. This is not going to happen in the usual way that we do business in the Finance Committee or in the Senate. It will happen only if there is an outpouring of public sentiment for tax reform.

In my view, that is where your statement is so helpful, because it recognizes that in the governmental area, there is a partnership between members of the Senate and the Governors of this country, and that both want to head in the direction of a fairer income tax system with lower rates and fewer loopholes.

Now, how is it possible to get the tax rate down to 14 percent for four out of five people in this country and raise some additional revenue?

It's very simple. In 1967, the value of all tax expenditures was $37 billion. This year, the value of all tax expenditures will be $370 billion. So that if you eliminate some of those tax expenditures, with the revenue that you then derive you are able to push the tax rate as low as 14 percent for four out of five people in this country.

Now, in Washington today, we have three bills. We have the Treasury bill, we have the fair tax that Dick Gephardt and I put in, and then we have the Kemp-Kasten bill. If you look at these bills in terms of ideology -- which I try not to do, but inevitably you are led to do that -- you would see the Treasury somewhere on the left, you would see us in the center, and you would see Kemp-Kasten on the right. There is some discussion as to whether these bills cannot be melded, whether these bills cannot be compromised. They all head in the same direction, which is lower rates and fewer loopholes.

For me, any compromise would have to meet three principles. The first principle it would have to meet is that it would have to not increase the budget deficit. It's easy, as you know, to give people a lot of tax cuts if you increase the deficit. Well, tax reform, in my view, should not do that. The first principle is any tax reform should not increase the deficit.

The second thing tax reform must not do is increase the tax burden on middle or low income people. It's easy to give tax cuts to the people who have mon y; but the result is that middle and low income people will end up paying a greater percentage of the Federal tax burden. That is not what we want.

The third thing is to give the lowest possible tax rate to the greatest number of Americans, and that means making the very tough choices on eliminating many of the tax expenditures, thereby driving the rate as low as possible. Again, in our case, a couple under $40,000, a 14 percent tax rate, that same couple under the current system would be in a 32 percent tax rate.

I would argue, finally, that there is another rationale for tax reform. It is, I believe, that the key to our future in this country is embracing change, and that we need a tax system that encourages embracing change and innovation. I believe a tax system that dramatically cuts the rates and makes the system fairer, does that.

There's an economic rationale for it, and that is if you are going to get to full employment in America, you have to have a successful competing enterprise internationally. In order to do that, you have to look out for the stability of the world trade and financial system; and, secondly, you have to have the most efficient allocation of resources domestically, and I believe the market is the most efficient allocator of resources. I believe the tax system has jumped between investors and investment, and skewed investment so that it doesn't go to those areas of the economy that have the greatest return and enhance our comparative advantage, but rather goes to those areas of the economy that are tax-favored because those groups have had access to the political process.

So I argue that it's in our economic interest, in terms of embracing change. I argue that it is also in our political and social interests, and I ask you, as individuals, simply to reflect on how you felt when you got your latest instruction booklet to fill out your Federal income tax. You flipped through there and you saw this provision and that provision, and you said, "Well, I am not using this one, I am not using that one," and indeed you aren't. But somebody is, and the result is an unacceptably high tax rate on the bulk of the American people.

So I would argue that this is the year for fundamental tax reform. The one remaining question, in my mind, is whether the President will be willing to take on the special interests in order to give the American people the lowest possible tax rate. If he does, I think that you can see bipartisan support for this bill.

Because in a very fundamental sense, this is not Republican/Democrat, this is not liberal/conservative, but rather it goes to the core of how a legislator perceives his or her job. That is, do you represent the general interest or the narrower interest? Is your job to trade off among all of the groups so that the realtors won't be mad at you and the plumbers will be happy with you and the homebuilders will be all right with you?

Is that your job? Or do you believe that you can A, perceive the general interest and B, formulate a general policy that will serve that general interest. I clearly believe the latter, and I think that tax reform frames that issue in a way that very few other issues do.

I am glad to have had the chance to come by and speak to you today, and I once again want to compliment you on your policy statement, which I think is extremely helpful in the national debate of tax reform. Thank you very much.

(Applause.)

GOVERNOR CARLIN: Thank you very much, Senator. We want to take time for a few quick questions, and I underline "questions" for the Senator, not speeches followed by maybe a question. I call on Governor Lamm to lead off with the first question.

GOVERNOR LAMM: Senator Bradley, can you state again how you see this question relating to the Federal deficit problem?

SENATOR BRADLEY: I am sorry, I didn't hear the question.

GOVERNOR LAMM: Would you state how you see the question of tax simplification and tax reform and how it relates to the whole question much on the mind of everybody on the Federal deficit.

SENATOR BRADLEY: Well, I think there is a direct relationship between tax reform and reducing the Federal deficit.

I would, however, beware of those people who say, "Look, we have to do deficit reduction first and only do deficit reduction," because I think some of them have a hidden agenda, which is to raise tax rates as a way of reducing the budget deficit. From my perspective, that would be a disaster, because whose taxes are you going to raise? The people who are paying taxes. Who are paying taxes today? The people that can't use all the loopholes. So I view tax reform as fundamental, and as step 1, let's reduce the deficit as much as we can on the spending side.

Step 2, let's look at fundamental tax reform. Let's look at it in terms of it being revenue-neutral. What does that mean? In the first year it's revenue-neutral. The Bradley-Gephardt bill by the fourth year will raise $40 to $50 billion more in revenue. Why? Because you eliminate some of the deductions and some of the exclusions.

Example: depreciation. Depreciation is a wedg . If you eliminate it in this year, it will be much less a revenue loser by year 4 or 5. And the cumulative total of all of those loophole closers will increase revenues by $40 billion in year 4 or 5. So in that sense it helps reduce the budget deficit.

But there's another sense in which it helps reduce the budget deficit. If you make savings more attractive than it is under current law, and if you make borrowing relatively less attractive than it is under current law, what you do is attack the price of credit, the interest rate, from both the supply and the demand side. Given a reasonable macroeconomic policy, that should drive down the interest rates, thereby achieving even further budget savings, both directly in terms of what the Government has to pay in interest and in terms of what additional economic growth you're able to generate from the effect of the lower interest rates on the economy as a whole.

So I think it's directly related to deficit reduction, and I think it is related in a very positive way that will lead, I think, to greater economic growth, as well as generate some specific additional revenue.

GOVERNOR CARLIN: Governor Atiyeh.

GOVERNOR ATIYEH: Senator, I will ask you two questions. The first one is, as long as you are lowering tax rates, have you taken a careful look at the standard deduction? The standard deduction, as far as I am concerned, is really one of the great loopholes of all time, but accepted as gospel. Editorial.

The second, would you address how your plan might deal with what we call the underground economy?

SENATOR BRADLEY: Okay. Yes, we have increased the standard deduction. It's called a "zero bracket amount" now. We have increased the zero bracket amount. We have done so even more generously for couples, thereby virtually eliminating the marriage tax penalty. So we have looked at that. That is how we are able to get to $11,200 for a couple with two children before they receive a dollar of taxable income.

So, yes, I think that's a good suggestion. That's the way you take care of the lowest income people in this country: You simply raise the floor at which you have to begin paying tax. One of the ways you do that is through the standard deduction increase. Another way you do that is through the increase for exemptions for children, both of which we do.

The underground economy is, in this country -- and I just saw figures three weeks ago -- the underground economy in America is the seventh-largest economy in the world, close to $600 billion. It would produce, in terms of revenue for the Federal Government, if it were taxed, in 1983, an additional $100 billion. It would cut the deficit in half.

How does tax reform get at the underground economy? It gets at it with a carrot and with a stick. It gets at it with a carrot in the following sense -- now, a part of that underground economy is clearly criminal in nature, in terms of organized crime, et cetera. But another part of it is the effect that inflation has had on many middle income families over the last 15 years, and that is pushing them into higher tax brackets. It's the phenomenon of the electrician that comes to your house and gives you one quote if you pay by check and one quote if you pay by cash. That is also calculated in the size of the underground economy.

So how do you get people to come out of that economy and go legit? You do it first of all by a carrot. The carrot is the lowest possible tax rate. Let's say you are making $40,000 now. You are an electrician, wife, two kids, whatever. You would be paying 32 to 33 cents of each additional dollar you make to the Federal Government in taxes, so you might get to a point where you say, "Well, maybe I will take it in cash instead of in check and maybe I will just take the chance that nobody will find out."

Would you do that if what you saved was 14 cents on the dollar? I'm not predicting that everybody is going to come out of the underground economy, but I am saying it is more likely with the lower tax rate that you will g t many otherwise law-abiding citizens to come back to the legitimate economy.

The second way you get at the underground economy is with a stick. Once you have reformed the income tax system, you will have the entire staff of the Internal Revenue Service policing a much simpler income tax system and doing, therefore, a much better job.

10 years ago, there were just a couple of

thousand tax shelter cases before the IRS in some stage of audit or investigation. Last year, 263,000 tax shelter cases were in some stage of litigation and audit. Once you eliminate some of the basic pillars of tax shelters, they are all gone. Once you have dropped the tax rate, you have reduced the incentive. And you then have an IRS staff that is able to pursue a streamlined income tax system and insure greater compliance among those who are now hidden in that underground economy.

So you do it with a carrot and with a stick.

GOVERNOR CARLIN: Governor O'Neill.

GOVERNOR O'NEILL: Senator, the concern that I have is state sales tax. Will your bill eliminate the deductibility for sales tax? In a state without income tax, I am concerned about explaining why.

SENATOR BRADLEY: Okay, the Governor's question was he looked at the bill very carefully and discovered that even though we keep the deductibility against the basic tax for property and state income tax, we eliminate it for sales tax.

Let me tell you I am hard-pressed to come up with a theoretical structure whereby I can justify that. This is in a sense a political judgment in that you recognize that it is important that you keep some of the deductions that are more important to state and local government than others, such as property tax deductions, state income tax deductions, such as the tax-exempt status on general obligation bonds, such as the deductibility of interest by financial institutions in order to purchase the tax-exempt bonds, and at some point you have got to decide what you are going to put in the base in order to drive the rates as low as possible. That is essentially what we concluded when it came to deductibility of state sales tax.

So the short answer to your question is, you have to draw the line somewhere in order to get the rates as low as possible, and that's where we drew the line when it comes to state and local government.

GOVERNOR CARLIN: Governor Cuomo.

GOVERNOR CUOMO: Senator Bradley, first of all let me congratulate you and applaud your leadership on this issue. I think you are moving in exactly the right direction. I have one major concern, and that is the disallowance of the deductibility of state and local taxes. First a point of clarification: you disallow, don't you, the deductibility above 14 percent?

SENATOR BRADLEY: We allow deduction of state income and property taxes against the basic rate of 14 percent. We do not allow the deductibility of any itemized deduction that we allow against the two surtax s of 12 and 16 percent, and we do that because we believe that an itemized deduction should be as valuable for someone making $30,000 or $40,000 as it is for someone making $100,000. That is also a way that we keep the progressive nature of the income tax, while simplifying it to the degree that only four out of five people will pay just the 14 percent rate.

GOVERNOR CUOMO: Thank you. With respect to these taxes, I think this question is different from all of the other expenditures you referred to. I was pleas d to hear you say it's really a political matter, because if you want to deal with it on a political basis, this has been a fundamental matter of states' rights since before 1913. As a matter of fact, there is good reason to believe that if the states had known that the Federal Government was going to tax their tax, they wouldn't have even accepted the Federal income tax.

In this era when states' rights are being eroded, to suggest now that you are to deny us the right to tax our own people is difference number 1. Difference number 2, this is not money that the people keep. This is money that has been given to their state government, so it is gone and you are taxing it a second time.

Number 3, the effect in the State of New York -- and it varies from state to state -- as a high tax state, is to impose a billion and a half dollars more in Federal taxes on my state. I have to respond in only one way, and that is, by reducing taxes, you are asking us to do that at the same time that the President is asking us to take all sorts of cuts in services.

The net result is to pulverize us in two different directions. Is this a negotiable item? I asked that question yesterday and didn't like the answer. I hope for something better from you.

SENATOR BRADLEY: Well, Governor, you know I always seek to please. Is it a negotiable item? I mean, for me, there is nothing theological in the tax debat . If you put back in X, Y or Z, you end up with a higher rate. At some point you are back at the present system.

My own view is that the objective is to get the rates as low as possible. Now, for Governors, I think it's important to understand what is in it for you. 33 of you have state income taxes that are tied to the Federal code. If tax reform passes, you will end up with additional revenue. Now, you have a choice that you either spend it or you can give tax cuts to people in your state.

I view that as increasing the flexibility. If you want to, as the Governor said he would, increase certain program dollars, that's fine. That's your choice.

I think that the long-term benefit in terms of growth, et cetera, from the lower rates and the fairer system, will far offset any particular loss of a deduction.

Let me say, quite candidly, if you are going to -- we allow the deduction against the 14 percent rate; if you say you want to allow the deduction for people over $40,000 in income -- and I don't know if your billion and a half is speaking about no deductibility or deductibility only on the 14 percent -- I don't know that, and that is not my point -- then you will have to raise the rates.

Remember, you will have to raise the rates on the middle income person. The key is what does the person have in after-tax dollars?

GOVERNOR CUOMO: I don't want to extend this, but let me make one basic point, please, Senator Bradley. One of the premises here is that it is good to reduce the burden of taxation. That is certainly the premise in my state where I am struggling to get a tax cut because high taxes eroded our economic bases. The net result of disallowing us the deductibility is to increase taxes in my state by a billion and a half dollars, and all the things that result because my taxes are too high result: It drives out business; it punishes most of all the people at the bottom of the ladder.

I suggest to you that this is unlike all of your other xpenditures. Th states are not a special interest. The states are in the business of dealing with all of the people of the United States. To suggest that you ought to treat us the way that you treat business people who are in the business of gathering up sums of money for themselves I think is inappropriate.

Your plan at least, unlike Chief of Staff Regan's plan -- that allows a deduction for businesses paying taxes to foreign governments and would disallow it to states, which has utterly no rationale.

I would commend your further consideration on the subject. I know no one in the country has thought through the subject the way you have. I would ask you to just take a second to look at this item.

GOVERNOR CARLIN: Governor Alexander will ask the last question.

GOVERNOR ALEXANDER: Senator Bradley --

SENATOR BRADLEY: I see you have your Form 1040.

GOVERNOR ALEXANDER: Yes, and I understand and respect Governor Cuomo's view, but I wouldn't want you to think that his view represents all the Governors on that issue or maybe even most of them. Our proposed resolution, which we have yet to vote on, suggests that Senator Durenberger's approach on the question of state and local taxes, which may be to take into account different situations in different states, might be a different one.

Governor Cuomo has given you the New York point of view. From our point of view, Form 1040, 75 percent of our taxpayers don't use that form. They don't itemize, therefore, state and local deductions, and basically, Therefore it turns out to be a big subsidy by lower income taxpayers in lower tax states for people in New York with more money. 45 percent of the people in New York use this deduction, 25 percent of the people in Tennessee do, and their benefit is three times to one times what ours is.

So I think it's sort of a reverse Robin Hood approach. Now that's a different opinion than Governor Cuomo has, and many Governors have different opinions on it. But I wanted you to know the variety of opinions that we have among the Governors on that issue.

