NATIONAL GOVERNORS' ASSOCIATION

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WINTER MEETING

FIRST PLENARY SESSION

Hyatt Regency Hotel
Capitol Hill
Yorktown Room
Washington, D. C.

Sunday, February 21, 1988
1:00 p.m.
CHAIRMANSUNUNU: I would like to call this first plenary session to order. I would like to welcome all of my fellow colleagues, governors to this 1988 winter meeting of the National Governors' Association. It is, as always, one of the nice opportunities for us to get together and to exchange views and talk about things that are of mutual interest. In that respect, I would like to welcome two new members to the NGA, two governors that were recently elected, Governor Wallace Wilkinson of Kentucky.

(Applause.)

CHAIRMANSUNUNU: Governor Ray Mabus of Mississippi.

(Applause.)

CHAIRMANSUNUNU: We have one formal item to do before we get to what I think will be a very interesting discussion of the issue of federalism and restoring the balance. We have to have a motion and a second for the adoption of the rules of procedure.

May I have a motion to that effect?

(Moved and seconded.)

CHAIRMANSUNUNU: Discussion? If not, we will move to a vote.

All those in favor, please say aye.

(Chorus of ayes.)
CHAIRMAN SUNUNU: Oppos d, no.
The ayes have it. The rules are adopted.

We are beginning today our discussion of restoring
the balance to federalism, and really discussing what I think
is one of the more crucial issues that faces this country as
we move into the last years of this century; namely,
recognizing that much of the action, if not the most
interesting action, in terms of service to the public is
taking place at the state levels. And that what we would
like to do is reestablish an effective distribution of
authority and responsibility so that we can continue those
initiatives.

There has been an erosion of what was the
fundamental balance that was part of the conclusions drawn by
the framers of the Constitution 200 years ago as a very
critical aspect of what we could do in terms of our public
institutions meeting the needs of our citizens.

Over these years, there has, in that erosion, been
a continued diffusion of power to Washington, there has been
a more significant reliance on the federal government in
areas that were traditionally responsibilities of the states;
and I think as the federal government is going through
difficult times in terms of its deficit, and as we seek to
make government mor effectiv, efficient and compassionat,
there has to be a restoration of that fundamental initial
balance and, frankly, the check that goes with that balance. That's what we are discussing here.

We are discussing it in terms of three parallel efforts. One effort designed to address changes in rules and regulations that will allow us as states to be more efficient in meeting our responsibilities to our citizens; a second effort in trying to define changes in federal legislation that will make the roles that both the federal government and the states serve more effective and efficient; and, finally, a recognition that perhaps we ought to address a broader legislative or even constitutional amendment change that might, for the long term, reestablish the balance and the checks in a much more effective way.

In order to accomplish that, we have gathered three individuals here to talk about various slices of that issue; gentlemen who have over the years distinguished themselves in both their study and practice relative to the federalism issue. We have asked them to share their views with us, and then we will follow it by comments in an exchange amongst the three of them. Then we will open it up to questions, answers and comments amongst the governors and the panelists themselves.

At this time, I would like to have each of the three panelists introduced, and then we will move to their remarks.
To open it up, I would like Governor Baliles to please introduce our first guest.

GOVERNOR BALILES: Thank you, Mr. Chairman.

There are few people in this country who are better qualified to talk about the Constitution than Professor Dick Howard of the University of Virginia Law School, who, despite his youthful appearance, taught me constitutional law more than 20 years ago. He has written about constitutions, consulted with nations in need of a constitution, and has helped write several himself, including ours in Virginia.

Following his graduation from the University of Virginia Law School, Dick studied in England as a Rhodes Scholar. Today he serves as secretary of the Rhodes Scholarship Committee.

He served as a law clerk to one of the most prominent Justices in the history of the Supreme Court, Justice Hugo Black.

Professor Howard also serves as chairman of the Virginia Committee of the Bicentennial of the U.S. Constitution, and as chairman of the Virginia Academy of Laureates.

You will have to forgive Dick if he looks a little weary. He just returned yesterday evening from the Philippines, where he spoke at a ceremony marking the first
anniversary of their constitution.

I am pleased to introduce to you Virginia's modern-day version of James Madison, A.E. Dick Howard.

(Applause.)

CHAIRMAN SUNUNU: Governor Schwinden, would you introduce our second panelist.

GOVERNOR SCHWINDEN: Thank you, Mr. Chairman, and governors.

It's my privilege to introduce Professor Robert Freilich, who is a professor of law at the University of Missouri, the Kansas City School of Law. He is a graduate of the University of Chicago and holds additional degrees from Yale and Columbia. Important for our concerns, Professor Freilich is editor of the Urban Lawyer, which is the national quarterly journal on urban law of the American Bar Association, its section of urban, state and local government law.

He is a member of the advisory committee of the state local law center, and during 1984 and 1985 was visiting professor of law at Harvard Law School. Professor Freilich has been at the forefront of zoning and subdivision law, engaged in the development of growth management plans of state and local government, and the financing of infrastructure and real estate development law. He has also been an important advisor to the task force on federalism of
the National Governors' Association. We are privileged to have Professor Freilich with us today.

(Applause.)

CHAIRMAN SUNUNU: Governor Harris. Would you introduce our third panelist.

GOVERNOR HARRIS: Certainly my pleasure to have the opportunity to introduce the third panelist here today.

Many of you know him because he was one of us for quite some time. I have known him for many, many years, and it's been my pleasure to have had an opportunity to serve with him in the Georgia House of Representatives prior to his being elected as governor of the state of Georgia. During his eight years as governor of the state of Georgia from 1975 through 1983, Governor George Busbee was one of our most progressive governors in the history of the state of Georgia. The two of us spent many hours together.

I served as chairman of the Appropriations Committee of the House during that period of time after both of us had served 18 years in the General Assembly together. We spent many hours hammering out Medicaid problems, hammering out problems of two recessions and then going through a great period of progress for our state together.

As governors, we have shared common interests in education and economic development. We also share a conviction that vision and compassion are entirely compatible
with sound fiscal management, and we certainly believe that.

George Dekle Busbee -- and I notice in the program
it says George A. Busbee, but his middle name is D., Dekle,
you probably don't know that -- but he is no stranger to
National Governors' Association. He served three years as
the chairman of the National Governors' Association
transportation committee, two years as the first chairman of
the international trade committee, and also the years of 1980
and '81 as our chairman of the National Governors'
Association.

During that time, he built the coalition uniting
the governors and the state legislators around an agenda
aimed at reforming our basic relationship of the states with
the federal government.

In 1983, after he left the office of governor of
the state of Georgia, he became associated with King &
Spaulding, one of our most largest and most prestigious law
firms in the state of Georgia, and remains there today.

As his appearance here indicates, it shows he is
still thinking, he is still talking about effective ways to
govern. It's my pleasure to introduce to you today my
friend, Governor George Busbee.

(Appause.)

CHAIRMAN SUNUNU: Professor Howard, the floor is
yours.
DR. HOWARD: As Governor Baliles has just said, I returned last night from Manila, so my body is still in the wrong hemisphere. I hope my mind is here with you, so I can make a little bit of sense.