SENATOR BRADLEY: Well, let me thank you, Governor Alexander, and I am interested to see what your adjusted gross is -- oh, this is not yours.

GOVERNOR ALEXANDER: No, that's not mine, I publicize mine every year.

SENATOR BRADLEY: Let me say that I appreciate that point of view. I think that's a very important point to make. If you take nationally -- 75 percent you say in Tennessee, nationally 66 percent of the people do not itemize their deductions. Roughly 34 percent do. So that is true. This affects only 34 percent. That is across many income brackets, not only in one bracket, but it is primarily at the upper incomes, and that is true.

I am sure that this will be an important issue for me. I felt that it was advisable to keep the deductibility while at the same time trying to have a more equitable system, and that's why we left the deductible against the basic tax but not the surtax.

I must tell you, when you do tax reforms, as all of you either have done or will do in the course of your terms, you know it's a trade-off, a trade-off among equity, simplicity and efficiency. While Senator Durenberger's proposal would probably be more equitable, it would be a heck of a lot more complicated if you tried to figure in all the differing states' abilities to pay. That would result in the big debate being reduced to a piece of paper and given to a Senator when he walks in, seeing how his state wins or loses.

You have got to keep the total picture here in the front of your mind, and who ultimately gains are the people who end up paying the same or less. And, my point earlier, even those who pay more will gain because of the dynamic quality of the lower tax rate and the effect that will have on economic growth.

GOVERNOR CARLIN: Thank you very much.

(Applause.)

SENATOR BRADLEY: Let me say one more thing before I go. I feel this very strongly as someone who has been living with this issue for four years: This is not going to happen, this just will not happen without your active involvement. It is not going to happen if one whole level of government says this is terrible. It will happen if we work together. And the result will be, I believe, a benefit for everyone, and plenty of credit to go around, and that is between parties and among levels of government. Thank you very much for your very helpful policy statement.

(Applause.)

GOVERNOR CARLIN: We will now move to our reports. Let me say before we go to Governor Schwinden on agriculture, that we will go alphabetical. Your pack ts should be in the order, which we will follow. It will require a 2/3 vote for an amendment, 2/3 vote for an adoption. On those where there are no questions or controversy, I would want the committee chairman to offer one motion en bloc. If anybody wants to split out, we will obviously split them out. Where there is no controversy, we will take a quick aye/nay vote. When we get to where there are disputes, we will obviously vote by hand.

I recognize Governor Schwinden on agriculture.

GOVERNOR SCHWINDEN: Thank you very much, Mr. Chairman. This year it's clear that agriculture is not only the first up alphabetically, but looking at the number of legislators and rural people from across America that are in Washington this week, it's clear that it has for the first time in my memory reached center stage.

It is entirely appropriate this morning that the ag report contains a complete rewrite of national agricultural policy. A number of Governors, including our distinguished Chairman Governor Carlin and the vice-chairman of the ag committee, Governor Branstad, have put a lot of effort into a complete rewrite which was adopted yesterday afternoon by the agricultural committee.

It was only a couple of years ago that a Congressman from North Dakota, Byron Dorgan, said that the farmers had new hope. Unfortunately, up to 40 percent of the farmers in the Great Plains and Midwest are losing hope and face the prospect of also losing their homes and their heritage. Somehow, we have managed to put in jeopardy America's last remaining world-class industry, we're poised to do that, and it seems to those of us on the ag committee, with very little knowledge of the consequences for our health, our natural resources or our nation's security. If we don't begin to understand the interrelationships of agriculture and America, our farm prices here in 1985 may well be the world's food prices in the next century.

Mr. Chairman, if there are any questions on the committee report and the revised policy, I would be happy to respond to them. I would move for the adoption of the committee report.

GOVERNOR CARLIN: It's been moved. Is there a second?

GOVERNOR EVANS: Second.

GOVERNOR CARLIN: Discussion or comment? If not, all those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay." The motion is carried. I recognize Governor Riley.

GOVERNOR RILEY: Mr. Chairman, the committee on criminal justice and public protection held a successful meeting, I think, yesterday. We discussed the issue of private involvement in the management and ownership of prisons, a very interesting concept that all of us should be taking a look at; the problem of illegal drug trafficking and abuse; the problem of missing and exploited children. We had an interesting group of speakers: Don Hutto, vice-president of the Corrections Corporation of America; James Stuart of the National

Institute of Justice on the issue of privatization; Associate Attorney General Lowell Jensen of the Department of Justice; and Mr. John Walsh, who has done so much nationally with his National Center for Missing and Exploited Children.

The committee proposes three changes in policy. We propose an amendment in the form of substitute policy B.15, the national corrections strategy, which everyone has had an opportunity to review. We propose the deletion of policy position B.17 because this policy has already become law. We propose a new policy position on missing and exploited children.

Mr. Chairman, without objection, I move for the adoption of these proposed policy positions en bloc, and I have one further issue concerning our present policy on illegal drug trafficking and abuse. I think Governor White of Texas had some comments, if he is here. He is not here, so we will hold off on that.

Mr. Chairman, I move for the adoption of these proposed policy positions en bloc.

GOVERNOR MARTIN: Second.

GOVERNOR CARLIN: Been moved and seconded. Is there any discussion on the report of the committee on criminal justice and public protection? If not, all those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay." The motion is carried. Recognize Governor Dukakis on economic development.

GOVERNOR DUKAKIS: Mr. Chairman, the committee on economic and community development had a particularly good session yesterday with Senator Hatfield, Mayor Goode of Philadelphia, and Dick Nathan of Princeton who as many of you know was one of the architects of block grants, revenue sharing and the new federalism in the early and mid-'70s, on the issue of the Federal deficit and its effect on economic development at the community and state level. They are all available to you if you would like to consult with them. It was an extremely good session. The committee endorsed a number of resolutions that are before you in your reference material, and I would move the adoption en bloc of the five committee policy positions.

In addition, I ask for suspension of the rules to consider a policy position on sports franchises which Governor Hughes particularly is interested in. But before we get to that, I would move, Mr. Chairman, the adoption en bloc of the five committee policy positions in the printed material.

GOVERNOR SUNUNU: And I second it, Mr. Chairman.

GOVERNOR CARLIN: Governor Sununu seconds the motion. This is on the regular package of resolutions, not the resolution that will have to have a suspension of the rules. Any discussion? All those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay." The motion is carried. Governor Dukakis.

GOVERNOR DUKAKIS: I now move suspension of the rules so that we can consider the policy position on sports franchise stability.

GOVERNOR CARLIN: This motion, I would advise the body, requires 3/4 support. We will have two motions: One will suspend the rules, and then we will debate th resolution itself. All those in favor that we suspend the rules say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay." The motion is carried. Governor Dukakis.

GOVERNOR DUKAKIS: Mr. Chairman, I would now move the adoption of the policy position on sports franchise stability, and Governor Hughes may want to say a word in explanation of that proposed policy resolution.

GOVERNOR CARLIN: Governor Hughes.

GOVERNOR HUGHES: Thank you, Mr. Chairman. I apologize for the lateness in bringing this matter before the National Governors' Association, but this is an issue which has only surfaced within the last few weeks in the Congress of the United States with some energy and enthusiasm. There are five bills before the Senate of the United States and already there have been three hearings.

The real general input of all these bills is to promote the stabilization of professional sports franchises. They do provide for an expansion of the antitrust exemption that already exists with the National Football League. The bills or some of them are supported, for example, by the National Football League, and the effort here is to stop the shopping around, holding cities ransom and communities ransom.

Someone might ask why would the Congress get involved in this. Well, first, they have been involved in it three times before, because they have provided antitrust exemption to the National Football League.

Secondly, there are public funds involved in many instances in stadiums, for example, state and local funds. Thirdly, there's a great community interest in sports franchises, and this is an attempt to stabilize these sports franchises. The policy statement simply asks Congress to take action and to balance the legitimate interests of the owners versus the obligations that the owners have to the communities in which they play.

Thank you, Mr. Chairman.

GOVERNOR CARLIN: Governor Hughes, would you like to move the motion.

GOVERNOR HUGHES: I move the motion.

GOVERNOR CARLIN: Is there a second?

GOVERNOR DUKAKIS: I second.

GOVERNOR CARLIN: Moved and seconded. Is there any further discussion? This is on the motion of Governor Hughes, under the suspension of the rules. All those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay"?

(Chorus of nays.)

GOVERNOR CARLIN: The Chair is in doubt. I would ask for a quick showing of hands. All those in favor please raise your right hands. I would ask for the staff to help me a little bit here. All those in favor of Governor Hughes' resolution hold your hands up and ke p them up high. Quickly, please. I think if we could take a picture of this we would find out those who are most nervous and those who are aggressively pursuing somebody else's property. All those who are opposed, please raise your right hand.

The Chair is no longer in doubt, I think. The motion carries.

Governor Earl, energy.

GOVERNOR EARL: Thank you, Mr. Chairman. W had a busy and exciting meeting yesterday. Much of the work that I bring to you, however, is noncontroversial. The energy and environment committee is recommending changes or updates to 10 of its policy positions, including policies on superfund, clean air, clean water, coastal zone management and some energy-related policies. Yesterday we tabled a proposed policy change dealing with Price-Anderson nuclear insurance until the annual meeting in Boise when more members could participate in that discussion and debate.

Three noncontroversial amendments were adopted by the committee, one each on superfund, outer continental shelf and oil policies. In addition, the committee directed the staff to prepare language relating to the petroleum exclusion portion of the superfund policy which appears on page 23 of your packet. The language is the result of an agreement that was reached between Governor Dukakis and Governor White, and makes clear that the Governors support the use of superfund moneys to clean up problems related to leaking underground storage tanks.

Mr. Chairman, I move the adoption of this amendment and the policies recommended by the committ e en bloc.

GOVERNOR CARLIN: Heard the motion. Is there a second? Where is your vice chair? Don't you have a second lined up? Governor Blanchard, would you help your colleague out?

GOVERNOR BLANCHARD: Second.

GOVERNOR CARLIN: Thank you. Heard the motion and the second. Are there any questions? Comments? Governor Deukmejian.

GOVERNOR DEUKMEJIAN: Yes, Mr. Chairman, I would like to separate out from this motion D.4, D.12, D.15, D.32 and D.33.

GOVERNOR CARLIN: For my purposes, would you go through that list again.

GOVERNOR DEUKMEJIAN: D.4, D.12, D.15, D.32, D.33.

GOVERNOR CARLIN: Okay. They will be separated out. Governor Earl, your motion now, would include only 5, 14, 17, 19, 26 and 43. The second, I trust, is still with you, although he has left. Let's have a new second to that motion.

GOVERNOR LAMM: I will second.

GOVERNOR CARLIN: Governor Lamm seconds the motion. All those in favor, and now the motion now is strictly on the numbers 5, 14, 17, 19, 26 and 43. We will take those listed by Governor Deukmejian individually. All those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay." The motion is carried.

We will take them individually. We will start right down the order of the motion from Governor Earl that we adopt resolution D.5, and the second from Governor Lamm.

Governor Deukmejian for a comment or question.

GOVERNOR DEUKMEJIAN: I simply want to be able to be recorded. We're on D.4; is that correct?

GOVERNOR CARLIN: Excuse me, D.4, I apologize. We are on D.4.

GOVERNOR DEUKMEJIAN: I simply want to be able to be recorded on that.

GOVERNOR CARLIN: We have a motion and a second on D.4. This is on the committee on energy and environment. Questions or comments. If not, all those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay."

GOVERNOR DEUKMEJIAN: Nay.

GOVERNOR CARLIN: Anybody besides Governor Deukmejian who wants to be recorded as voting nay? The motion carries with one dissenting vote. Likewise accept the same team on D.12. Any discussion? All those in favor, say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay."

GOVERNOR DEUKMEJIAN: Nay.

GOVERNOR CARLIN: Anybody besides Governor Deukmejian who wants to be recorded as voting nay?

GOVERNOR MARTIN: I voted no.

GOVERNOR CARLIN: Governor Martin. Two dissenting votes. The motion passes. D.15.

GOVERNOR EARL: Mr. Chairman.

GOVERNOR CARLIN: Yes, Governor Earl.

GOVERNOR EARL: Mr. Chairman, D.15 has been placed on the table until our summer meeting in Boise because we want more members to be able to participate in that discussion, so that isn't before us now.

GOVERNOR CARLIN: Okay. D.15 we pass over until the summer meeting, unless, Governor Deukmejian, you want to comment -- I want to recognize you. D.32. We hav a motion and second from Governors Earl and Lamm. Discussion? If not, all those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay."

GOVERNOR DEUKMEJIAN: Nay.

GOVERNOR CARLIN: Governor Deukmejian votes no. Anybody else? And the last, D.33. Same motion, same second, any discussion? All those in favor, vote aye.

(Chorus of ayes.)

GOVERNOR CARLIN: Those opposed, "nay."

GOVERNOR DEUKMEJIAN: Nay.

GOVERNOR CARLIN: The motion carries, Governor Deukmejian voting against D.33. Governor Earl, does that complete your work?

GOVERNOR EARL: It does, Mr. Chairman.

GOVERNOR CARLIN: Governor Kean, you are recognized on human resources.

GOVERNOR KEAN: Thank you, Governor Carlin. Before presenting the committee's policy positions, I would like to report briefly on a few items of particular concern to the committee.

First of all, all of us as states face more than $1 billion in error rate sanctions in AFDC, food stamps and Medicaid over the next several years. While the states are prepared to work hard to reduce those errors, the sanctions we all know are unfair and unrealistic. Governor Blanchard has taken the lead in working with Congress to secure a legislative solution. The House will soon consider a bill to be introduced by Mr. Matsui. You've each received an action letter on this issue, and I urge each of you to become personally involved in securing cosponsors and support for Congressional action.

Second, I would like to call your attention to a conference on child care that the committee will be sponsoring here in Washington on April 9. I hope all of you who can will attend, and if not, that you will pl ase try to send a representative.

Third, there is a letter being circulated that I believe about 35 Governors have signed up to this point objecting to the proposed Medicaid caps. Those caps, the proposed losses now exceed, I guess, the entire state surplus in about 16 or 17 states, so I would remind you that letter is going around. The more names we get on it, the more effective it will be.

Finally, I would like to call your attention to the continuing problem of hunger in Africa. Governor Schwinden and I have discussed this issue. We hope to be working together on a forum later this that will identify ways in which Governors might be constructively involved in solving this problem.

Mr. Chairman, the committee on human resources is recommending four policy positions for consideration by the Governors: C.2, education, which outlines a more detailed position concerning the Federal role in higher education; C.4, employment security, which supports the reauthorization of the Federal compensation program and asks that the state trust funds be protected if the railroad UI and regular UI systems are merged; C.6, food stamps, which calls for a continuation of the food stamp program and supports steps to see that benefits and eligibility are fully adjusted to meet cost-of-living increases; and C.10, quality control, which outlines the Congressional action we see as necessary to revise the current quality control error rate sanction systems.

Mr. Chairman, I would like to move for the adoption of these policy positions as a block.

GOVERNOR CARLIN: You've heard the motion. Is there a second?

GOVERNOR O'NEILL: Second.

GOVERNOR CARLIN: Thank you. Been moved and seconded. Governor Deukmejian.

GOVERNOR DEUKMEJIAN: I would like to request that we separate out C.4 and C.6, please.

GOVERNOR CARLIN: Very good. The motion then, Governor Kean, and with the second's approval, will be to recommend C.2 and C.10. Any discussion? If not, all those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay." The motion carries. Same motion, same second, Governor Kean and O'Neill on C.4. Governor Deukmejian, is this for voting purposes only?

GOVERNOR DEUKMEJIAN: Yes, please.

GOVERNOR CARLIN: Any discussion? All those in favor of C.4 say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay."

GOVERNOR DEUKMEJIAN: Nay.

GOVERNOR CARLIN: Anybody besides Governor Deukmejian who wants to be recorded as voting no? Governor Alexander and Governor Martin. The motion carries.

Same motion, same second on C.6. Governor Kean and Governor O'Neill. Any discussion? If not, all those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay"?

GOVERNOR DEUKMEJIAN: Nay.

GOVERNOR CARLIN: The ayes do have it. I want to make sure. Governor Deukmejian, Governor Alexander, Governor Martin. I would agree the motion does carry. Governor Martin is correct, the nos are sounding better today, healthier. I don't know if that's a good sign or not.

The motion carries, and we will move on to our next order of business. I will call on Governor Orr for a motion to suspend the rules of the committee on transportation.

GOVERNOR ORR: Mr. Chairman, I call for a suspension of the rules to entertain a change in or a creation of Interstate Cost Estimate policy by the National Governors' Association.

GOVERNOR O'NEILL: Second.

GOVERNOR CARLIN: It's been moved and second d, seconded by Governor O'Neill, that we suspend the rules for the proposed resolution of the committee on transportation. Again, a 3/4 vote is required. All those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay." The motion is carried. Governor Orr on the resolution.

GOVERNOR ORR: Mr. Chairman, we have faced now for a year and a half a delay in the distribution of the Federal highway funds from the Highway Trust Fund, which is the first time, to my knowledge, in history that those funds have not flowed to the states in accordance with the recommended program of the Department of Transportation; they were interrupted. And if you will remember, at the winter meeting last year the matter was brought to the attention of the respective Governors and pressure applied to move the funds from the Federal trust fund to the states.

After our session was over, the Congress did act on distribution of only six months of the Interstate Cost

Estimate funds. We are still awaiting the decision on the 18 months which normally would have been acted upon on or about the first of October, 1983.

This policy covering the Interstate Cost Estimate is designed to urge upon the Congress that they enact the Interstate Cost Estimate and the Interstate Substitute Cost Estimate, and that they adopt at least an 18-month Interstate Cost Estimate and the release of some $7.2 billion to the states.

This was acted upon by the United States Senate last Saturday, and not only did they act upon an 18-month Interstate Cost Estimate, but they also acted upon the 24 months in advance, which is the normal procedure by which the Interstate Cost Estimates has been handled in the past. The vote was 94 to nothing.

It is my hope that with this action by the National Governors' Association, coupled with that of the Senate, that we will be able to break this logjam and cause the funds that are now not flowing to the states to be sent to the states, so that the maintenance and construction and all of the aspects of our highway needs can be met by this huge sum of money; each state now being, in some instances, desperately in need of those funds, and in most instances, every state will, by the middle of th summer, be devoid of the Federal funds that they need to maintain their highway programs.

I would move the adoption of the policy as it is before everybody seated around the table.

GOVERNOR CARLIN: Moved by Governor Orr.

GOVERNOR O'NEILL: Second.

GOVERNOR CARLIN: Seconded by Governor O'Neill. Further discussion? Requires a 3/4 vote because we used suspension of the rules. All those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay." The motion carries.

We will at this time return to our agenda with our second very distinguished speaker, again on the issue of tax reform.

We were honored earlier and we are equally honored to have with us at this time Congressman Jack Kemp. Congressman Kemp, eight terms in the House from New York; member of the House Budget Committee and certainly a leader in promoting tax and monetary policy reform; coauthor of the Kemp-Roth bill for tax reform and introduced with Senator Kasten, the fair and simple tax. It is most appropriate and timely that we have the opportunity to hear from the Congressman and to, as we did with Senator Bradley, ask some questions.

Join me in welcoming Congressman Kemp.

(Applause.)

MR. KEMP: Thank you very much. Thank you Governor Carlin, vice chairman Alexander, Governor Cuomo of my home state of New York.

Good friends, I want you to know how appreciative I am of this opportunity to address this august body. It took a lot of courage to invite Jack Kemp to speak before the National Governors' Association. After all, I have been called a voodoo economist and a witch doctor and a snake oil salesman and a dangerous riverboat gambler, and that's just coming from my friends in the Republican Party. But to have the opportunity to talk today about tax reform and follow on those remarks of my friend Bill Bradley, and again follow on the distinguished remarks made last night by the Chairman of the Ways and Means Committee, Danny Rostenkowski, at the New York Economic Club, makes me quite optimistic that this is the year for a major overhaul or restructuring of the Federal income tax code, and not unlike the opportunity that you face as leaders in your own states to make reforms at the state level as well, as some of you are doing.

I appreciate the chance to talk about tax reform. I must say I am a little bit tempted to talk about the farm crisis and interest rates and the rising dollar. But

I will resist unless it comes up in questions.

Since I only have a few moments, let me get straight to the point. I believe the right kind of tax reform and simplification will be of great benefit to the citizens of your state; and it will vastly improve the fiscal situations not only of the state governments but of the Federal Government as well.

I would like to ask you today for the type of bipartisan support for this fundamental restructuring of our tax code and simplification such as that asked by Bill Bradley and Dick Gephardt and that asked by Dan Rostenkowski. It won't pass unless it's bipartisan. It won't pass unless it has your enthusiastic support.

There are different proposals. There will be a compromise. There will be the consideration of issues that affect all of us from the Northeast to the Sunbelt. But this is an historic opportunity to bring about in this country the type of expanded economic opportunity, a major attempt to bring fairness and simplicity to our tax code, and an opportunity to do something for the poor and the working poor that is unmatched in our recent history.

I think major tax reform and deficit reduction are not contradictory. In fact, a growth-oriented tax reform policy is at the heart of what I call a "jobs creation budget": a budget that adopts a strategy of reducing the relative burden of deficits in government spending, that equally commits this country to reaching a level of employment opportunity that will bring down the national unemployment rates and also bring down the socially undesirable high unemployment rates in the inner cities of our country.

That means that we focus attention not on just reducing spending, but that we give consideration simultaneously to the type of tax reform at the national level, enterprise legislation, and, indeed, monetary trade reform, which are at the heart of a growing economy without inflation.

I don't think we can solve our deficit problem only by looking at budget cuts. I don't think we can solve deficits only by looking at the deficit in the abstract. We must look at the budget in terms of what has happened at state levels with the recovery of 1983 and '84.

As you know, there are three major tax reform plans on the table: the Kemp-Kasten plan; Bradley-Gephardt; and the Regan or Treasury plan that Don says he wrote on a word processor, and I say, "Thank God."

All three plans sharply reduce marginal tax rates while simplifying the tax code. They all remove some special tax preferences that were enacted to protect taxpayers and some of the socially and economically desirable goals that this country has for itself, and to protect those goals against high marginal tax rates.

I believe a sensible compromise is possible. Although the plans differ in significant detail, they all have basic principles behind them. We all want to get the rates as low as possible, we all want to protect the basic progressivity of the tax code and we all want to maintain revenue neutrality, at least in a static sense.

One of the distinguishing features of the Kemp-Kasten or Republican bill is that instead of three tax rates, our plan has a flat 24 percent marginal income tax bracket on taxable income, combined with an exclusion of 20 percent of the income from wages and salaries protected from taxation, which offsets the Social Security payroll tax.

Of the many advantages of this approach, I will mention only two. First, it gives a larger break to the poor and the working poor. Thanks to the wage exclusion and the doubling of the personal exemption from $1000 to $2000, a family of four in America would not start paying any Federal income tax under the Kemp-Kasten bill until it reached $14,200 of income.

This is particularly important to the inner city poor. A woman on welfare who has about $8000 of transfer payment income that is not taxed who takes a job in

America has to earn $16- to $17,000 of pr tax income in the private sector to match the $-8 or $9000 of nontaxable income through transfer payments. We must do something to reverse that cycle of poverty that has entrapped so many of our inner city residents.

Second, the Kemp-Kasten bill raises the same amount of revenue from upper-bracket taxpayers as the Treasury plan and the Bradley-Gephardt plan, despite a marginal income tax bracket 1/5 lower. That's because the high income taxpayers start paying tax at only 15 percent under the Treasury plan, but under the Kemp-Kasten plan they effectively pay the full 24 percent right from the first taxable dollar. It is only those under $40,000 who would qualify for the exclusion of 20 percent of their wages up to that $40,000.

A properly designed tax reform plan would have a double benefit, I think, to the states. First, tax reform would have an effect similar to the tax debts which were enacted in 1981. There are many of us who disagree, but there are many of us who believe that the state tax base dramatically improved through economic growth in '83 and '84 with the new jobs and economic activity that took place in the recovery.

With every respect for fiscal responsibility of state governments, it has been the economic recovery, I believe, which has don th most to improve our state finances; and, in effect, the recovery produced by the Federal tax rate cuts of '81 has helped make it easier to balance budgets at the state and local level and has even allowed 15 states to pursue their own tax cuts in 1985. I think tax reform would have a similar positive effect on the nation's government as well as on our state and local governments.

My 1990 leading tax reform proposals would enable the economy to produce anywhere from $500 to $750 billion more in output for our nation's gross product than the present system, according to the Harris bank survey.

They went on to say, the Harris bank of Chicago went on to say, that of all of the tax reform proposals, the best overall performance would occur under Kemp-Kasten because, if implemented, it would lead to an additional $750 billion of gross national product by 1990.

If the Harris bank study is correct, the additional $750 billion of gross product under Kemp-Kasten would mean an additional $110 billion of revenue for the Federal Government, and that would also be available for state tax rate reductions or better state and local services to our people.

I am happy to note that, with a few exceptions, many of you have supported the concept of tax reform at the Federal level. I agree, incidentally, with your tax policy statement, that the Federal Government should not intrude on the tax base traditionally reserved to the states, whether through a national sales tax or prop rty tax, or any change in the tax-exempt status of general obligation bonds.

But let me address very briefly some of the specific concerns that you have expressed about the treatment of private purpose bonds and the deductibility of state and local taxes.

First, the treatment of tax-exempt bonds. All tax reform plans preserve the tax exemption for general obligation bonds or public purpose municipal bonds. All plans eliminate the exemption for private purpose bonds, such as mortgage subsidy and industrial development bonds, but Kemp-Kasten would grandfather those existing bonds. Private individuals and businesses should not have to compete with individuals or businesses across the street who receive publicly subsidized and/or publicly allocat d credit. Incidentally, we should be lowering the cost of credit for all private borrowers, not just lowering it for some at the expense of everyone else.

Second, the three tax reform plans take a different approach to state and local tax deductions. The Treasury plan eliminates all state and local tax deductions. Bradley-Gephardt, as you heard explained this morning, repeals the deduction for the sales tax but limits the value of other deductions, including state and local income taxes and property to the first bracket, which is 14 percent. The Kemp-Kasten approach would retain the current deduction for all property taxes, which represents about 45 percent of the deductible state and local taxes.

However, this doesn't tell enough how to judge the different plans, because they all lower tax rates on capital and labor; and if you look only at your favorite deduction and ignore the possibility of dramatically lowering the personal, corporate and capital gains tax rates, it would ignore the overall impact of the tax reform on the people of your state or my home state.

If my home state of New York, for instance, had a doubling of the personal exemption, and all people would have a doubling of the personal exemption from $1000 to $2000, that, in and of itself, is worth as much as the repeal of the deductibility of the state and local income tax. That doesn't even include the other changes in the Kemp-Kasten, which envisions sharply lower tax rates and a wage exclusion up to 20 percent of income up to $40,000.

Incidentally, based on the examples of typical taxpayers designed or devised by the Advisory Council on

Intergovernmental Relations, as quoted by Senator Moynihan of New York State, we found that the typical taxpayer in New York State in every single bracket would receive a tax credit at each income level under the Kemp-Kasten plan, and I assume that that would be pretty much the case under the other plans as well.

Broken down by the five regions and six different income levels, there were 28 tax cuts out of 30 typical families under the three plans. The exceptions were 2 percent tax increases in the Northeast on a $50,000 taxpayer under the Treasury plan, but that's about it.

I realize that many of you recognize that I'm probably preaching to the choir. There is a great deal of support for a major overhaul and the concept of tax r form at the Federal level. To those who still remain in doubt, I would merely say that we have a choice in 1985. We can either, ourselves, behave like another special interest lobby, defend the status quo, and work against fundamental tax reform which would be to the benefit of our citizens, or we can adopt the philosophy that what is good for the American people in our national economy will be good for our state and local governments.

I think we should support comprehensive bipartisan Federal tax reform. I personally hope it's the Kemp-Kasten bill, because I think dollar for dollar, issue for issu , and in terms of its growth potential for the American economy, it is the best. But I am pledged to working with Bill Bradley and Dick Gephardt as well as the Treasury, Don Regan, Jim Baker and the President and Dan Rostenkowski and Chairman Packwood of the Senate Finance Committee.

We political leaders at the national, state and local level have a unique opportunity in 1985 that comes about once in an adult lifetime to make the kind of policy decisions that can help insure and expand the prosperity of our people of a generation or more of economic growth without inflation. This is not the time to look backward, this is not the time to be timid or the time to defend the status quo. I hope we rise to the challenge and initiate nothing less than the type of economy for the American people in which we can reach that level of full employment without inflation which is the epicenter or center of gravity in the American dream.

The President said in his State of the Union address that there are no limits to growth. There are no limits to what free men and free women can accomplish. There is also no doubt in my mind if we could bring about that type of full employment without inflation in America, our budget would come into equilibrium as our economy comes into equilibrium. Our choice is not between budg t cuts and tax reform: The first priority is to prevent a recession and to encourage a worldwide economic recovery in 1985. Thank you very much.

(Applause.)

GOVERNOR CARLIN: Thank you very much, Congressman. I call on Governor Thornburgh for the first question.

GOVERNOR THORNBURGH: Congressman Kemp, given, on the one hand, the prominence that is being displayed with respect to the three suggested plans for tax reform, their apparent agreement on some of the essentials that must be incorporated into a meaningful tax reform plan, and the remarks of Chairman Rostenkowski with respect to the House interest in this matter, but on the other hand, the preoccupation that necessarily is going to be evident with regard to the 1985-86 budget, do you have a sense of what priority in the House is attached to tax reform, and what kind of a ballpark timetable might be looked at for some action on this type of long-overdue reform?

MR. KEMP: Well, Governor Thornburgh, it is my belief that these two tracks should proceed simultaneously; that there is nothing fundamentally contradictory about handling the budget situation and bringing about reforms in our tax system to encourage the economy to grow. Indeed it was the experience we had in 1981, when budg t cuts proceeded in a d gree of simultaneity with a major overhaul of the tax system under the economic recovery and tax acts.