A topic which I find extraordinarily elusive, when you talk about federalism, you introduce an ambiguity from the outset. If you called yourself a Federalist in 1787, then, like James Madison and others, you were talking about wanting to centralize power, you were wanting to talk about overcoming the necessary diversion of resources to state efforts in those days.

If you call yourself a Federalist today, you probably are talking about one who would like to decentralize power. So if you try to explain what federalism is all about, people use a lot of metaphors.

One of the popular metaphors is the picture of a layer cake; three layers, federal, state and local. That's a very convenient and attractive metaphor, but I think all of you would agree it's terribly misleading. American federalism, if you need a metaphor, I suspect, is less like a layer cake than it is like what the English call a "rainbow cake," what some of us call "marble cake," the cake where the patterns sort of run in swirls. It changes each place you cut it. It never looks the same at two particular cuts. Federalism, I think, is a lot like that.
Now, one thesis I would like to establish at the outset, let me take my position on this. It's very popular today to talk about intergovernmental relations. It's very revealing that the only federal commission whose avowed purpose is to deal with problems of federalism is called the Advisory Commission on Intergovernmental Relations. Now, that would suggest that the issue ultimately is one simply and merely of sorting out functions, who does what best. Sort of political science studies on efficiency. The argument I would like to make this morning is that federalism in the American system has to be understood from its historical roots as a question of constitutional dimension. It's not simply a matter of administrative convenience. It's actually part of the constitutional fabric of American government.

First, a word about history. One of the reasons I think we have so much trouble defining federalism is that it grew not simply out of some careful, analytical thought about the matter. It was a product of historical development. The colonist in the 17th and 18th Century grew to believe that not every issue had to be handled out of London from Crown and Parliament, but many could be handled at the colonies' level themselves. They accepted the notion that centralized authority didn't necessarily mean centralized function.

During the Articles of Confederation, of course,
we had a very decentralized form in which the states were
explicitly held to maintain their sovereignty and
independence.

When Madison and the other delegates arrived in
Philadelphia in 1787, they introduced a plan which would have
called for a very centralized national government.

As you know, the anti-Federalists, George Mason
and others, thought that simply too much, and they resisted.
The result was kind of a compromise. Like all political
compromises, it often defies rigorous analytical logic.

It left the kind of ambiguity we still deal with.

One reads the preamble of the Constitution. "We, the
people." One could debate whether that means we the people
voting by states in the ratification process, or whether one
means we the people writ large, we the people as a sovereign
body of the American nation.

That debate, over what "we the people" meant,
raged for 75 years from the time of the Constitution's
writing until the American Civil War. It was finally settled
only on the field of battle and during the Reconstruction
period, especially with the adoption of the Fourteenth
Amendment.

Now, there have been forces in American history
quite apart from the Constitution, which Tocqueville and other
analysts of the American scene have recognized as tending
toward centralization, such things as war, the Civil War and the World Wars; an aspiration, a sense of justice, for example, the opinions of the Warren Court in the 1960s; and of course economic matters, the problems of regulating an increasingly centralized and complex economy.

Now, in addition to these factors that have tended to centralization, those of us who care about the states and their welfare would be remiss if we did not acknowledge that certainly at some points in our nation’s history, that the states themselves have been part of the problem. There have been times when, for example in the Great Depression, when the states simply did not have the resources to tackle the job, the great job of reflating the economy. There have been other times, more recently, when we have realized that the states, through their unwillingness to reapportion their legislatures, have invited federal judicial intervention.

Of course, one cannot forget the civil rights movement of the 1960s. I mean, I grew up in the state of Virginia in a society which was at that time segregated, and I remember too well the need for federal intervention as it finally came about, both legislative and judicial, to help put matters right.

Well, that’s all part of the history. It means that those who care about federalism can’t turn a blind eye to the fact that the states often were not helping matters.
very much.

But I would argue that certainly in the last 20 or 25 years there has been a renaissance, a resurgence of interest in the federal system, partly because the states themselves are far healthier entities than they were 20 years ago. Paradoxically, some of the improvement has come about because of such things as federal reapportionment cases in the federal courts.

But much of it has come from within the states themselves. Leadership by governors -- I thought about naming some examples, but I realize what perilous water that was with governors sitting around the table, you will have to fill in that blank for me -- but you will realize the leaders I am talking about, state legislature, state courts, these are organs of policy that simply have greater vitality than they had 20 years ago.

Now, mention, I am sure, will be made during the discussion today of the Supreme Court. The Supreme Court has shown an increased interest in federalism questions, but unhappily, in the Garcia case in 1985, decided that the Tenth Amendment really was something of a scrap of paper, and that if the states have problems with Acts of Congress, then they have to go to Congress. They really don't have judicial relief.

Some of us, and I count myself as one of these,
May hope for the overruling of Garcia. If one is a student of Supreme Court opinions, it's hard to find an opinion which is more flawed in terms of history, in terms of principle, in terms of an empirical understanding of the American political scene than the Supreme Court's decision in Garcia. But until that comes about, I think we have to look to the kinds of issues that we will be talking about today.

So let me simply conclude with two observations; and they both spring from my premise that to talk about federalism is to talk not simply about administrative convenience, but to talk about constitutional principle.

One of those arguments would be that institutional rights, how you structure government in America, is indeed one of the classic forms of protecting individual rights. One should recall that even the Bill of Rights is not a protection against what private citizens do, it's a protection against government.

Therefore, in our system, as the framers conceived it, as it is unfolded, we understand that process, procedure, and institution and structure are the ways we go about dealing ultimately with the questions of rights. If the people in the social compact have the right to expect anything, it's a right to expect that the way the compact is put together, the structure of government, is in fact enforced.
The other argument I would make is one about the right of choice. That is a thesis that the ultimate value in a constitutional democracy is the right to make choices. No value, it seems to me, is more basic to self-government. Federalism, I would argue, reinforces this value at a level at which choice matters the most.

I repeat my caveat. That is that anyone acquainted with American history would be foolish to deny the ways in which states and the localities have often, in fact, perpetuated evils, especially upon unpopular minorities, racial, religious and otherwise.

But the remedies for such wrongs lie in the proper power of Congress under Section V of the Fourteenth Amendment, and under powers given to federal courts to enforce the due process and equal protection and other clauses of that Constitution. But guarding against abuses does not entail abandoning federalism as a basic value.

I would argue that federalism, like the separation of powers, like checks and balances, like the other things that we consider to be the basic tenets of American government, is one of the devices by which we protect American liberties.

We have, as you know, just celebrated the bicentennial of our nation's Constitution. I would hope that as we move now into the third century of American
constitutionalism, that we could perform no better service to
our fellow American citizens than to undertake a
revitalization of federalism as one of our basic
constitutional values.

            Thank you very much.

            (Applause.)

    CHAIRMAN SUNUNU: Professor Freilich?

    DR. FREILICH: Thank you very much, Governor
Sununu. It's a pleasure to work with Governor Sununu on his
chairs, the task force on federalism, and I think he is just
doing an outstanding job. Also, I want to say hello to my
two neighboring governors, John Ashcroft and Mike Hayden. We
are working on a number of new proposals with their states in
both University of Missouri and Kansas State University. I
would just like to acknowledge that.