So I would hope that the Chairman of the Ways and Means Committee's comments last night will provide a guideline for a similar simultaneity or dual track; and having just come from the White House and our leadership meeting with the President I want to assure everybody that he considers tax reform and overhaul of our tax code to be so fundamental to the budget problem, that I am convinced it can move in 1985 at the same time as we deal with our budget restraint package that will be coming up to the Congress very soon. So I am optimistic about the possibilities early in the budget process for major tax reform.

GOVERNOR CARLIN: Governor White.

GOVERNOR WHITE: Could you give us the impact your flat tax proposal might have on the oil and gas industry in this country?

MR. KEMP: As you know, Governor, the plans all differ with regard to the treatment of depreciation schedules. I am speaking now for myself, and we retain, in our bill, the accelerated cost recovery system. Indeed, we have taken some steps to even modify that and neutralize it, Governor, so that we can encourage exploration and developm nt of our hydrocarbon deposits and of course encourage the development of new plant, machinery and equipment.

What we have done under our plan is to stretch out the depreciation schedule by one year from the current ACRS, but increase the amount of write-off that a business or an individual can take with regard to his or her investment. So, in effect, that is the economic equivalent of first-year expensing, which is very important not just to oil and gas, but to steel, autos, machine tools, small businessmen and women and of course real estate.

There is a big debate -- not to belabor or give you a filibuster, but there is a debate between the Treasury bill, which stretches the depreciation code to about 63 years, which is causing a lot of gnashing of the teeth and pain in certain segments of the real estate as well as the oil and gas industry, it is my belief that there will be some changes, and the changes will be closer to the type of a neutral cost recovery system, such as I envision, than the one that would just repeal everything that was done in 1981.

So my feeling is it would be a general plus for oil and gas and depreciation assets, not a minus.

GOVERNOR WHITE: Maybe I didn't make myself very clear. Does it increas incentives over the current structure or does it decrease incentives?

MR. KEMP: There is definitely a trade-off, Governor. We take out the IDC, take out the investment tax credit. Of course as you know there are some businesses and some states who think that is a poor trade-off for a sharply lower tax rate on corporate income, personal income, capital gains and maintenance of the ACRS with this neutral provision to which I alluded.

I am suggesting that if we could get this type of fundamental tax reform that Bradley and Kemp and others are talking about, that would have a very beneficial impact upon the economy, upon oil and gas, upon commodity prices, and that is really what energy needs the most right now: a recovery in the general price level of commodities that are being depressed by -- I am sorry, here I go again, someone will say, but which I think is a manifestation of too tight a Federal Reserve monetary policy.

But I think it would be a plus for oil and gas as well as for investment in new equipment and machinery throughout this country.

GOVERNOR CARLIN: Governor Lamm.

GOVERNOR LAMM: Congressman, as you know, this Association, at least the Executive Committee, has gone on record, and hopefully the whole organization will, that we think you have done a good job on this and are to be complimented. This has no real constituency, however, as is often mentioned,, and it seems to me that the things that are in common in these three or four plans are so much greater than those that separate, and that the only way, perhaps, the argument would go, that you can really get a head of steam on this is to compromise your differences among yourselves and come up with a unified plan. What conversations are going forward to come up with a unified plan so you can at least get over the inertia?

MR. KEMP: Thank you, Governor Lamm, for the question, because I want to assure you that while there are no specific formal negotiations going on in a strict sense, there are lots of discussions going on on Capitol Hill between Republicans and Democrats, between Bradley and Gephardt and Kemp and Kasten, between ourselves and Don Regan and Jim Baker, and I am convinced that Chairman Rostenkowski's comments last night were a clear signal to his colleagues in the House in the Democratic Party that he considers the time propitious to make this overhaul in the tax code. That's good news.

As far as the fundamental premise of your question is concerned, if there is no national constituency, I think the national constituency is the American taxpayer and the people who have a stake in a growing economy. If we keep our eye on that basic special interest that both of us represent, then I think ultimately we can get the Congress to deal with the agenda of both budget reform and tax reform in 1985.

GOVERNOR CARLIN: Governor Martin.

GOVERNOR MARTIN: Thank you, Mr. Chairman. I would like to begin by commending my old colleague and spiritual leader for his leadership on this particular issue and say to him that I still have some skepticism that my former Committee on Ways and Means will be abl to complete hearings on all of this within four years, dealing with all the redistribution of burdens and incentives and so forth because of the magnitude if not the magnificence of the personal income tax code.

But I want to ask him a question, give him a chance to comment on the currency exchange rate, which I gather he appeared to be inviting such a question. We too have a concern about that because of its impact on trade, discouraging exports, encouraging imports, and the answer we have had so far is the fiscal one: Balance the budget and it will all come out right. Well, that is not on the level and is not going to happen any time soon, and I ask you if there is another alternative. Is there anything else in the works?

MR. KEMP: Well, Governor Martin has put his finger on one of the problems that is faced by all of you in farm states, and that is the rising dollar and the collapse of commodity prices. Now I personally do not think that you can only explain the rise in the dollar and the collapse of commodity prices and farm values only in fiscal terms. I think Governor Branstad talked about in his article in the morning paper, that some attention needs to be paid to monetary policy, and I make a case that if monetary policy was too loose in 1979 when the dollar was dropping and prices were rising, it might also be conceivable that monetary policy in 1985 is too tight when the dollar is rising and commodity prices and farm values and exports are falling.

So clearly there is a function here that can be addressed only by getting the monetary authorities to allow for a more accommodating monetary policy, and to bring our currency into more stable exchange rates with other currencies; and to allow for a return of commodity prices that will let some of that debt burden be serviced by farmers and energy companies who are, as you know, just about in a state of depression.

Governor White, could I repeat one aspect of my previous answer. The intangible drilling costs would receive th expensing equivalent under the Kemp-Kasten bill of the NCRS, the neutral cost recovery system. I want to make that clear to you because I know there's a lot of concern in your state as well as Oklahoma and many other energy states about what would happen under the Treasury plan. I just want to separate the Kemp-Kasten bill and hope there is a compromise on this issue, because we have such a fundamental stake in a healthy farm, agriculture and energy industry in America.

I think the exchange rate question, though, really deals with monetary policy, and I think now the Federal Reserve Board is too tight and the markets tell us they are too tight. When the Chairman of the Federal Reserve Board comes to the Congress and says, "You cut the deficit by $50 billion and I will cut interest rates by 2 percentage points," I think it should be said by the Governors and by the Congress and by everybody else, "Mr. Volcker, if you'll allow interest rates to come down 2 percentage points, we'll get that and $50 billion in deficit reduction, because farming and agriculture and exports and third world debt, and the economy will begin to achieve the level of employment opportunity to both have a beneficial impact on the deficit and a beneficial impact on state and government budgets as well."

GOVERNOR MARTIN: Glad I asked.

MR. KEMP: I asked him how long I can speak. He said I can speak as long as I want, but you are only going to be here for five more minutes. I think I got the message.

I want to thank you, Governor, for the chance to be here. I particularly appreciate hearing my colleague Bill Bradley. As I said earlier, I don't think that cutting deficits is a substitute for a sound economic policy for the United States, nor are too high tax rates, too cumbersome a tax code, too high an interest rate and too tight a monetary policy. I just want to compliment the Governors for taking the type of positions they have, and just urge that in 1985 we work together, both Republican and Democrat, to bring about this fundamental restructuring of our tax code so that we can make our economy perform at a level which the American people have come to expect of us as leaders of the American system. Thank you very, very much.

(Applause.)

GOVERNOR CARLIN: I certainly want to thank Congressman Kemp for joining us. We have had, I think, two of the finest speakers and question and answer sessions on a major topic, at least in my seven years, that we have ever had. I certainly appreciate the Senator and Representative and their participation.

We will g t back to our resolutions, and I would call on Governor Dukakis at this time on two of the resolutions coming out of the Executive Committee, A.22 on tax administration and A.23 on the status of Guam. Governor Dukakis.

GOVERNOR DUKAKIS: Mr. Chairman, I would move the adoption of both resolutions.

GOVERNOR SHEFFIELD: Seconded.

GOVERNOR BORDALLO: Seconded.

GOVERNOR CARLIN: It's been moved and seconded on both of these, A.22 and A.23, without comment. Any questions? All those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay." The motion is carried.

I recognize Governor Perpich on a resolution, and I underline a resolution. This is not a policy statement. Governor Perpich.

GOVERNOR PERPICH: I move the resolution.

GOVERNOR CARLIN: I am not going to give you a chance to sit down and calm yourself and pull out your notes, because I know you have a speech. Is there a second?

GOVERNOR EARL: Second.

GOVERNOR CARLIN: It's been moved and second d.

This is a resolution on torture, for those of you who might be for it. Any discussion? All those in favor say "aye."

(Chorus of ayes.)

GOVERNOR CARLIN: Opposed, "nay." The motion is carried. The resolution is passed.

I call on Governor Lamm now. We are down to the final two resolutions. Governor Lamm on the resolution on tax reform.

GOVERNOR LAMM: Mr. Chairman, that's been a subject, of course, much discussed this morning by both of our distinguished speakers. It's in your packet.

GOVERNOR CARLIN: Would you please give your attention to Governor Lamm.

GOVERNOR LAMM: In your packet under A.21, Federal tax reform, and this came as a special committee that was appointed by the Chairman, which was myself and Governor Carlin, Governor Matheson, Governor Thornburgh and Governor Alexander. We met numerous times both on this and at a staff level, and at the Executive Committee the other day it passed unanimously.

What this does, for those of you who haven't had a chance to look at it, is basically support in concept what both Senator Bradley and Representative Kemp talked to us about this morning. The key line in it is this:

"The current income tax system suffers from three basic problems: It is complex, it is inefficient and it is unfair."

We think that summarizes it. We think that if the Governors are going to play a role in this -- and as was mentioned, 33 of our states are tied directly either to adjusted gross income or taxable income -- that we ought to be at the table. What this does is comes out against any value added tax or any sales tax as intruding on historic areas of the states. It does support in concept without specifics the idea of a modified flat tax.

Let me say one thing of great concern to Governor Cuomo, that we do say in here, very specifically, that it should have a system that would reduce any kind of regional discrepancies. The level of the dialogue in Congress right now is Senator Durenberger has an amendment which would allow deductibility of state and local tax s if in fact they are beyond a certain level, let's say 1 percent. So it tries to even out the regional discrepancies for certain states that would have a greater impact on it. We think that it's a fair system. We are not urging state and local tax deductibility by any means, but if they go ahead and do it, we would say any regional discrepancies of that should be evened out.

So, Mr. Chairman, I would be happy to answer any questions or take any comments, but I would move the Executive Committee resolution.

GOVERNOR CARLIN: The motion has been properly made on A.21 on tax reform. Is there a second?

GOVERNOR ALEXANDER: Second.

GOVERNOR CARLIN: Seconded by Governor Alexander. Discussion. Governor Nigh. Governor Nigh has decided not to comment. I assume, Governor Nigh, that's a commitment to total support.

Any discussion?

GOVERNOR WHITE: Mr. Chairman.

GOVERNOR CARLIN: Are you representing Governor Nigh?

GOVERNOR WHITE: I would be pleased to. Governor, would the implication of your recommendation have an unfavorable impact on the ability of this country to produce energy, as compared with the current tax structure? Did you make any analysis of that at all in your proposal?

GOVERNOR LAMM: Again, it has been much written upon and there are a variety of opinions. You have heard Representative Kemp's answer to that, but we did not tak that or any of the other -- there are seven tax credits, there are eight tax adjustments, there are 103 tax expenditures. We did not have time to go into them specifically, but we were aware of the l vel of dialogue, and we felt, as the two previous speakers felt, that there is such an advantage to a lower rate, and that you can only do that by broadening the base. We did not specifically look into that point.

GOVERNOR WHITE: Don't you think it's important before this association goes on the record about such a basic concerns of tax policy of the country that we look into the imspact that tax policy would have upon the country?

GOVERNOR LAMM: I think it's fair to say that we all recognize that each of these 103 tax expenditures has its constituency and has its impact. But I think, Governor White, I don't want to seem callous to your concern, but in fact we are saying that the only way we're going to broaden the base and thus reduce the rates is to take on some of these issues, and that in spite of what you are saying we should go ahead.

GOVERNOR WHITE: Let me ask you this, Governor: Do you think it would be beneficial for the country to have a broader base and a lower rate and give up its energy independence, if that has the impact of doing that?

GOVERNOR LAMM: If that would be the impact --

GOVERNOR WHITE: If it does have that impact, and you haven't even assessed it, then you force me to vot "no" on your proposal. My concern is that I do not believe this Association should go on the record on such a basic change in policy without further consideration of its impact.

Certainly we are all for a fair tax, we are all for lower rates, but I would like to know what this would do to the country when it comes to putting fuel in the B-1 bomber and M-1 tank that we've spent billions of dollars producing in order to maintain the national defense. Those two types of machinery do not run on coal or cordwood. If we are going to give up our energy independence like we've apparently forgotten the message sent to us by the OPEC nations just some 12 years ago, then I think it would be a tough trade, and I hope you wouldn't ask this Association to make that trade today.

GOVERNOR LAMM: Governor White, let me say that I think there's a basic question here, and that's whether America is going to retain its very basic self-assessment system. We are going the way of France and Italy right now. People are not paying their taxes. As you heard, there is a $600 billion underground economy. One of the key parts of this nation is a self-assessment system. You can never hire enough Internal Revenue agents to enforce the taxes.

It has gotten now where some people in your state who sweep the floor in the oil company pay more taxes than that oil company pays, and one of the cancers that is eroding the credibility of this nation's tax system is the fact that there are people that make a million dollars a week and pay no income taxes. Now that's the tax expenditure that you are sitting here justifying.

GOVERNOR WHITE: I am not attempting to justify that tax expenditure, I am suggesting to you that this doesn't touch on that problem whatsoever. You say in your resolution that you want to maintain the level of taxation for corporations, and I think that example you just gave a moment ago is reprehensible. I think every corporation that has an income and produces a profit should bear some of the responsibilities for paying for the government.

GOVERNOR CARLIN: Any further questions or comments?

GOVERNOR WHITE: But your resolution has nothing to do with that.

GOVERNOR LAMM: Governor White, rather than debate it, it really is important to understand that this policy does not specifically endorse the repeal of that. Indirectly it comes out for a broadened tax base, but I want you to understand that you would not be voting for the specific repeal of that.

GOVERNOR CARLIN: Governor Cuomo.

GOVERNOR CUOMO: Governor Lamm, I wonder if the committee agrees that the matter of the state's right to tax its own people is a fundamental matter of states' rights.

GOVERNOR LAMM: Yes, and I think that that would be.

GOVERNOR CUOMO: Doesn't this resolution-- and I am grateful to you for your explanation for the indication in the resolution that we ought to be careful about unfair results from disallowing the deductibility of state and local taxes. I am even more grateful for the indication in the budget amendment that the disallowance of deductibility ought under no circumstances to be used as a revenue-enhancing mechanism. But still you allow in this resolution for the possibility of negotiating a question of fundamental states' rights, and that is the state's right to tax its own people and not to have that double taxed. I think most of the Governors would agree that if that question had been argued when the 16th amendment was adopted, there would be no Federal income tax. If the states had been told that Federal income tax would be imposed on top of yours, you would have rejected the income tax and that's clear.