            I think the time for resolutions and debate and
handwringing and oratory on federalism in our constitutional
system has passed. I think it's now time for the Congress to
adopt a statute of federalism, which will enable the great
genius of our federalist system for diversity, creative
solution making and participatory democracy to work and
flourish within the constitutional system.

            As lawyers and historians well know, whenev r a
major structuring of relations between the British Crown and
various local governments was required, Parliament would
enact legislation to define those relationships and rights. Every schoolchild knows about the Magna Carta and many other of those great acts.

At this time, just after the bicentennial of the Constitution, federalism in our country is in major difficulty. Through a series of decisions of the United States Supreme Court, culminating in the Garcia versus San Antonio Transit case, federalism for all intents and purposes has been removed from judicial protection of the Constitution, and has been made subject to the political process and the will of the Congress.

If that be the case, and until judicial balance is accorded the Tenth Amendment, the time has come for Congress to act and express the national agenda for a diverse, healthy and flourishing federalism in our constitutional system.

The Constitution has survived 200 years. We have celebrated the bicentennial from a position of strength and security, yet not without the need to resolve increasingly grave problems of the weakening of our central cities, environmental degradation, energy waste and inefficiency, fiscal solvency of government at every level, and serious economic problems resulting from the decline of our trade, industrial and agricultural might. Amended and interpreted through the Civil War, foreign wars, economic depression and dramatic social realignment, the Constitution has guided the
nation through all of its life-threatening crises.

The genius of the Constitution, its separation of powers, the system of checks and balances, has created a division of power between the national government and the states, a government adapted to vastly different periods of history and problems. Inherent in the Constitution's allocation of power is a creative tension which has engendered ongoing national debate about the nature of federalism. That very debate, opinionated, vigorous and heart-felt, strengthens our nation. Federalism wasn't easily born and it's not easily maintained.

Dialogues between advocates of a strong national government and advocates of strong state and local power has not quieted in over a decade. In times of foreign war, the debate usually subsides. But in times of internal upheaval the debate rages vociferously. In certain periods of history, during Reconstruction, the Great Depression, the New Deal, and Lyndon Johnson's Great Society, the balance of power seemed to favor the national government.

In others, in the pre-Civil War period, in the Gay '90s, in the Roaring '20s, advocates of states' rights were more influential. But the concept of federalism undergirding the whole structure of the Constitution provides a scale of justice on which laws, regulations, policies, procedures and judicial decisions are weighted.
Federalism is flexible, allowing the balance of power to shift between national government on the one hand, and state and local governments on the other.

One thing federalism is not: It's not a parochial states' rights or anti-civil rights doctrine. We are all familiar with the references to the Civil War, to South Carolina's nullification and to Governor Wallace standing in the courthouse door. But that's a past misconception. Federalism is a commitment to the federal system and to the preservation of the states in their constitutionally prescribed role. It preserves the states, not for the purpose of diluting the power of the national government, but for the purpose of not just overriding minority interests in our society, but in fact creating and encouraging creativity in government.

I think most of us would agree that for the thorny problems we face, more than one solution is generally available, and each solution has positive and negative effects. Federalism frees state and local government to experiment with creative solutions to the problem of government, allowing New York to deal with problems differently than Alaska, Texas from Rhode Island, California from Maine. Federalism allows some states to act where others decide not to act at all.

Federalism brings domestic issues closer to the
government of the people. It encourages local decisionmaking and greater participation in government at the grassroots level. Federalism preserves our regional differences, which in an age where the mass media threatens to obliterate regional variety should be cherished and nurtured with the same fervor that historic preservationists enlist to preserve our precious architectural heritage.

Now, the growth of urban America since World War II has added a new factor to the federal system. As political stepchildren, cities and local governments also have had to rely on the good graces of state and national government for their well being, their financial ability to solve local problems, to plan for better metropolitan areas, and to govern effectively. Without a strong federal system of government, and strong local governments as part of that system, the local government structure is in danger of becoming a de facto stepchild of the national government.

So I think what is significant here is that the concept of federalism, which was explicit in the Tenth Amendment, provides that powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people.

Now, the demise of the Tenth Amendment took palpable form in 1985. In that year, the Supreme Court
withdrew constitutional protection of the Tenth Amendment federalism provisions from the reach of the national commerce power. In the Garcia case, the court abandoned the "sovereignty of the states to the procedural safeguards inherent in the federal system," I am quoting, and "granted virtually unlimited power to Congress under the Commerce Clause to regulate even the states' indispensable and necessary functions."

The Court's retreat from its role as arbiter of the Tenth Amendment frontier between state and federal power elicited voluminous commentary reexamining the relationship of the federal government to state and local government. Supporters of the Garcia decision argue that the relationship between the federal government and the states is nonjusticiable and must be resolved politically within the halls of Congress and the executive branch, and that Garcia rightly supports this viewpoint. And critics of the decision fall into two camps, those concerned with the immediate monetary cost, which the decision portends, and those who fear the decision's erosion of the constitutional principles of federalism.

Now, what is needed now is not further reflection on the Garcia opinion. Justice Kennedy is replacing Justice Powell on the Court, who dissented in Garcia. We don't yet see any major change in the judicial structure.
What we need is a national agenda on federalism, and such an agenda would provide a blueprint by which the federal government can effectively govern while maintaining a healthy respect for the proper role of the state and local governments in the system.

Now, my suggestion for such an agenda, which can only be effective if passed as legislation by Congress follows as such.

It is not a request for charity from Congress, but a proposal for action. Appropriate legislation should delineate the parameters of authority and power for federal, state and local governments, lend predictability and reliability to the process of deciding the appropriate scope of national, state and local authority, and return the national government to its more familiar haunts, those powers delegated to the United States by the Constitution.

Congress must adopt a clear policy protecting the role of state and local governments in our federal form of government. A statute of federalism, modeled after historic state/local home rule relationships, such as the New York statute of local governments, should restate the fundamental principles of federalism governing the relations between Congress, the federal administrative agencies, and state and local government.

That statute should include as a minimum, first, a
clear statement of the intent of Congress that in the construction of federal laws and federal administrative regulations, under any power granted Congress under the Constitution, that there will be no implied preemption of any state and local authority to act concurrently in the same field, nor shall there be any occupation or preemption of the field by the Congress unless the Congress, and not the federal administrative agency, expressly declares its intention to so preempt and occupy the field to the exclusion of state and local government action.

But why is this so important? Because if the Congress is required to actually expressly state that it's overriding state and local government initiative, we think that will change the way in which Representatives and Senators will vote on some of the legislation that comes before them, rather than hiding behind the penumbra and umbrella that the courts will interpret it later.

Secondly, an express statement by Congress that until the statute is amended to the contrary, that all federal laws and administrative regulation shall not be interpreted by the courts of the United States, nor of any state, to infringe on the capacity of state and local government to perform their basic and traditional functions, unless the Congress has specifically stated that a substantial and overriding national need exists.
Third, an express statement by Congress reaffirming comprehensive protection of the ability of state and local government to issue free from federal taxation instruments of indebtedness, which state or local government fairly and reasonably determine to be for a public purpose to promote governmental or enterprise functions.

I think you are all aware of the fact that pending right now in the courts are litigation concerning this so-called private purpose/public purpose bonds, in which Congress is now taxing "private purpose bonds as alternative minimum tax" under the Tax Reform Act of 1986. The time has come for the states to be able to determine what is a public purpose for their own justification and for their own needs.

I have pointed out, and I have left before you an article for each of you on your desk, about public/private development as a major source of revenue in the states today. Public/private development, such as you see in Battery Park City, Dallas Area Rapid Transit; University Systems, they are happy to work with Governor Kean's office in New Jersey, on the whole regional transportation corridor system and a new state plan to develop corridors of development which will economically create income for the states.

What is happening now is that the ability to generate that kind of income and revenue is so critically
deprived by the Tax Reform Act of 1986 function on what is private and what is public purpose revenue for states to be able to deal with their own problems: protecting the environment, creating new jobs and growth and corridors, protecting open space, revitalizing existing cities.

Fourth, an express statement by Congress that federal grant programs shall not be deemed or authorized to impose regulations on state and local governments, except for conditions to grants which have a direct relationship to the program being funded.

Such condition shall be expressly required by Congress in the enabling legislation authorizing the grant programs, and not by federal administrative regulations or by legislation separately appropriating the funds for that grant program.

Many of you are aware of the terrible decision that came down in 1985, Lawrence County versus Lead-Deadwood School District, which said that in South Dakota, a statute regulating local government spending of federal funds under the payment in lieu of taxes was void, because they didn't have the permission of the Congress.

Fifth, an express statement by Congress that substate regional and local units of government, which have been declared to be persons subject to liability under the Constitution under Section 1983, are also entitled to the
privileges and immunities of citizens of the United States, and entitled as persons to seek standing and redress to enforce their rights in the federal courts, which they are deprived of now.

Finally, the establishment of committees on state and local government in the Senate and House of Representatives have enjoyed jurisdiction to review proposed legislation that has significant or adverse effects on state and local government practice or authority.

The committee's role would be to insure the state's role and authority within the federal system. The committee should require that in all legislation which has potential effects on federalism, that a federalism assessment be prepared similar to an environmental impact assessment that would determine the factors necessitating substantial or overriding national need; mitigating and overriding provisions that retain the ability of state and local government to discharge its governmental and enterprise functions; and third, the overall effect of the proposed legislation on the power and responsibilities within the federal system.

I think that if the Congress were to in fact look at the problem, I think that we would be able to deal more effectively with federalism.

Let me conclude by suggesting that the central
premise of the Garcia case was that the procedural safeguards
found in the Constitution are sufficient to protect the
rights of the states. What were those procedural
safeguards?

Well, for one, they were, obviously, state power
originally was their direct election of Senators, federal
judiciary supervision of House apportionment, the direct
primary, the rise of national interest groups, and a host of
other things has weakened the ability of states to deal
directly under the original constitutional premises.

If that's the case, then Congress itself has to
take its hand and recognize the sphere in which the powers of
state and local government can reemerge under federalism.

I would just finally end by hoping, in Jefferson's
words, since Dick Howard, my good friend, has been called the
James Madison of Virginia, let me refer to that other great
scholar of Virginia, Thomas Jefferson: That to protect the
states is the most competent administration for our domestic
concern, and the surest bulwark against antirepublican
tendencies is the heart of the American Constitution.

Thank you very, very much.

(Applause.)

CHAIRMAN SUNUNU: I assume those antirepublican
tendencies is republican with a small "R," is that correct,
Professor Freilich?
Governor Busbee.

GOVERNOR BUSBEE: In my eight years as governor of Georgia, I had the opportunity of attending eight of these winter meetings, and I might say that I am enjoying this ninth appearance most of all, because this time I really don't have to raise back home, as some of you, to a legislative session. If you notice Governor Joe Frank Harris looking at his watch, Georgia General Assembly is in session and they don't rest on the Sabbath, so I know what you are going through.

But there is another nice thing about addressing the governors as a former governor. You can say some unpleasant things concerning the country without worrying too much about how you are quoted or how some member of Congress is going to react. And, in addition, you don't have to vote on all of these resolutions and policy statements that we have each year.

In any event, it is great to be back, and if in the course of my remarks I occasionally forget that I am from the private sector and say "we" when I should be saying "you," I hope you will forgive me.

I do want to express my appreciation to Governor Sununu for asking me and former Governor Dick Thornburgh of Pennsylvania to serve on the the NGA advisory committee on federalism. But, most of all, Governor Sununu, I want to
thank you for making the overall relationship between the federal government and the states -- legally, constitutionally and politically -- a priority issue once again.

I will remind you, however, we had the same program with the same title as Cecil Andrus and Jim Thompson, some will remember in Denver, when a federalist came in and threw eggs and hit two governors. But I thank you.

As some of you may remember, this association, in close consultation with the National Conference of State Legislatures, conducted something of a grand experiment from 1980 until 1982. Without abandoning our interest in the state level initiatives, or our day-to-day lobbying activities on federal-state programs, we sought to make a fundamental change in the way our various levels of government cooperated to deliver domestic government services.

Governors and legislators unanimously agreed on a common agenda of reform designed to clarify primary domestic responsibilities among the levels of government, to provide flexibility, to provide accountability, in those areas of government where all levels must be simultaneously involved, and to build these principles of federalism into the daily routine of Congress and the Administration and right back into the United States Constitution.
In 1982, President Reagan focused the nation's attention on federalism issues in a manner that was very fortunate in the short run, but was very unfortunate in the long run. In his now-forgotten State of the Union address that year, the President not only made improving federal-state relations his top domestic priority, but also recognized that the key to improving these relations was what former Governor Bruce Babbitt called "unscrambling the amorphous omelet" of American government.

Instead of simply asking for a one-way shift of responsibility from Washington to the states, the President actually proposed an increase in federal responsibilities in at least one area -- indigent health care -- in exchange for state and local assumption of other responsibilities.

The President's so-called "swap" proposal was a long way from what we the governors and the legislators suggested, which included complete federal assumption of income maintenance programs. But at least it adopted the principle that reducing divided responsibilities for domestic government functions was a critical objective of federalism, not just decentralizing programs to save money for the federal government.

That was the good thing about the President's 1982 speech.

The unfortunate thing was that henceforth the
press, with the exception of David Broder and Mr. Pearce, the Congress and the American people assumed that the word "federalism" had been copyrighted by President Reagan, and that federalism was an issue which would rise or which would fall forever with the success or failure of the President's proposal.

Of course, the President's proposal failed. After extensive negotiations, governors and state legislators concluded that even we could not reach agreement with the President, mainly because the Administration was not truly willing to federalize income maintenance programs.

I recite this ancient history because it explains why it has taken so long to revive federalism as a serious concern, even in this association, and to be very blunt about it, why even now many state officials are somewhat embarrassed or irritated by the whole subject.