How can we allow the subject even to be put on the table for negotiation?

GOVERNOR LAMM: Governor Cuomo, I think we do not look at it exactly that way. I think the Federal tax system is inherent in itself. I don't think that there is anything either constitutional or as a matter of vast public policy that they have to allow a deduction in their system for any particular thing including state and local taxes.

It seems to me that it would be -- I don't want to bring this association in -- it's just another special pleader, that state and local taxes could be on the line in this. We are not encouraging that it does, but if it does, that we have to make sure you don't suffer any greater than any other state.

GOVERNOR CUOMO: I am not clear, Governor Lamm. Are you saying that the states are special interests like all the other special interests?

GOVERNOR LAMM: No, but I think that they could be special pleaders and then how do we draw the line there. They aren't sir; you're right.

GOVERNOR CUOMO: Aren't we here as special pleaders for our states? I mean, if we are different from the other special interests, how are we different?

GOVERNOR LAMM: Okay, well I think as you pointed out, we are 50 separate -- under the layer of federalism we are 50 separate units of government. We created the Federal Government.

GOVERNOR CUOMO: We represent all of the people of the nation. We don't represent the dockworkers or the women or the gays or any other particular group. We represent all the people of the nation. This proposal suggests that we are only a special interest and I don't understand the logic of it.

GOVERNOR LAMM: Governor Cuomo, I don't think it says we are only a special interest at all. I really don't think that. I think you are right we are in a special category. But I don't think that we are in such a special category that the Federal Government owes us as a matter of any theology aid to that deductibility of our taxes.

GOVERNOR CUOMO: Governor Lamm, you mean all the other expenditures are to special interest except this tax expenditure?

GOVERNOR LAMM: I am trying to agree with you that there is a difference in state and local taxes.

GOVERNOR CUOMO: If you want to agree with me, amend this thing to say there will be no disallowance of the deductibility of state and local tax.

GOVERNOR LAMM: I agree with you, sir, but I don't go that far.

GOVERNOR CUOMO: Okay.

GOVERNOR CARLIN: Governor Kerrey.

GOVERNOR KERREY: I certainly agree with Governor Lamm and both speakers with the need to reform the tax system to make it more simple and easier to understand. I must observe, as I listened to both speakers, that I was not reaching the conclusion that either plan was offering one simple enough that would permit me to do my own taxes.

I would still have to refer them to an accountant because I was confused by both approaches.

As Governor White says, I am concerned in Nebraska about the impact upon a tax proposal on our ability to be able to produce food, because food also is part of the substance that will drive our defense and drive our economy. We have seen one of the proponents of a simplified tax plan proposed not long ago, a plan that was supposed to balance the budget, and it did not. If we end up with a simplified tax plan that is neither simple nor fair, then in my opinion we will have less confidence in our tax system and not more.

We must, I think, address the fundamental shifts that occurred in the economic recovery tax act of wealth in this nation. We must, I think, address some of the inequities that this tax system creates for people such as myself that are in small businesses and essentially say that in order to take advantage of the shelters offered in the tax law, in order to take advantage, for example, of the investor tax credit, I must have both income and cash in order to be able to do it. It is fundamentally unfair it seems to me to say to our low- and middle-income people to our small businesses that you will pay income tax but over 100 of our largest corporations will pay none.

And if our objective is simplification, if our objective is fairness, it seems to me that we must evaluate those rather fundamental issues and make certain we endorse a plan that is both simplified and fair and not a plan that has been put together by a Congress that sometimes has a difficulty in accomplishing those kinds of objectives. I am very much concerned that we not endorse and we not get involved in sweeping behind another tax plan that will simplify our tax system that may create even greater unfairness and greater confusion among our taxpayers.

GOVERNOR CARLIN: Governor Sununu.

GOVERNOR SUNUNU: Mr. Chairman, I support Governor Lamm's motion here. I think with the rhetoric that we have heard, we have missed the fundamental point and that is that this is an effort to endorse a motion to simplify and bring equity to the system. I think it has included the kinds of exclusions that have been touched on. It says very clearly that all exclusions, deductions and credit should be reviewed for inclusion. And I think it also emphasizes the fact that the rights of the state shall be preserved.

What we are seeking here is a consensus that will urge an action to be taken. The debate is not going to be short. It is not going to be simple. It is clearly going to take place in a very public forum, and I think that's an appropriate time for it to come.

The difference between the states and the constituencies is not in the size of our voice, it is in the fact that the states are recognized within the Constitution as entities that have rights; and it is within that context that those rights will be preserved. Not in the context, and here is where I do disagree with Governor Cuomo, not in the context of the numbers that are represented there, but of the very special and distinct character of the states as entities, and I think that Governor Lamm's proposal is entirely consistent with that and I urge your support.

GOVERNOR CARLIN: Are there any other questions? Governor Nigh.

GOVERNOR NIGH: Governor Carlin, I am sorry about a while ago, but I was trying to find the appropriate set of notes that I had. I just want to talk about, for a moment, the flat tax proposal. Each of you has been given a copy of the study done by the Interstate Oil Compact Commission on what the tax plan of the Federal Government at least proposed, would do to the energy efforts. Individual producing states have been given a copy of what the study shows would be the effect upon them if all the drilling costs or what we call "incentives" were not allowed. Our concern is the elimination of jobs. But, more important than that is our concern that if these deductions are not granted that we are going to have a severe effect upon the national security.

When you try to decide where we want to go, we sometimes give incentives to people to do something that they otherwise might not do. We do that in many cases: we give shorter retirement systems to law enforcement officers because it's high risk. In trying to be independent in our energy efforts, we have to encourage high risk capital.

If that encouragement is not there, we are fearful not only that we will lose jobs -- in Oklahoma we estimate that we will lose 90,000 jobs the first year. But our concern is that right now we are importing about 1/3 of our oil, and that in the case of a national emergency, as we continue to become dependent on the international oil market, that we would be really at th whim of anybody if the OPEC or anybody else were to decide to do something.

The oil producing states have already had a chilling effect put upon them in the high risk capital, the venture capital, because the Administration's plans of taking away these incentives is telling people not to invest in the oil patch.

We feel very strong that this chilling effect is not only economically, this chilling effect will have an effect upon us in our national security. I would urge you, each of you to look at the Interstate Oil Compact Commission report to see how it affects this country; I would urge you to look at the Interstate Oil Compact Commission report to see how it affects each of your states individually.

We would suggest to you that an incentive is not a loophole, that a loophole is something that you used to deviously get around something you shouldn't otherwise be doing. An incentive is an effort to encourage somebody to do something that you feel is necessary to have been done.

GOVERNOR CARLIN: I have a motion and a second on our Federal tax reform policy. All those in favor raise your right hand.

All those opposed raise your right hand.

The motion carries.

I'll yield to Governor Alexand r who will preside over our policy 8.14.

GOVERNOR ALEXANDER: Thank you, Governor Carlin. I recognize Governor Carlin for a motion.

GOVERNOR CARLIN: Mr. Chairman, we have before us our policy on the Federal budget. I would, as quickly as possible, state the case for, one, updating our policy; and, two, defend specifically what you have before you at this time.

GOVERNOR ALEXANDER: Governor Carlin, excuse me for interrupting, I should have done this at the beginning. This is the purple page, Executive Committee items A.14. There's a separate written document. It will require a 2/3 vote for passing. The amendment will require a 2/3 vote to pass of those present and voting after Governor Carlin makes his motion and his comments and there is a second. Excuse me.

GOVERNOR CARLIN: I will make my comments first and then make my motion.

I think there are several reasons for us to adopt a new budget resolution. Obviously things have changed since a year ago. A lot of things have changed. And I think what we have before you is a much more realistic approach to being a true partner with the Administration and Congress on what most of us, if not all of us, agree is our number one domestic problem. Whether we come from an agricultural state or not, the deficit is hurting us all.

Since last year, obviously the concept of a freeze has been talked about. I mention it is an important reason for us to update, because last year, that was not part of it.

I think also it's important for us to update or simply to signal the message that we are current, we are active and we want to be a partner today, not hang our hat on a policy that was adopted a year ago and actually originated two years ago.

I would urge your support of this resolution on what I consider to be a bipartisan compromise. I am fully aware of some of the individual feeling. I think I would say to you that as a body we need, in this particular case, to set an example for Congress. Set an example in terms of backing up what we've said in terms of everything being on the table, and being willing to give and take.

Anybody that follows the process knows that we cannot accomplish the objective, there cannot be enough votes put together unless those two principles are followed.

I would submit to you that as a body, unless we likewise follow those two principles, we are not going to have much eff ct on the process, or are not going to be in a very strong position, to really participate and be a partner as we have suggested we would. To Senator Domenici and many others of the Congress as well as representatives of the Administration.

The policy that you have before you not only updates the numbers and makes them current, it does give broad guidelines for a freeze proposal, supports reform of entitlement programs, certainly supports the movement towards a balanced budget; and, in my judgment, has the appropriate fair mix between spending cuts; and, if necessary, the possibility of raising revenue.

With those comments, I would move that resolution 8.14 on the Federal budget be adopted and yield to Governor Thornburgh to second.

GOVERNOR THORNBURGH: Mr. Chairman, I would second the motion made by Governor Carlin. Obviously in an area that is as involved and as complex as is the Federal budget, unanimity on a prescription for resolution of all those problems is well nigh impossible. I suspect that each one of us would rewrite some portion of this position on the budget to suit our needs or our state's concerns were we given the opportunity.

But I suggest to you that when we have the opportunity to act as an Association of 50 Governors; and when w hav the opportunity to act in a bipartisan basis, we should snatch that opportunity lest it not come our way again in time to impact on the deliberations that will take place during this year in the Administration and on the Hill.

The appeal that this position has to me is two-fold. One, it offers us the chance to act in a bipartisan way. Two, in some areas where the President and the leaders in the Congress are looking for an opportunity to act themselves in a bipartisan way, we can be pathfinders and leaders by binding up whatever differences might exist among us on a partisan basis.

Secondly, the appeal of this resolution to me, and I suggest worthy of your consideration, is that it addresses both the long-term and the short-term problem of deficit reduction. The short-term is addressed, as Governor Carlin pointed out, by calling for a freeze that would share the burden and the pain, upon which every speaker agreed before us this weekend is necessary, among all components of the budget.

Secondly, it would call for the institution of measures seeking to reform some of the programs, in particular, the non-means-tested entitlement programs where long-term savings might be available from the initiation of reforms.

Thirdly, it r cognizes that if after the maximum impact of cuts, reductions and freezes has been felt, there is still a gap between what is desired and what is on the table, then revenues should not be ruled out as a source for aiding in that process.

These three components addressing the immediate needs of the budget crisis, it seems to me are worthy of our support.

But in addition, we have recognized that the long-term solution, the imposition of the proper discipline upon the executive and legislative branches, requires a Constitutional amendment that mandates a balanced budget and provides the executive with a line item detail.

I suggest to you that this clearly is worthy of bipartisan support as well. The evidence you see before you and around you, Governors Democrat and Republican in this nation who are subject to this discipline and use this mechanism, to balance our budget on a year-in, year-out basis.

It is also important, I think, in view of what is rapidly developing as a consensus view among the American people and their leaders, that we keep the action to provide for a constitutional mandate within the confines of the Congress, as we direct here, and not through continued frustration see the acceptance of the notion that a constitutional convention is the best way to deal with this problem.

As strongly as I support the notion that we n ed a Constitutional amendment to mandate a balanced budget, I feel almost equally strongly that it is the responsibility of the Congress to face up to this responsibility and not to open what might be well a Pandora's box of a constitutional convention.

The Gallup poll tells us that in addition to the fact that we have on our state books constitutional mandates directing a balanced budget, that over 70 percent of the American people favor that form of discipline which is necessary to over a period of time phase-in a requirement that would mandate absolutely, that except in times of emergency, revenues must match appropriations.

I therefore urge upon my colleagues bipartisan action to support the resolution of the Executive Committee where it received unanimous bipartisan support that would meet both the long-term and short-term concerns of all of us about taking meaningful action to deal with the problem of deficits. Thank you, Mr. Chairman.

GOVERNOR ALEXANDER: Thank you, Governor Thornburgh. The situation exists that the recommendation of the Executive Committee has been moved by Governor

Carlin seconded by Governor Thornburgh. If there are any comments or questions to Governor Carlin, now would be an appropriate time. Governor Thompson.

GOVERNOR THOMPSON: Mr. Chairman, I just have three quick comments. I have no questions.

First, in contrast to last year when for a variety of reasons we found ourselves not only sharply divided but our sharp divisions taking on partisan pleasures, we find ourselves this year, at least so far through the action of the Executive Committee, remarkably unified and free from partisan political considerations. And I think that posture of the Governors is appropriate, because the problem that we confront with our resolution is one now of even more critical urgency than it was last year.

I would like to add my compliments and thanks to the leadership of this Association, to our chairman, vice chairman, Governor Thornburgh and others, for bringing us together on this resolution so that we might in this plenary session have the chance to debate without the partisanship.

Secondly, I don't think we can say it too strongly: People are unemployed in America today because of the deficit. Factories are not being built, research and development is not being undertaken. Modernization of the existing stock is not being don , and we are losing pace in much of the world. Product development in our ability to compete in the future because of the deficit. The deficit does not limit our problems; the dollar won't fall magically, neither will interest rates if the deficit were cured tomorrow. But the problem is worse than it is because of the deficit. Therefore, there is a need for this Association, in as quick and strong manner as is possible through this resolution, to further the job that we began four or five years ago when we were among the only voices in the nation crying out against the injury of the deficit.

We led the way among organized groups of this country. We cannot afford to falter now.

Thirdly and finally, while we can talk much of injury that is happening to the economy of our generation, the real immorality of the current budget of the United States of America is what it does to our children and grandchildren.

It is in every sense of the word an immoral document and an immoral policy because our generation wants everything it can get, but refuses to pay for it. We are going to borrow the money, our grandchildren and our children will pay the debt service, and that's $1 less in their pockets to buy programs which are important to the quality of their lives.

That's the real issue that is at stake in this resolution, and I hope my colleagues will join me in passing the budget resolution. Thank you.

GOVERNOR ALEXANDER: Thank you. Governor Graham.

GOVERNOR GRAHAM: Mr. Chairman, I have an amendment to offer. Is this the appropriate time?

GOVERNOR ALEXANDER: Yes.

GOVERNOR GRAHAM: I offer this amendment, which would be on page 8 of proposed item 4, and would rewrit the third sentence to read "a one-year freeze on all cost-of-living adjustments with the exception of Social Security should also be enacted." I would insert the phrase "with the exception of Social Security" into the resolution, which was the form of the resolution as it was originally presented to the Executive Committee.

To me, Governors, this raises the basic question of the nature of our Social Security system.

I would point out first that Social Security makes a positive contribution towards the reduction of th deficit. That is, more revenues flow into the Social Security trust fund than benefits are paid out of the Social Security trust fund. It is only because Social Security is merged into the general budget of the national government as opposed to being segregated as a self-sufficient trust fund that it is on the table for this consideration.