There was an almost tangible sense of relief in many quarters when negotiations with the President failed and the Administration instead began to pursue budget proposals that clearly damaged the fiscal positions of the states.

The federalism campaign increased tensions between the state and the local officials, since our "sorting out" the agenda inevitably meant eliminating the direct federal-local relationship built up during the 1960s and 1970s. With federalism dead as an issue, state and local
officials could again happily join forces in fighting to hold
on to federal grant money regardless of the recipient.

The federalism campaign was a strain on many
Democrats, because they found themselves aligned with a
Republican President and Republican Senate. With the issue
dead, the natural spirit of partisanship could reemerge.

Federalism as an issue clearly strained
relationships between the governors and their delegations in
Congress, who viewed the concept of eliminating the
grant-in-aid approach to domestic government as a direct
assault on their ability to demonstrate service to
constituents. With the issue dead, the state officials could
return with a good clean conscience to the old practice of
expecting Congressmen to bring the bacon home.

And finally, the federalism agenda placed the
governors and the legislators in a very visible posture on a
very complex set of issues that the people really never
understood.

Reflecting a fundamental misunderstanding by the
press, most Americans assumed that restoring federalism meant
a one-way decentralization of domestic government, extending
from civil rights to waste water treatment, not a careful
sorting out of divided responsibilities or a protection of
local autonomy and clearly local matters. With the issue
dead, state officials no longer had to explain to the press
corps what a categorical grant was or what preemption meant.

All those same considerations -- partisanship, state-local relations, and the desire to get along with Congress in simple home state politics -- undoubtedly make many of you today reluctant to reembark on an uphill effort on the federalism issues. To the extent that you are willing to deal with the federalism issues, I suspect there will be a tendency to adopt the least controversial approach or address those issues farthest from the heart of federal-state relations.

My job today would be a lot easier if I could go along with these natural tendencies, to treat federalism as a long-range educational process and suggest an approach that would not upset the national political parties, the Congress, local governments or the press; or even risk misunderstanding, but I won't.

I will instead suggest that the case for a dramatic controversial high-stakes federalism campaign is much more compelling than it was in 1982, and I will argue that only fundamental constitutional reforms will suffice to make a real difference. From a purely defensive point of view, states are in the most vulnerable position in our history in their relationship to the federal government; the reason is quite simple.

Those areas of domestic government we share with
the federal government remain most at risk in the continuing federal budget crisis. Our legal and our political defenses against abandonment of federal responsibility have just been systematically stripped away.

In the autumn of 1982, in the wake of the collapse of our federalism campaign, I submitted a report to the NGA's Executive Committee called "December of Decision," analyzing the vulnerability of states in view of the federal budget crisis. The thrust of the report was that indexed entitlements, pre-contracted defense spending, and built-in limits on federal revenues made it inevitable that states would have to pick up a much greater share of the burden of domestic government without the new revenues necessary to sustain that burden.

My secondary objective was to show that any deal states were able to cut with the federal government on sorting out domestic responsibilities might look pretty good compared to the alternative, which appeared to be a one-way dumping of responsibility accompanied by a federal raid on state and local revenue sources.

This somewhat pessimistic report concluded with our observation that before too long the federal government's function might, by budgetary arithmetic, be limited to national defense and the mailing of benefit checks to the elderly and to their doctors.
And, so far, my predictions have been wrong, but I will tell you why.

Since 1982, we had two major tax increases and an enormous economic recovery. These factors shored up the federal revenues to some extent; but, more importantly, we assumed that the annual federal deficits, any much over $100 billion would simply proved to be intolerable to the financial community. Instead, we have been able to run deficits over $200 billion because we have given for ign investors a second mortgage on this nation's economy.

Finally, I think we overestimated the ability of Congress and the Administration to make even the most obvious decisions on budgetary priorities. Through across-the-board cuts, asset sales, and cooking the books, the federal government has somehow avoided making any real decisions of domestic priorities, and that has kept the hammer coming down squarely on programs administered and partially financed by the states.

But let me tell you, the basic trends are still there, and the federal government is simply running out of ways to avoid a final crisis.

When that crisis occurs, there's no question which part of the federal budget will suffer. It won't be the indexed entitlements, and it can't be def ns beyond a certain point. It will have to be the "controllables" in the
budget, over half of which flow to the state and to the local
governments.

States are in a worse position to help the federal
government balance this budget than ever before. From a
legal and from a political point of view, state and local
revenue sources are now completely exposed to federal
taxation. Among excise taxes, we are now concerned to a
child's portion. Eventually, in the next tax bill, or the
one after that, tax-exempt bonds and deductibility will b
gone, and there will be no such thing as a recognized state
revenue source.

Accompanying increased pressure for budget cuts
and the raid on revenues is a massive trend towards simply
requiring state and local governments to pursue federal
policy with no funds at all.

You know, in 1982, the term "unfunded mandate" was
virtually unknown, and now it's a constant preoccupation for
state officials.

If I was gloomy in 1982 about the implications of
the federal budget crisis for the states, I am a lot gloomier
now, in part because it's clear that nobody in Congress could
care less about these trends as they affect states, and that
means that defending the states' fiscal position through
interest group-style lobbying on Congress can really
accomplish little more than delaying the inevitable.
You can't protect revenue sources, resist unfunded mandates, and prevent dumping of federal responsibilities through the slow bleed of cuts or the dramatic blow of abandonment. You can't do these things successfully all at once in the current political climate in Washington. And even if you win this year on one or two issues, you will lose next year on four or five.

From a defensive standpoint, even if it's only a tactic to get the attention of Congress, you will have to return to the "big picture" approach of restoring federalism, and restoring it permanently in the Constitution of the United States.

And there is a more important reason to return to the federalism agenda. It's no mere coincidence that the abandonment of federalism principles has coincided with a virtual paralysis of federal domestic policymaking. The inability to determine the federal government's job in the overall scheme of American government is at the root of the inability to set priorities within the federal budget.

Just think about the last two years. At a time when the federal government is battling escalating deficits and out-of-control entitlements, what have the really sexy, domestic issues been in the Congress? Two years ago it was drug prevention, last year it was welfare reform. This year it's looks like it's going to be rural economic development.
Most of the presidential candidates are spending a good deal of time proposing new federal education programs: criminal justice, welfare, economic development and education -- four areas in which every single bit of progress over the last decade has been made at the state and at the local levels.

Yet with the federal budget running out of control and the country teetering on the edge of a financial crisis, the response of the federal government is to create new federal initiatives in all of these areas with little more than a grudging recognition that the states are involved in these matters as well.

My friends, this should frighten you, not just as governors, but as citizens. And until we retain and get back some sense of where the federal government fits into our overall system of domestic government -- and that means restoring principles of federalism -- I, for one, see no way out.

From the state point of view and from the national point of view, we need a return to the debate on federalism, no matter how hard or how frustrating that it might be, and no matter how distracting it can be from the day-to-day concerns of governing states and lobbying Congress.

As governors, the abandonment of federalism, in conjunction with the federal budget crisis, may very simply
overwhelm you before too long, by way of new domestic responsibilities and dwindling revenue sources.

As Americans, you owe to the country to demonstrate that there is a better way to govern than through an incoherent, constantly shifting kaleidoscope of problems and responsibilities determined by nothing more than political expediency.

If you make that decision to take the hard route of the federalism agenda, I ask you to think equally hard about the most effective approach. Begging Congress or the administration to pay federalism is, in my opinion, a waste of time.

As individuals, governors are treated with great respect by their own delegations in Congress, or at least by those that are members of the same party. But, you know and I know as a group, on issues which transcend home state politics and constituent needs, the picture is quite different.

In all the years we have been discussing these issues, including the impact of the federal budget on states, the cost of federal mandates and the need for flexibility in intergovernmental programs, what have we succeeded in convincing the Congress to do? There was the General Revenue Sharing program, which was hung around our necks like a political albatross to the date that it was finally
abolished. There was an anemic fiscal note requirement that is honored primarily in the breach. And there were the block grants of 1981, which Congress has been busily restringing ever since.

Oh, now and then, state officials are grudgingly allowed input on intergovernmental programs like highway grants or welfare reform, mainly for the need to help swing some key votes or when the states literally have the expertise that is available. But all in all, governors and legislators are not treated much differently from the National Association of Ball Peen Hammer Producers, except the ball peen hammer producers have a PAC, which you don’t.

Now you think about it. In all of the breast-beating that we have heard in Washington over the last few years about the Congressional budget process, the failure to pass appropriations bills, and the logjam of individual reauthorizations, have you ever heard anyone, even once, talk about the confusion and paralysis that Congressional gridlock causes for state and local governments. Yet states and localities are the ones who actually administer the most federal programs and deliver most federal services. Beyond national defense, foreign relations and federal lands, about all the feds really do is mail checks and write regs.

But, in my experience, the main input Congress and the Administration want from the states in addressing the
imminent collapse of federal policymaking can be summed up in the question, "Where can we cut you next?" I haven't made these observations to indulge in fed-bashing or personal criticism of anyone in the Congress. My aim is simply to convince you that Congress will never of its own initiative enact federalism reforms, by statute or by constitutional amendment.

There is one and only one method of securing the reforms that on paper, at least, is within the control of the states. As a former governor, I am at liberty to come out and say those awful "C" words, constitutional convention. As we all know, we can't even consider that route at present, because one or two constitutional authorities believe that a convention cannot be limited to specific issues or amendments. And we have all been virtually brainwashed into believing that a convention would lead to the reinstitution of slavery or the annexation of Canada. Worse yet, we know that any serious consideration of a convention approach would lead to the cries of outrage and charges that state officials are reckless and irresponsible.

If we petition for a convention without addressing the runaway convention hypothesis, the charges would be true.

The maddening thing is that Congress can lay to rest the fear of a runaway convention any time that it wants...
to by passing a constitutional amendment clarifying the
procedures for holding a constitutional convention under
Article V. Legislation to do so in both a statutory and in a
constitutional amendment form have been kicking around with
the Congress now for over 30 years.

For all the reasons I have mentioned earlier,
ranking from malice to indifference, Congress has not taken
this step and never will unless a convention is imminent. So
decade after decade, state officials alternate between
hesitantly picking up the big stick of a constitutional
convention petitions and suffering horrible publicity and
retaliatory acts, and fighting off pressures for a
convention, thus destroying the one true recourse made
available to states in the Constitution.

Suppose state officials found a way to take off
the "black hat" of a reckless and irresponsible accusation
that we always have associated with the fear of runaway
cconstitutional convention, and place it on the Congress where
it belongs. I have already submitted a proposal to do just
that to NGA's federalism task force and its advisory
committee. Here is a scenario in my proposal.

A handful of state legislators or legislatures
would pass an identically worded petition for a
constitutional convention for the sole and exclusive purpose
of amending Article V to allow for predictable, rational,
democratic, and above all, limited-purpose conventions in the future. The petitions would bar language making them void in the event that they were to be construed by the Congress or the federal courts as a petition for an unlimited convention.

Prior to state enactment of such petitions, the governor and the state legislative leadership would issue a statement making it clear that the only purpose of this effort is to forever lay to rest the possibility of a runaway constitutional convention, preferably through a Congressionally initiated constitutional amendment clarifying Article V. Additionally, the statement would announce a determination to oppose ratifications of any constitutional amendment resulting from this effort other than an amendment making safe, limited, conventions possible in the future.

The statement accompanying the petitions would be all-important. It would cast a spotlight on Congress' failure all of these years to close off the possibility of a runaway convention, and make it clear that the current petition drive can be easily stopped by Congressional action.

The statement of intent to oppose ratification of any other constitutional amendment would serve two purposes. First, it would deter the Congress from reacting to petitions for passing an amendment eliminating their entire state
initiation convention process; and second, it would provid a final safeguard against the extremely remote contingency that the petition effort could result in an unlimited convention.

Let me stress that last point. By my count, there are at least six enormous obstacles to the possibility of an actual unlimited convention if my approach is utilized. And all would have to be overcome.

First, 2/3 of the states would have to enact the petition, which isn't necessarily our aim.

Second, the courts would have to agree with the one or two authorities who suggest that even identically worded single purpose petitions cannot limit a convention; that is unlikely.

Third, the courts would also have to ignore the petition language making the petitions void in the event a limited-purpose convention was held unconstitutional. And that's unlikely.

Fourth, the Congress would somehow have to call a convention without spelling out procedures for limiting amendments. That's so unlikely from a political point of view as to be almost impossible.

Fifth, the Congress would have to pass up its window of opportunity to prevent a runaway convention by its own amendment clarifying Article V. That, my friends, would be political suicide.
Sixth, states would presumably have to lecture and send delegates to the convention. I submit that not one of you, or your counterparts in the legislature, would allow that to happen unless delegates signed an oath not to enact any amendments other than the one relating to Article V.

Assuming that all six of these obstacles were surmounted, and an unlimited convention was actually held, it would have absolutely no effect on our Constitution unless its amendments were ratified by 3/4 of the states. That is why it is important to announce at the very beginning that this will never, ever happen.

In other words, this proposal carries seven major safeguards against a runaway convention. That should be enough for anybody other than those with a neurotic fear of state governments, and I trust that you are not among that group. If this strategy is adopted by a few states, there would once again be a flood of horror stories about runaway conventions, but for once, the villain would be the Congress and state officials would be among the accusatory chorus.

There are really just two likely outcomes to this effort. The Supreme Court would hold that a limited-purpose convention is possible so long as the petitions are simple and clearly lay out limited issues, in which case you achieve your objectives. Or, if the Supreme Court rules otherwise, or refuses to hear the cases, then at worst, the dormant
momentum in Congress to clarify Article V would be given enormous impetus.

Either way, this effort would almost certainly lead to a clarification of Article V and would regain for the states the power to initiate constitutional amendments without the involvement of Congress. The long federal monopoly would be broken.