Second, more fundamentally, is the question of what do we conceive Social Security to be? Is it a welfare program, or is it an insurance program? Throughout its history it has been conceived of as an insurance program. We have just gone through a major increase of funding in order to assure its actuarial soundness through the balance of this century. I believe that is a principle that should be maintained, and that people who have relied upon the contract of that insurance program, including the contract that says that benefits will be periodically adjusted as cost of living is adjusted, should have a right to expect that is maintain d.

So I offer this amendment to reinsert the language of the original resolution, which is to except Social Security from the one-year freeze on the Cost-of-living adjustment.

GOVERNOR ALEXANDER: Is there a second?

GOVERNOR WHITE: Second.

GOVERNOR ALEXANDER: Governor Earl -- or Governor White seconded. Let me make sure everybody knows where we are on the purple sheet: at the bottom of page 8, a one-year freeze on all cost of living adjustments should be enacted with the exception of Social Security, is

Governor Graham's motion. Now that will require a 2/3s vote, 2/3s of those present and voting to be adopted. Governor Babbitt.

GOVERNOR BABBITT: Governor Alexander, I speak against this amendment. I believe if we are to display the logical outgrowth of our rhetoric of the last two days, then all programs must be placed on the table, we must in fact, scrutinize entitlement programs and impose long-range restraints that we cannot retreat from the logic implicit in our statements of the last two days.

I would urge you to vote against this amendm nt and to suggest to you that I would at that time offer the following type of language which I believe should invoke the consensus. The problem with the one-year freeze on the cost-of-living adjustments is its impact on low-income recipients. I believe implicit in this entire document is a consensus from Republicans and Democrats that we believe that non-means test of entitlement programs should contain assurances that low income beneficiaries will receive COLA increases in the future. And if you defeat Governor Graham's amendment, I will proceed to offer the following statement: a one-year freeze on all cost-of-living adjustments should also be enacted provided that an adequate exemption is made for low income beneficiaries. I therefore urge you to vote against this amendment.

GOVERNOR LAMM: Mr. Chairman, can't you make it a substitute motion?

GOVERNOR ALEXANDER: He could, but he didn't.

GOVERNOR LAMM: I would move it as a substitute motion.

GOVERNOR BABBITT: I second that.

GOVERNOR ALEXANDER: We now have Governor Babbitt's motion as a substitute to Governor Graham's motion. It would require 2/3 vote to adopt that first vote; it'd be Governor Lamm's motion of what Governor Babbitt said.

GOVERNOR MARTIN: Would it not require a simpl majority to substitute it?

GOVERNOR ALEXANDER: Under our rules that were adopted at the beginning of the meeting, it requires a 2/3s vote.

GOVERNOR MARTIN: Then there would be no subsequent vote on Governor Graham's motion?

GOVERNOR ALEXANDER: If it is adopted, then there would be no vote on Governor Graham's motion.

GOVERNOR ALEXANDER: Is there a question?

GOVERNOR BABBITT: Just for clarification, may I read the text of Governor Lamm's substitute motion?

GOVERNOR ALEXANDER: Yes.

GOVERNOR BABBITT: All right. In the disputed paragraph 4, the last sentence, would read in total as follows: "A one-year freeze on all cost-of-living adjustments should also be enacted." That's the existing language. Add a comma and the following language: "Provided that an adequate exemption is made for low income beneficiaries."

GOVERNOR WHITE: Mr. Chairman.

GOVERNOR ALEXANDER: I am going to ask Governor Carlin, do you want to respond to that as maker of the prime motion and then Governor Graham and then we will go to Governor White. Governor Carlin.

GOVERNOR CARLIN: Mr. Chairman, I would want the body to be aware that in at least two different places in the current resolution, we specifically carry forth the intent in this substitute motion. On page 9, under the paragraph entitled "long-run in reforms," last sentence: "It is important that reforms in these programs protect low income beneficiaries."

On page 5, right at the bottom of the resolution, "adopt a freeze" that starts there and ends with "and that does not burden already hard-pressed, lower-income Americans." I would argue that that's a more appropriat way to address our concern than to, unless you desire, open up the whole Social Security question in terms of being tested.

On that basis, given the hour and the many other issues to debate, I would oppose this -- it has merit to be discussed, and if you want to take time to discuss it it's going to take some time, but we are really talking about with this substitute is means-tested Social Security? I don't know if we are ready to debate that. If you want to, fine. I just want to assure the body that those who are concerned about going home and being able to say you protected low income, it's in the resolution at this moment without any need for any amendment.

GOVERNOR ALEXANDER: I am going to suggest we go to Governor Graham and then to Governor White. This is an issue I am sure every Governor has an opinion about. The hour is late and unless there's an important comment, we might move on to a vote after that. Governor Kerrey, do you want to direct your comments to the whole question rather than this amendment.

GOVERNOR KERREY: Yes, I will pass it.

GOVERNOR ALEXANDER: Governor Graham and then Governor White.

GOVERNOR GRAHAM: I think we concur in the comments made by Governor Carlin. This raises the additional fundamental question beyond the insurance question -- that is, whether Social Security is intended to be a means-tested program. For 50 years it's never been intended to be a means-t sted program. I think it's rather cavalier for us to change the basic thrust of it in this document.

GOVERNOR ALEXANDER: Governor White.

GOVERNOR WHITE: I'd suggest that what they have done is raised the issue of whether this is a welfare program or an insurance program, and I think it's a tragic mistake for us to by inference to suggest that the Social Security system is a welfare program and it is not.

GOVERNOR ALEXANDER: I don't want to cut anyone off who wants to make a comment, but we could move on to a vote of Governor Lamm's substitute motion as interpreted by Governor Babbitt, if that's agreeable. All in favor of Governor Lamm's substitute motion -- if it's adopted there will be no Graham's substitute motion; if it's not, we will move to Governor Graham. All in favor of Governor Lamm's substitute motion, please raise your hands.

All opposed, please raise your hands. The motion is defeated. We move to Governor Graham's amendment, and is there anyone who wants to direct his or her comments to Governor Graham's amendment? Governor Babbitt.

GOVERNOR BABBITT: Governor Alexander, I now feel absolutely compelled to support Governor Graham's amendment, because I do not believe that in the name of equity and the sense of fairness that we can go on record as supporting a complete COLA freeze without making some provision for those recipients who are living on the edge of poverty and who will be plunged into destitution and poverty as a result of our unwillingness to consider an exception for them. I therefore would vote for Governor Graham's resolution.

GOVERNOR ALEXANDER: Governor Sununu.

GOVERNOR SUNUNU: In light of Governor Babbitt's comments, I would point out again, that there is language in there that I think preserved the intent of what was attempted earlier. There are two sentences that run "a new commission should be convened to look at potential long-term reform in Social Security. It is important that reforms in these programs protect low-income beneficiaries."

GOVERNOR BABBITT: Governor Sununu, the difficulty with that is that the specific tends to govern the general. A long-term study with assurances simply, when we go home, is not going to contravene the specificity in the sentence which you are asking us to approve saying a one-year freeze on all cost-of-living adjustments should also be enacted presumably right now, this day. I can't take that home.

GOVERNOR ALEXANDER: Governor Cuomo.

GOVERNOR CUOMO: I think there is another asp ct to this. I would be very reluctant even to consider the question of tampering with the COLA for Social Security given what the Republicans are so fond of pointing out as the enormous mandate won by the President on the issue. I would be reluctant to consider it except if I thought that there was some chance that it would be an integral part of the whole package that would bring us closer to a sensible solution on the deficit question, and when your proposal issued from the Executive Committee, I thought there might be some hope of that.

Everybody in this group knows that unless the President takes leadership on this issue, and instructs his Republican leaders in the Congress to follow suit, nothing is going to occur.

I am not going to support a proposal that would reduce in any way Social Security, simply for the sake of suggesting to people that I think that's a good thing to do, because I don't. I might do it if I thought it would help to get a deficit reduction package.

With that in mind, as you all know, we asked the President of the United States yesterday whether he wanted this encouragement from us. We asked him twice and he said no, and he said it as specifically as he could say it, and his spokespeople thereafter reminded us that he meant every word of it. What you are suggesting now is either that the President spoke cynically, which I reject because I think he spoke sincerely, or that we should go through some kind of political charade for a purpose I don't understand. The President of the United States instructed us that he would not change his mind on this issue. He won. My side lost. I am with the President.

(Laughter.)

GOVERNOR THORNBURGH: That's a quick turn-around, Governor. What the President did say yesterday, in my view, is that he did not want to be set up on this question as he felt he had been in 1981. He did say, as I recall, that if there was evidence of bipartisan support to put this question on the table, that he would be willing not only to consider it, but to establish the very kind of commission that is recomm nded in the resolution that is before us right now.

That kind of bipartisan support can at least begin with in this Association. For that reason, I think we ought to take the President up on the statement that he made yesterday.

GOVERNOR ALEXANDER: We have other amendments to consider. Unless there's an objection, I am going to go to Governor Sununu, Governor Carlin and then we will proceed to a vote on Governor Graham's amendment.

GOVERNOR SUNUNU: The tragedy is that prior to the question being asked by Governor Cuomo, the President had explicitly expressed a receptiveness to a presentation made to him on a bipartisan basis on this very issue. And the real tragedy is that the question asked by Governor Cuomo shut the door to the receptivity of that possibility of a bipartisan presentation.

The opportunity was presented, the opportunity was rejected. It was rejected when Governor Cuomo put the question in the context of Governor Cuomo wanting to cut Social Security.

GOVERNOR CUOMO: I don't want to cut Social Security. Clear the record on that. I never suggested it.

GOVERNOR SUNUNU: Then your offer to the President was ingenuous and misrepresentative of your true feelings and merely an offer made to establish your political position.

GOVERNOR CUOMO: I think you mean "disingenuous," which --

GOVERNOR SUNUNU: Disingenuous.

GOVERNOR CUOMO: Yes. Which is what?

(Laughter.)

GOVERNOR SUNUNU: But the fact is that the offer had been made and you, I presume, felt uncomfortable with the opportunity for a bipartisan presentation and shut the door.

GOVERNOR CUOMO: May I speak, please.

GOVERNOR ALEXANDER: We will go to Governor Cuomo for a moment then to Governor Celeste. We were all here yesterday, we all heard what was said.

GOVERNOR CUOMO: As long as you want to bring up the details of the discussion, which I was trying not to, let's just repeat what actually occurred. Not only did the President not say what Governor Thornburgh said he said and perhaps should have said, he went further. He said: "When I told the American people that I was against a Social Security cut, I didn't really mean the COLA. I thought I was talking about cutting basic Social Security. However, the American people misunderstood me and I am going to go with their interpretation." That's what the President of the United States said yesterday.

I am sure, just in case there is any question, just in case there is any question, I am sure it was transcribed. I am sure it was recorded. I am sure they have a document. I am sure they have a transcript and I am sure you can read every comma of it.

Now the point is this: if it weren't for the fact that I believe the President -- I believe him to be utterly sincere. I think there are some issues on which he is wrong, obviously I disagree with him, but I believe he is utt rly sincere. I don't think he has an element of cynicism to him and I think whatever Stockman says, whatever signals we are getting from Bob Dole and Domenici, this President intends to do nothing on Social Security. And under those circumstances I accept him at his word and I am not going to ask anybody to join me in a statement against Social Security when there is no likelihood, no likelihood at all that is going to occur. Now it's easy enough to resolve that Governor Thornburgh is right, all the President of the United States has to do is to say, "Governor Cuomo, you misunderstood me. I will consider it if you support it, and then ask me again what my position is."

GOVERNOR ALEXANDER: Does that take care of your comment?

GOVERNOR CUOMO: Yes.

GOVERNOR THORNBURGH: I would just like to note that this resolution is addressed to others than the President of the United States. It's addressed to the Congress and whatever differences of recollection Governor Cuomo and I might have about the President's remarks initially or when Governor Cuomo had him on the witness stand, I think we still ought to express to the Congress what our concerns are and express them clearly and straightforward.

GOVERNOR ALEXANDER: I think I will call on Governor Carlin.

GOVERNOR CARLIN: In following Governor Thornburgh, I would just simply remind the body that what he has just stated is true. For the most part, we are dealing with Congress. The President has submitted his budget and his proposal and we cannot deal with Congress, go into Congress saying the deficit is a problem, that all things should be on the table. To have heard from Senator Domenici and many other leaders in Congress, they need our help, that it must be comprehensive. They are not going to be able to keep all things on the table and put together a bipartisan program if we can't. On that basis, I certainly have to oppose this amendment and urge this body to stay with the resolution that does keep everything on the table so that it doesn't start to fall apart. I urge opposition to this amendment.

GOVERNOR ALEXANDER: Governor White called for a question.

GOVERNOR WHITE: I don't want to cut off debate.

GOVERNOR ALEXANDER: He doesn't want to cut off debate, but we need to move on. Jim.

GOVERNOR MARTIN: I'll try to be brief in deference to my colleague from Texas. Let me observe that we are demonstrating that this group is eminently qualified as a surrogate stand-in for the United States of Congress, not so much because of the quality of the rhetoric here but because just as with the general pattern in Congress, we all want to be in favor of reducing that deficit, getting the budget balanced, making it across the board, except we also want to be on the record compassionately defending every exemption in sight.

I would ask, rhetorically, whether once we have exempted Social Security whether we then would want the Congress to exempt veterans programs and think long and deeply and take a deep breath before you answer that one. Because one of the things you'll recognize is that if the veterans organizations were to say "We don't want to be included in any freeze," they're not going to be included in any freeze. I have talked with veterans, i've talked with retired people and I've talked with organizational representatives and one of the things I've found is their view is "If you are going to single us out, don't do it; we are opposed to that; we will fight you, we will beat you," and they have the power to do it, both the veterans and retirees.

But on the other hand, they say, "If you are going to proceed across the board to try to get the budget under control, if you are going to do that, and you are going to spread the burden uniformly across all sectors, then we are willing to take our part of it, because we know we will get our part of the benefit of doing that. If you can somehow turn this country around, to where we are beginning to move in the direction of getting the budget under control, we will benefit from it, our children, our grandchildren will benefit from it, because interest rates will be stabilized more in a basic pattern where they ought to be in relation to inflation. But if you are going to exempt us and exempt them and everybody else and interest rates keep going up and the dollar gets stronger against foreign currencies, we know we are all going to suffer."

So, I say you are making a serious mistake if you say freeze across the board except for every exemption we can think of. I think that's a serious mistake, but it is not untypical of what we will also hear in the United States Congress.

GOVERNOR ALEXANDER: Governor Sinner wants to speak and if there -- unless someone else indicates now they want to speak, I am going to accept the call for a question of Governor White, so we can get on -- we have other -- Governor Graham then we have other -- these are the last two. Governor Sinner.

GOVERNOR SINNER: Mr. Chairman, I come from a state that has an entirely productive economy. Believe me, the economy of our state is being absolutely decimated by what is going on. And I guess I don't care if it is politically inopportune. My reading of the President is that there has been mixed signals. And I believe that if we put enough pressure on, if we say it clear enough, that maybe the Administration will begin to understand what is happening to productive America; and so I have to risk going well beyond maybe what I even want to on -- go to, and say let's put everything on the table, including the military budget, including revenue increases. Let's get the budget balanced.

I have to go along with the resolution as it was drafted, essentially.

GOVERNOR ALEXANDER: Thank you Governor Sinner. Governor Graham, then we will vote.

GOVERNOR GRAHAM: I don't think you have to accept the position of being weak or vacillating on the importance of reducing the Federal deficit in order to support this amendment. The fact is Social Security is a different system and has been represented for half a century to the people of America as being a different system. It is not a welfare system. It is not a system for which one has to qualify based on their income status; it is an insurance program which Americans have paid billions of dollars in order to secure their future.

We have a contract betw en America and its people on this issue. The issue now is: Will that contract, as written, be honored, or will it be unilaterally breached?

In human terms, the consequence of this decision is to put 500,000 older Americans below the poverty level, who today are marginally above the poverty level because of the fact that they have, in the past, received cost-of-living adjustments to their Social Security. You can calculate in your own states what the consequences of another half a million Americans, older citizens, the most vulnerable, below the poverty level, who would now become the responsibilities of a true welfare system.

I would urge a statement of support for the special quality which the Social Security system has had in the contract which exists between the American government and its people.

GOVERNOR ALEXANDER: The question has been called. We'll move to a vote on Governor Graham's amendment. Everyone understands the amendment. It will take 2/3 vote to pass. All in favor, please say "aye."

(Chorus of ayes.)

GOVERNOR ALEXANDER: Any opposed?

(Chorus of nays.)

GOVERNOR ALEXANDER: I think we better have a show of hands. All those in favor please raise their hands in favor of Governor Graham's amendment.

All opposed raise your hands.

The vote is 26 in favor, 17 opposed. The amendment fails because it takes 2/3 of those present and voting.

Now, we will move on -- the motion is on the floor, is Governor Carlin's motion as seconded by Governor Thornburgh. Are there any other comments? Governor Riley.

GOVERNOR RILEY: Mr. Chairman, I have a proposed amendment, I think is being passed around. I submitted a freeze proposition, as the record would indicate, somewhat-- sort of highlights the proposal that has been made and debated for some time. It was my feeling that the work product of the staff, NGA, which I perceived as a clear effort to devise a freeze recommendation, was significantly in line with what I proposed, and I therefore withdrew my proposed resolution in favor of it.

I support a balanced budget provision, but I do not think that the balanced budget provision is proper to be taken in the same context as we deal with this critical runaway situation of the deficit. I think it is unrealistic and in somewhat a deceiving fashion to say on the one hand that we have these monstrous deficits that we need to take all kinds of critical, tough decisions in order to respond to, and on the other hand make the simplistic statement that we in the constitution prefer a balanced-budget provision. I think they should be handled separately, if handled in the same debate at all.

Now, I submitted a constitutional amendment to the South Carolina General Assembly for a balanced budget and it passed, and we have a balanced budget. But that's not why we have it. We have a balanced budget in South Carolina because the General Assembly working with the Governor and former Governors in a bipartisan way has a discipline in place, just as you do, most of you, certainly, that you are going to set priorities and you are going to make sensible decisions; and in that process, you certainly are going to have a balanced budget.

Now I have then put this proposition that I submitted last year when the same debate came up, and it simply says that "By endorsing the Constitutional amendment to balance the Federal budget, the NGA calls upon the President to immediately demonstrate this commitment to a balanced budget, by stating how he would balance the Federal budget in a revised budget request to Congress in compliance with H.R. 3." H.R. 3, as I understand it, is a resolution passed by the House of Representatives with bipartisan support, I might add; and it calls basically for this same thing.

Now, with the runaway deficits, I just simply, from a practical standpoint, don't think we can afford the luxury of making a simplistic statement of avoidance of the issue, an issue that is one involving discipline and not bland statements.

Again, I would hope that we don't get into this business of gamesmanship, but if we are in it, let's all get into it together, and attempt to say that if we are for a freeze, let's be for a freeze; but let's don't say in one place in this statement that we hope that if everything works out by 1990 we will have the deficit down to 1 percent of the Gross National Product and by another provision come in and say that we favor a constitutional provision that requires and mandates a balanced budget by 1990. It's totally inconsistent. I respectfully urge your support of this proposition, and I made it in 1984. We are all another year older and deeper in debt.

GOVERNOR ALEXANDER: Governor Riley, is there a second? Seconded by Governor Nigh.

I would urge the Governors who wish to comment on this to demonstrate their ability to contain profound comments in brief sentences. Governor Thornburgh.

GOVERNOR THORNBURGH: I think with all respect to my good friend, that great budget balancer from South Carolina, Dick Riley, that there are a couple of defects I am comp lled to note in the amendment that he has proposed. First of all, I think it's unrealistic to expect, and this resolution realizes it is unrealistic to expect, an instant overnight balanced budget. Any responsible proposal made for a Constitutional amendment to balance the budget calls for a phase-in period during which time reducing targets must be met. I think that our budget resolution in the main is not simplistic in that it recognizes that there are both short-term and long-term concerns to be addressed.

But perhaps of more importance is the fact that the amendment ignores the shared responsibility to deal with the problem of the deficit. That indeed in each of our states, that while we are obliged to submit balanced budgets at the outset, our legislators are obliged similarly to return a balanced budget to us in order to comply with the constitutional mandate, and any such provision in the Federal constitution I suspect would provide the same.

So for those reasons, notwithstanding the good intentions of the amendment, I would suggest that we can better accommodate the concerns for long-term and short-term dealing with the deficit problem within the four corners of the resolution as it was originally presented. Thank you.

GOVERNOR ALEXANDER: Governor Earl.

GOVERNOR EARL: It seems to me that the language offered by Governor Riley is appropriate, and it is certainly consistent with the language offered by Governor Thornburgh in the Executive Committee meeting getting the balanced budget amendment for the Constitution in the proposal.

If we leave here having done nothing more than endorsed a Constitutional amendment which would take effect at some future time, we will have succumbed to playing the rules of politics as they play them here in Washington, D.C., which is to substitute highest promises as to what someone may do in the future -- ideally, somebody else -- in place of taking hard conscious steps right now to get something done. We have heard the Congressman talk about what an excruciatingly difficult problem this would be and say that they hope they get us on the glide path, I guess it was, to get it resolved at some point.

You heard the President say that he liked the resolution, at least that part of it that had to do with the balanced budget amendment, but then proceeded to say -- and I square my recollection with Governor Cuomo's, that about 85 percent of it was off the table, to use the parlance that has been so widely used here.

If we are for a balanced budget, then by God, let's not simply say that that ought to take effect sometime in the future, but let's say that the President ought to try to submit one right now.

There is not a person in this room who could realistically submit a budget of the kind that is submitted here or considered here and get away for it with a moment. And you don't need the artificial discipline of having somebody write into the constitution at some point the will to do that. The will to do that can be right here. If we believe in an Constitutional amendment to balance the budget, then it seems to me we ought to also go on record, is to say that they ought to begin to practice what they preach, to use a phrase that Governor Thornburgh likes to use well.

Those of us who are Democrats have been called upon in these meetings regularly to demonstrate bipartisanship. Let me return the favor. Let me call upon those of you who shared the Republican philosophy to be bipartisan and to be consistent: If you support a balanced budget amendment, then support language calling upon the President to submit one right now.

(Applause.)

GOVERNOR ALEXANDER: Governor Kerrey.

GOVERNOR KERREY: Yes. I want to first of all say that I think that when we pierce this veneer of bipartisanship effort it oftentimes does give us an opportunity to engage in honest disagreement, which I for one appreciate.

I would like to commend the Executive Committee for their resolution. I intended earlier and do so now to state my full support for that resolution.

A balanced budget and a reduction in that deficit is the best farm bill that this nation could give our farmers. It is unquestionably true that the deficit is liquidating our finest producers. They're not our poorest; we are being punished by this deficit and I intend to go back to my state saying that I am supporting the reductions necessary and in full support of the resolution as drawn.

I am also in full support of the amendment as offered by Governor Riley. I think it is a reasonable amendment. I think it is an amendment that essentially says that the President should do exactly what all of us as Governors do. I see for one I am in support for th first time of the Constitutional amendment to balance the budget, and I see that Constitutional amendment now is necessary, as demonstrated by this current Administration.

I will predict that all it will likely do will be to create a one-term presidency for either Governor

Cuomo or Governor Thornburgh, whichev r one gets elected. I am in support of this resolution. I believe the President can present a budget that is in balance, and I believe the President needs to present a budget which is in balance.

A Constitutional amendment which takes effect in five years which significantly reduces the budget at some point down in the future is not something that's going to help the 20 to 25 percent of my producers who will be liquidated unnecessarily. They will not have difficulty in finding new jobs and those of us around the room who have soft white hands, the politicians, will not be able to convince those people that they should go back out in the fields and work for us. I urge the adoption of the amendment and the adoption of the main resolution.

GOVERNOR ALEXANDER: Thank you, Governor Kerrey. If there's no other objection I will move to Governor Kunin, Governor Carlin, then we will vote on the Riley amendment.

GOVERNOR KUNIN: I would like to speak in favor of the Riley amendment. I appreciate the careful craftsmanship that has gone into this total resolution. I realize that many bases have been touched; but I have real objection to a Constitutional amendment, because it does not really address the heart of the problem. I think there is a sense of fairness in this resolution that the blame and the responsibility for the fixing of a problem must be equally shared between both the defense budget and the domestic spending budget. I think the equal sense of fairness must come to a balanced budget in the future, and that responsibility has to be shared by both the executive and the legislative branch. That's why I strongly support and urge the support for the Riley amendment.

GOVERNOR ALEXANDER: Thank you. Governor Carlin.

GOVERNOR CARLIN: Mr. Chairman, I oppose the amendment, not because some of the rhetoric isn't appropriate in many ways, because I think we can play that game if we like; but I would raise a couple technical questions as well as make a couple of general points that I think are very important for our discussion. I would point out to you that if we adopt this amendment, that the rest of the resolution will be inconsistent with the amendment we are discussing. Because we certainly are not coming close; despite all the tough decisions we have made of putting everything on the table, our own resolution just takes a first step. How can we explain to anyone that we are at the same time asking the President to go all the way the first year?

Secondly, I would point out to you that we reference in the amendment H.R. 3. I have never been in

Congr ss, but I have been in the legislature, and I have been Governor for seven years, and I never referenced generally any bill with support or promise of veto; because, as we all know, they can change. H.R. 3 may be a different breed of cats by July, and our resolution could conceivably be looked upon as rather ridiculous.

But more importantly I would oppose it from a very pragmatic point of view. I would submit to you that if we allow this amendment to go on, the resolution very likely will not pass. And that we will leave, after a considerable amount of discussion and debate some excellent program, having said and talked and discuss d the dialogue and regarding the deficit, pointing out how strongly we all feel, how everything should be on the table, that everybody has got to be courageous, that we have got to be bipartisan, the closing act of this conference would be diametrically opposed to all of those directions. I think it would be unfortunate.

Now I am aware, and I think there's a lot of agreement, that we would all feel better if the President would at this point put more on the table. But he hasn't. When I go home to my farmers, I have got to talk about reality, not rhetoric or political charges; I have got to talk about what I have tried to do to the best of my ability to serve and help them.

I don't see from a technical or practical point of view merit in adopting this amendment.

I reiterate my opposition.

GOVERNOR ALEXANDER: I thought I had everyone who wanted to speak, but apparently two more have decided. Let me ask this --is there anyone else who feels compelled to speak on the Riley amendment? Governor Celeste -- well, we will just keep talking for a while. Governor Celeste.

GOVERNOR CELESTE: Thank you very much, Mr. Chairman. I appreciate the leadership of our Chairman and the Executive Committee in addressing what has been a consistent concern with the NGA since I have been here, a matter of considerable discussion and debate, usually cutting across party lines.

But I was concerned by the opening comments of Governor Carlin and he said we want to be partners in achieving a balanced budget or moving towards a balanced budget.

My question is: partners with whom? I am sympathetic which you say we must be realistic and I have to judge on the basis of my own experience, and the reason why I began to feel resentment yesterday when we met with David Stockman. I speak in support of Governor Riley's amendment and I guess in doing so reserve judgment on the overall resolution. But I feel for the last two years as a governor I have been windowdressing for the President's inaction on this matter.

I don't believe there's one of us here who has been governor for two years or four years or six years or eight years, who has had to wrestle with budget deficits in his or her own state, who hasn't had to take the initiative to step up and address how do we achieve a balanced budget. To take the initiative, to provide the leadership. We can resolve all we want as Governors. But it took leadership in our statehouses to move toward a balanced budget, to make tough decisions. I might add most of those decisions for virtually all of us involved some kind of tax increase at the time, painful as that was. And we paid a price for it, sometimes a price expected by the very President who yesterday asked for our support and our surpluses to help him balance his budget.

Now, I submit to you that if we want to make real progress, if we all believe, as I happen to believe, that real progress toward getting down that budget deficit is absolutely vital, then the President's leadership is essential, is essential, and it is -- we are the ones operating in an unreal world when we return from the White House, sit down and discuss and debate a resolution, having been told by his chief economic advisor that we cannot deal with Social Security -- that's where it began; the President only confirmed what David Stockman had told us -- that that's off limits now; that revenues are off limits; that we have to suggest how the defense budget should be reduced if in fact we want to have this kind of element in our resolution.

I am deeply concerned that there is no more determination on the part of this President who has a mandate and a unique opportunity to lead now, unencumbered by what may happen two or three or four years down the road, to speak to these tough choices, and he refuses to speak to these tough choices; and now we are going to give him the cloak of the amendment, the Constitutional amendment language, line item veto language, and act as though something is being done.

I, frankly, on behalf of all of the people in my state, I resent that. I believe we have worked and sacrificed to balance our budget. We have put it on the line in Ohio. And I think that the amendment offered by Governor Riley puts the responsibility squarely on this Administration. A few moments ago Governor Thompson said we are in the process of burdening our children and our grandchildren. That's true. We will also now burden them with the constitutional language. This President won't have to deal with it, but his successor will. And I think that if we really are serious about seeing the leadership exercised that's nec ssary to deal with this tough problem, then I believe the Riley amendment is essential.

GOVERNOR ALEXANDER: Governor Evans.

GOVERNOR EVANS: Thank you very much, Mr. Chairman. I think all of us here today are wrestling over this particular issue rather carefully, and I have been enjoying the debate. As I reflect back over as my career as Governor of the State of Idaho nine years, I presented to my legislature a balanced budget. Some years I recommended tax increases, some years we have the luxury of balancing it without seeking additional revenues.

As I reflected yesterday meeting with the President, as I reflected this morning in meeting with the Democrats at breakfast, I have really not taken a firm stand in relation to the balanced budget Constitutional amendment at the Federal level. I think over the period of years I have been a little soft on it, even though our constitution requires a balanced budget and we have done it over the period of our history.

It seemed to me that this morning it all jelled. It jelled to me to think in terms of supporting Governor Riley in his amendment, because I think the President must assert the kind of leadership that we have been providing over the period of years in our own states. So I am just very happy today to support this amendment and encourage all of you to do the same, because it makes our program here much more effective and the people of the country will respect us higher by doing it. Thank you.

GOVERNOR ALEXANDER: Governor Orr and then Governor Riley.