What, you might ask, would be the hypothetical ability of states to initiate constitutional amendments? What would it do for you? In my opinion, it would do a lot. First of all, if future Congresses and Administrations are aware that states have a last resort method of disposal to go around the feds and to build their concerns into the Constitution, then our friends in Washington might be less inclined to treat you like the ball peen hammer people. Having one ultimate avenue for securing reforms will create other avenues. That's an important point to remember.

In previous discussions with governors on this topic, I have been told that this approach would endanger your ability to work with Congress on a day-to-day basis, on day-to-day concerns. The same argument was made against our federalism campaign a few years back. Realistically, on individual state matters, there’s not much you can do other than attack members of your delegation by name to destroy your working relationship with Congress. Your delegation
needs you to find out the impact of each vote of your constituents.

And on the issues that transcend constituent matters in your own delegation, Congress isn’t really working with you anyway, so what do you have to lose? What you have to gain is a working relationship built on mutual respect, not grudging, half-hearted indulgence now and then.

The other thing you gain by creating a constitutional avenue for reform is a constitutional avenue for reform, if that proves necessary. Governor Sununu has suggested adding to the 10th and 11th amendment the words, “and this time we mean it.” Protecting state and local revenues from debts of federal taxation is another issue that would be highly appropriate for constitutional amendment if necessary.

Again, think about the overall trends in funding for federal/state programs, in unfunded mandates, in budgetary confusion, and in the seizing of revenue resources. For defensive purposes, you may need the ability to initiate or at least threaten constitutional amendments to reverse or stall these trends.

But there’s another reason you should consider this approach, and again, it’s for the country, not just for state government. Think about what happened after the stock market crashed last October, which quite literally shook the
whole world. The whole world was begging not so much for a
deficit reduction as for a sign that the Congress and
President could make some kind of decision on federal
priorities. Now, judge for yourself whether the deficit
reduction summit accomplished that goal, even under the
threat of worldwide financial catastrophe.

Think about all the recent retirement
announcements in Congress and the torrent of complaints that
the federal government had achieved gridlock. Judge for
yourself whether anything is likely to change during an
election year, or by those that are elected.

We are about one recession away from a complete
breakdown of domestic government in this country. We may
need a safe, rational, and limited-purpose constitutional
convention to break this gridlock, sift through the blue
smoke and the mirrors and restore a sense of order and
accountability in the American government. I think we need a
convention to sort out federal, state and local
responsibilities constitutionally. You may think some other
approach is the way out of this morass, but let’s not deny
the country that option, particularly when the step needed to
restore it would also forever prevent the calamity of a
wide-open convention and constitutional crisis.

My particular proposal is drafted to be fail-safe
from a constitutional point of view and to place state
officials in the best light politically. But I recognize
that the "C" words frighten people. When you explain that
eliminating the bogeyman of a runaway convention is precisely
what you are aiming at, some will just cover up their ears
and say "Unclean."

I don't ask the association to adopt this
proposal, and I don't expect a rush to implement it. But I
do hope there are just a few of you who will consider it long
and consider it hard, a few who out of frustration, far, or
just simple concern for the future of your state and your
country will weigh the benefits against the risk and act
accordingly.

Thank you again for permitting me to be here.

(Applause.)

CHAIRMAN SUNUNU: We will open it up to some
questions and discussion amongst the panelists and amongst
the governors. I will take a few questions to do that.

DR. FREILICH: Let me just suggest that I think
one of the things that's very critical today is the
recognition that both the Congress and states have to act.

So in response to Governor Busbee's proposal, if
the Congress has to enact legislation in any event to clarify
Article V of the Constitution, why can they not adopt
legislation to directly deal with the federalism issue the
same way that home rule between state and local governments
has dealt with it.

I think the critical point is you have got to get the Congress and the representatives in the Congress to recognize they also recognize the states and local government, and that this is a fundamental area for them to deal with. I just don't think it's a question only for the states to consider; I think it's a joint responsibility, and we have to make Congress recognize that responsibility.

CHAIRMAN SUNUNU: Dick.

DR. HOWARD: Mr. Chairman, my comment would be by way of emphasizing to this association and its members the need to proceed on several tracks at the same time. The awareness that there's no one tactic which is bound to work, and therefore one should be probing as a good army does on many points to find where the weak points in the opposite lines are.

Let me cite, by way of example, the history of the women's movement in this country; namely, the Equal Rights Amendment proposed, I believe, in 1971, of course, failed. In the meantime, while the country was debating that issue, the Supreme Court in Fourteenth Amendment decisions, and Congress acting under the Commerce Clause of Section V of the Fourteenth Amendment, created an enormous body of law dealing with gender discrimination. In 1971, it probably was hard to see which one of those areas would prosper the best. We now...
can look back on it and see which did, in fact, work.

I would argue that while one is considering the merits of a proposal such as that of Governor Busbee's, that the association, the states, and those who care about federalism consider very actively ways in which tactics in the courts, despite -- notwithstanding Garcia -- preemption cases, burden on commerce cases, section 1983 cases, institutional reform cases and so forth, can produce a body of federalism law, and, of course, ways in which you have pointed out yourself in which acts of Congress, and which Bob Freilich has pointed out, acts of Congress might be helpful.

CHAIRMAN SUNUNU: Thank you very much.

I would like to thank all three of our panelists for presenting both the tactics and the strategies that we might consider as part of those parallel efforts in our deliberations over the next few months, and I am certain that what they have laid out here is going to be a very important part of the considerations we give. Thank you all for being here.

(Appause.)

CHAIRMAN SUNUNU: It was two years ago at this winter meeting that Governor Alexander asked me to begin a federal assistance review project and make some recommendations to the Administration for changes in rules and regulations that could make a difference for state
governments. Both the President and Jim Miller, who is now
the director of the Office of Management and Budget, mad
this a high priority.

I am pleased to welcome him here today to talk to
us about those initiatives, and to give us the
Administration's response to the proposals we made. And,
before he leaves, to make sure that he takes from us our
suggested reforms that we make under phase 2 of this effort.

Jim?

MR. MILLER: Good afternoon, I am Jim Miller, I am
from the federal government, and I am here to help you.

Yes, we can laugh now, it's safe. It wasn't so
long ago that such an introduction would have inspired stark
terror, perhaps well-deserved contempt on the part of state
government officials. But I think this has changed; together
we have changed it. Together we have forged a more effective
and harmonious working relationship between state governm nts
and the federal government. Working together, we can do
more.

You came to us at the start of the Administration
and told us about the problems you had with federal-state
relationships, and the Administration responded. In July of
1981, President Reagan said this to the National Conference
of State Legislatures. I quote: "For too long, the federal
government has preempt d the state's tax base, regulatory
authority and spending flexibility. It has tried to reduce
the states to mere administrative districts of a government
centralized in Washington."

Now, the President promised a federalist
revolution to reverse this trend. He has made good on his
promise; at least I think so. A month later he signed into
law the Omnibus Budget Reconciliation Act of 1981, which
established nine new block grants consolidating 57
categorical grant programs.

As a result of this consolidation, we were able to
eliminate over 90 percent of the paperwork burden associated
with these programs. Another block grant was established the
following year, bringing the total to 10. Also in 1982, the
President issued Executive Order 12372, entitled
"Intergovernmental Review of Federal Programs."