GOVERNOR ORR: Mr. Chairman, I will be very brief and draw everyone's attention to the language in this procedure of form section of this resolution which says "A Constitutional amendment requiring a balanced Federal budget." It doesn't specify in any way what that language is to be when the Congress enacts its own resolution to initiate the process.

We make the point that the President, as is usually the case with most Governors, has nothing to do with those resolutions that amend the Constitution.

It is a matter for the Congress and for the respective legislatures.

It seems to me that it ill behooves us to get trapped into a discussion on this particular matter because I feel confident that when the language is drafted by the Congress, it will probably include some such statement as would require the President to submit a balanced budget.

It seems to me we are getting ahead of the horse. It makes no sense for us to do so, and I would reject the amendment.

GOVERNOR ALEXANDER: I would observe that we are 10 minutes past adjournment time. Some governors have had to leave to catch previously arranged planes. I still want to respect each person's's right to speak. So Governor Martin and Governor Blanchard would both like to speak, and then, Governor Riley, we will vote on your amendment. Governor Martin.

GOVERNOR MARTIN: Mr. Chairman, I want to get something clarified that Governor Riley could help me with. A lot of the discussion here from those who are seeking to tweak the President's nose, like a brim nibbling at you when you go wading at the old swimming hole, have the impression that this is going to require the submission of a balanced budget for 1986. As I understand it, that's not the intention of Governor Riley's resolution. If he can clarify that, then I might in the bipartisan spirit so far exemplified only by Governor Carlin, be willing to vote for his motion. I'd yield to him, if I had that.

GOVERNOR ALEXANDER: Governor Riley.

GOVERNOR RILEY: Mr. Chairman, the language reads, "in compliance with H.R. 3." I would like to change that to "along the lines of H.R. 3." Someone said that technically we are not supposed to be in compliance with any other body's decisions.

But H.R. 3, as I understand it, has passed the House of Representatives and has gone to the Senate, and it requires the President to send over a plan, as I understand it.

GOVERNOR SUNUNU: I am disturbed that an amendment was drafted without knowing what the basis of H.R. 3 is. I can't believe we have gone through this debate, Mr. Chairman, without anybody knowing what they are talking about, although that may not be unusual in itself.

GOVERNOR RILEY: Mr. Chairman, as I understand it, it calls on the President to submit a balanced budget, and if it's inappropriate and he cannot do that, to include how and when it will be achieved, that does leave room to say very clearly that there's no earthly way to balance the budget this year and certainly it's somewhat folly for us to say we are going to have a balanced budget when you can't possibly have it.

But as I understand it, it's a responsible resolution that then requires the President, though, to say up front there is no way to have a balanced budget, if that's the fact -- and I think it is -- and then he must submit a plan as to how that will be balanced. I think that's fair and appropriate.

GOVERNOR ALEXANDER: Governor Martin.

GOVERNOR MARTIN: Then to conclude, it appears to me that I was the one that was mistaken, that the resolution does apply to fiscal '86 and not fiscal 1990, and therefore I will have to, in the bipartisan spirit. vote with Governor Carlin.

GOVERNOR ALEXANDER: Governor Blanchard.

GOVERNOR BLANCHARD: I think Governor Riley has accurately characterized what H.R. 3 does and I don't see how we can adopt a resolution that tries to seriously talk about an overall spending increase, deals with the side issue of a Constitutional amendment, and then not include this. The reason I say that is I think if you include the requirement of a Constitutional amendment, you essentially take the point of view of the President in his struggle with Congress. If you include the fact that you also apply it to this sitting President, then I think we are much more even-handed and we don't get ourselves in the situation of siding with the President or Congress on this debate as to who has the initial responsibility. I think it would be more even-handed and frankly more bipartisan. I don't see how if we are going to include that language in this amendment related to the Constitutional amendment, I don't see how we can not apply it to the President who is now serving. I really think that's more even-handed, and I think you have to agree.

GOVERNOR ALEXANDER: Can we move on to a vote except for whatever Governor Riley might want to say.

GOVERNOR RILEY: Mr. Chairman, I would want to make it clear that it does call for the president, as well as the Governor of North Carolina, to submit a plan as to how he would propose to reach a balanced budget. I would again say that simply by us coming out and recommending a balanced budget provision, without language of this kind, the resolution also requires Congress to do the same thing. It's a realistic way of dealing with it and not simply trying to resolve an issue before you get a handle on it. We don't have a handle on deficits in this country, and I think it's inconsistent to claim victory simply by hollow words when victory has not been achieved.

I simply think that that is an avoidance of the issue, and I don't see how anybody could really oppose this approach.

GOVERNOR ALEXANDER: May I have a call for the question?

GOVERNOR LAMM: I will call the question.

GOVERNOR ALEXANDER: Question has been called. It's a nondebatable motion. All in favor please say aye.

(Chorus of ayes.)

GOVERNOR ALEXANDER: Any opposed? The motion carries. Governor Earl.

GOVERNOR EARL: Mr. Chairman, I would like to ask for a roll call vote on this amendment.

GOVERNOR ALEXANDER: There need to be 10 of the Governors who are willing to take the time to do that or -- that's three. Everyone who is in favor of a roll call vote raise your hands.

GOVERNOR ALEXANDER: We have 10; we will have a roll call vote. Please call the roll.

PARLIAMENTARIAN: Governor Thornburgh.

GOVERNOR ALEXANDER: If we could move quickly, we will call the names off quickly and you better vote quickly.

PARLIAMENTARIAN: "Yes" is the vote for th Riley amendment, "no" is against it.

GOVERNOR THORNBURGH: No.

PARLIAMENTARIAN: Governor Dukakis.

GOVERNOR DUKAKIS: Yes.

PARLIAMENTARIAN: Governor Riley.

GOVERNOR RILEY: Yes.

PARLIAMENTARIAN: Governor Robb.

GOVERNOR ROBB: Yes.

PARLIAMENTARIAN: Governor Martin.

GOVERNOR MARTIN: No.

PARLIAMENTARIAN: Governor Kunin.

GOVERNOR KUNIN: Yes.

PARLIAMENTARIAN: Governor Allain.

GOVERNOR ALLAIN: Yes.

PARLIAMENTARIAN: Governor Blanchard.

GOVERNOR BLANCHARD: Yes.

PARLIAMENTARIAN: Governor White.

GOVERNOR WHITE: Yes.

PARLIAMENTARIAN: Governor Earl.

GOVERNOR EARL: Yes.

PARLIAMENTARIAN: Governor Perpich.

GOVERNOR PERPICH: Yes.

PARLIAMENTARIAN: Governor Lamm.

GOVERNOR LAMM: Yes.

PARLIAMENTARIAN: Governor Gardner.

GOVERNOR GARDNER: Yes.

PARLIAMENTARIAN: Governor Nigh.

GOVERNOR NIGH: Yes.

PARLIAMENTARIAN: Governor Babbitt.

GOVERNOR BABBITT: Yes.

PARLIAMENTARIAN: Governor Ariyoshi.

GOVERNOR ARIYOSHI: Yes.

PARLIAMENTARIAN: Governor Tenorio.

GOVERNOR TENORIO: No.

PARLIAMENTARIAN: Governor Bordallo.

GOVERNOR BORDALLO: Yes.

PARLIAMENTARIAN: Governor Sheffield.

GOVERNOR SHEFFIELD: Yes.

PARLIAMENTARIAN: Governor Bangerter.

GOVERNOR BANGERTER: No.

PARLIAMENTARIAN: Governor Evans.

GOVERNOR EVANS: Yes.

PARLIAMENTARIAN: Governor Schwinden.

GOVERNOR SCHWINDEN: Yes.

PARLIAMENTARIAN: Governor Sinner.

GOVERNOR SINNER: Yes.

PARLIAMENTARIAN: Governor Kerrey.

GOVERNOR KERREY: Yes.

PARLIAMENTARIAN: Governor Moore.

GOVERNOR MOORE: No.

PARLIAMENTARIAN: Governor Atiyeh.

GOVERNOR ATIYEH: No.

PARLIAMENTARIAN: Governor Deukmejian.

GOVERNOR DEUKMEJIAN: No.

PARLIAMENTARIAN: Governor Branstad.

GOVERNOR BRANSTAD: No.

PARLIAMENTARIAN: Governor Graham.

GOVERNOR GRAHAM: Yes.

PARLIAMENTARIAN: Governor Brennan.

GOVERNOR BRENNAN: Yes.

PARLIAMENTARIAN: Governor Orr.

GOVERNOR ORR: No.

PARLIAMENTARIAN: Governor Celeste.

GOVERNOR CELESTE: Yes.

PARLIAMENTARIAN: Governor Collins.

GOVERNOR COLLINS: Yes.

PARLIAMENTARIAN: Governor DiPrete.

GOVERNOR DI PRETE: No.

PARLIAMENTARIAN: Governor Cuomo.

GOVERNOR CUOMO: Yes.

PARLIAMENTARIAN: Governor Sununu.

GOVERNOR SUNUNU: No.

PARLIAMENTARIAN: Governor Hughes.

GOVERNOR HUGHES: Yes.

PARLIAMENTARIAN: Governor O'Neill.

GOVERNOR O'NEILL: Yes.

PARLIAMENTARIAN: Governor Kean.

GOVERNOR KEAN: No.

PARLIAMENTARIAN: Governor Castle.

GOVERNOR CASTLE: No.

PARLIAMENTARIAN: Governor Carlin.

GOVERNOR CARLIN: No.

PARLIAMENTARIAN: Governor Alexander.

GOVERNOR ALEXANDER: We will announce the vote in a minute. It confirms the Chair's good eyesight. While we are doing that, here is where we are. We will move on consideration of the motion by Governor Carlin as amended by Gov rnor Riley's motion. It is now 10 to 1:00. We have had a good spirited debate on all sides by it and I have an indication from Governor Kean that he would like to say something. Is there anyone else other than Governor Carlin who would like to speak on this motion?

Well, the Chair is grossly in error; he thanks Governor Earl for calling the roll call vote. The motion fails 26 to 14. Thank you.

We will now move to Governor Kean's speech on the motion on the floor. We are now voting on the motion of Governor Carlin. It's so far been unamended. It requires a 2/3 vote of the Governors present.

GOVERNOR KEAN: We have now come to the mom nt after a lot of talk. When we all came to Washington a couple of days ago, we were appalled, I think, all of us, that publicly and even more dramatically privately, that we were upset by the paralysis in this town, we were upset by the politics, we were upset, and, if you would, by the nonsense that was going on and felt that we as Governors, based on what we had done in our states and based on our role as chief executives, really could have handled the problem a little better.

I don't know whether some of the vapors coming up from the Potomac have infected us, but I think some of the discussion would indicate to me that we have got some of the same problems here that Congress has. We have got a decision to make now on the actual question.

In my mind Governor Carlin and the Executive Committee have done an excellent job. I don't agree with every bit of it. I share some of Governor Graham's problems on Social Security, and yet if you are really concerned about senior citizens the worst thing possible that could happen to them is the kind of double-digit inflation that is going to hit if this Congress and this Administration don't do something about the deficit. And so I would suggest that we now have come to the moment of truth, and as Governors, I think we ought to send a resounding message; and that is, regardless of whether we agree with every bit of this resolution, we ought to support this resolution, and we ought to support it overwhelmingly. We ought to send it to the Administration; we ought to send it to the Hill; as it's a clear signal that the Governors of this country demand action on this deficit and we ought to do it now.

GOVERNOR ALEXANDER: I am going to recognize Governor Carlin, then we will move to a vote on the whole resolution if there is no objection. That will be on the procedure. Governor Carlin.

GOVERNOR CARLIN: Mr. Chairman, I think we have had a healthy debate; everybody has had an opportunity to express themselves; we clearly know what's before us; and I renew my motion.

GOVERNOR ALEXANDER: Call for question.

GOVERNOR THORNBURGH: I call the question.

GOVERNOR ALEXANDER: Question has been called for.

We'll now move to vote on the motion by Governor Carlin, seconded by Governor Thornburgh, in support of the Executive Committee's recommendation on the NGA position on the Federal budget. All in favor of Governor Carlin's motion please raise your right hand high so we can count.

We are voting on Governor Carlin's motion, seconded by Governor Thornburgh to adopt the basic recommendation of the NGA Executive Committee.

GOVERNOR RILEY: Mr. Chairman.

GOVERNOR ALEXANDER: Governor Riley.

GOVERNOR RILEY: I would just like to make an inquiry. As I understand it, there's some question about the vote. I don't have any myself, but if there is one, I would just prefer that it be resolved.

GOVERNOR ALEXANDER: Well if there is, we will certainly resolve it.

There were -- the question has been raised by Governor Riley as to whether there was a question about the counting of the previous vote. There were 40

Governors present and voting. 26 vot d for the Riley amendment. It would have taken -- it would have taken 28 for it to have received 2/3 of the vote -- it would have taken one more.

GOVERNOR RILEY: Thank you.

GOVERNOR ALEXANDER: Excuse me for -- I think that's a perfectly appropriate question because that's a close vote; it failed by one vote according to our -- so we will go back to the question, and I will ask you to raise your hands again on Governor Carlin's motion as seconded by Governor Thornburgh. This is the basic question: Shall we adopt the Executive Committee's recommendation on the Federal budget? All in favor please raise your hand.

All who are opposed to the Carlin motion, please raise your hand.

The vote is 27 to 9. The motion passes. The report is accepted. I appreciate the courtesy of the Governors during this discussion. Thank you.

GOVERNOR CARLIN: Thank you, Governor Alexander. Two things before we adjourn. Governor Thornburgh, something on savings bonds.

GOVERNOR THORNBURGH: Each of you has received a letter from me asking your cooperation in the savings bond campaign. This is a very important tradition that we ought to carry on this year unanimously. Thank you.

GOVERNOR CARLIN: Thank you. Governor Evans, do you want to say something about Boise?

GOVERNOR EVANS: Thank you very much, Mr. Chairman. This is probably the most important announcement that you will have received during this entire conference. You are invited to the most beautiful state in the nation, in my belief, to the summer conference. It's the first week in August. Mark it on your calendar, 3, 4, 5 and 6. It's going to be held in our beautiful capital city along the beautiful Boise River. You will be able to walk along the jogging paths, enjoy yourself immensely in a park-like atmosphere, you will get an opportunity to meet our beautiful Idaho people who are most excited about you coming to Idaho to visit for a week.

We also want to encourage you to look at our brochure. They have been distributed. This one was put together especially for you Governors and your families, so that you can bring your children, your aunts and uncl s, whoever would like to come with you to enjoy our beautiful state. We would like to put a package together for you, to float our beautiful rivers, to climb our beautiful mountains, to fish in our beautiful streams, or just to enjoy. That's what we want to do this summer at Boise, Idaho at our summer conference.

Ernest Hemingway said, as a distinguished citizen just before his death, he said, "This state of Idaho is something to behold and worth enjoying, a state I did not know existed."

We invite you to come enjoy, and hopefully you will all come. Thank you.

(Applause.)

GOVERNOR CARLIN: Thank you, Governor Evans, and thank you all for your participation in this conference. We stand adjourned.

(Whereupon, at 1:00 p.m., the plenary session was adjourned.)