This order requires that federal agencies
accommodate the recommendations of state and local
governments on proposed federal actions that affect them, or
explain why they cannot accommodate the views of the states
and local governments. A more recent executive order, number
12612, "Federalism," establishes a process whereby each
agency must give due consideration to federal issues in their
legislative and regulatory proposals.

The Office of Management and Budget has taken an
active role to make sure that this executive order is being
carried out, and the state and local concerns are given a full and fair hearing. About 25 agencies have identified their own federalism personally. The Administration has also reviewed 80 recommendations from the National Governors' Association to reduce federal administrative burdens on state and local governments. I will return to this in just a minute.

At this point, I would like to turn from the big picture to some of the details. I understand you have some questions about OMB circulars A-87 and 102, so I would like to clear up as many as I can right now.

Let me begin with the so-called A-102 rule that 24 agencies will issue on March 11, just three weeks away. A-102 is the OMB circular prescribing "uniform administrative requirements for grants and cooperative agreements with state and local governments."

Now, the revision in A-102 is a prime example of now the National Governors' Association and OMB have worked together to cut red tape involving the administration of federal programs. Now, we undertook this task at the suggestion of state and local governments, who began their work in November of 1983 by organizing a 20-agency task force under the President's Council for Management and Improvement. Imagine managing a task force representing 20 agencies.
Now, this task force was given instructions to streamline the management of grants and to revise the circuit. In the following summer, that's June 1984, OMB published a notice in the Federal Register requesting comments on over 50 policy issues and possible options for each one. Federal agencies, states, local governments, interest groups, business organizations, nonprofit organizations, and members of Congress submitted comments. In the end, we had hundreds of comments to sift through.

Now, the National Association of State Budget Officers, in conjunction with NGA, responded by surveying all 50 states and sending us a very thorough and well-balanced set of recommendations on each of the policy issues we raised.

With your help -- and I especially want to acknowledge the insightful comments of Governors Sununu, John Sununu, Gerry Baliles and George Mickelson -- we drafted a single governmentwide rule to replace the jumble of agency regulations, manuals, handbooks, that existed under the old circular A-102.

This new rule will rescind all grants -- I hate nouns as adjectives, don't you -- grants administrative provisions and regulations that are inconsistent, except to the extent they are required by law or for some other compelling reason have been specifically approved by OMB.
Now, this new common rule, that again will be out on March 11, should greatly simplify your administration of federal grants.

First, states will no longer have to follow detailed federal standards in three management areas: Financial management standards, equipment management and procurement.

Instead, state agencies will follow state laws and procedures, rather than juggling two sets of rules, one federal and one state. In effect, your rules will be our rules. You can't ask much more than that, can you?

Federal auditors would check to make sure that you are following the rules laid down in your respective state capitals, rather than rules devised by, say, the Environmental Protection Agency or the Department of Education.

A second area of significant change deals with administrative requirements for subgrants. The new rule will permit states the freedom to condition and manage subgrants. This means that when local governments and Indian tribes receive direct grants directly from the federal government, they will continue to follow federal administrative requirements. But when they get federal passthrough grants administered by the states, they will be subject to state administrative requirements.
Now, when circular A-102 was first issued in 1971, uniform federal rules for local governments made sense, because there were more federal programs than state programs assisting local governments. This is no longer the case. Local governments today receive five times as much aid from their respective state capitals than they do from Washington.

Furthermore, as a result of consolidation of so many federal programs in the block grants, state governments play a determining role in the administration of the remaining federal grant programs.

Let me turn to circular A-87, "Federal Cost Principles for State and Local Governments." The news here is not quite as good. We are not nearly so far along on this rule as we are on A-102. But let me brief you where we are and where we are going. Circular A-87 is about 20 years old and provides uniform cost accounting rules applicable to about $115 billion -- I said billion, billion dollars -- in contracts for state and local governments. It defines allowable costs for federal assistance programs and sets forth the procedures to recover them.

Before this circular was issued, each federal agency had its own set of cost principles, that is, rules as to what costs the states could incur. But there wasn't any consistency among these various cost principles. This caused
endless confusion for grantees who had to deal with a
different set of rules for each grant. Doesn’t sound lik it
makes any sense to have it this way, does it?

The circular was intended to simplify matters by
unifying the rules allowing the states to follow their own
procedures as far as possible. A number of states have
expressed the view that A-87 needs to be revised and
simplified some more. In particular, they have urged that
greater reliance be placed on state cost accounting and
auditing practices; at the same time, we have some federal
Inspectors General telling us that the language of the
circular should be strengthened or tightened so as to require
stricter accounting and reporting of the use of federal
funds.

So we are kind of caught between these two
influences. OMB’s job, as I see it, is to reconcile thes
two positions to develop a circular that will enable federal
agencies to discharge their stewardship responsibilities and
at the same time rely on state practices and procedures to
the fullest possible extent.

As part of our review of A-87, we invited NGA and
other state and local government organizations to provide us
with suggestions for improving the circuit. You responded
with som very innovativ ideas, including a proposal for a
10-state pilot program to t st alternatives. Your id as
deserve serious consideration. I and my staff look forward. Wendy Graham, as you know, is director of the Office of Information and Regulatory Affairs, will be leaving this coming week to become chairman of the Commodities & Futures Trading Commission, but her successor, I assure, will be anxious as soon as confirmed to follow up on this. We look forward to working with you on A-87.

I would also like to mention another important issue we have under way in the area of cash management. Through a joint state/federal task force, we are working on a system that will insure efficiency and equity and will deliver more than $100 billion from the federal government to states. Studies have shown there have been abuses at this federal level as well as the state level in the transfer of funds to state. In order to provide incentives for better cash management, this task force has proposed legislation requiring that states be charged interest on the federal funds from the time they receive the funds to the time the recipients' checks clear the state's banks.

Likewise, the federal government will pay interest when state funds are used for federal assistance payments. OMB supports the goal of this task force in working with the states to realize these goals.

Before I conclude, let me return to the 80 recommendations that John mentioned a moment ago that you
made to us for reducing administrative burdens on state and local governments.

We reviewed these recommendations carefully and selected 47 of them for further action.

The basis for our selection was a two-fold criteria. First, these proposals should be revenue neutral. Second, they should lend themselves to administrative solutions that could be implemented fairly quickly.

For the past 16 months, we have been working with federal departments and agencies to put these recommendations into effect. The Administration has prepared a final report for presenting to you at this conference, and each of you will receive a copy of this report, so you can see for yourselves how well we followed through on your recommendations.

I understand, though, that while I came here to distribute a report -- that's my good news -- I will not be leaving empty-handed. Governor Sununu, who was an early supporter of our federalism effort, who assisted us and spurred us on to greater heights, has something for me. I am told that after I present you with OMB's report, he will be presenting me with 160 additional NGA recommendations.

I can see it now. John steps up to me with a pile papers in his hand and says, "Hi there, Jim, I am from the state capital, and I am here to help you."
Talk about poetic justice.

But seriously, we don't mind. This is the kind of work we like sinking our teeth into. We appreciate the contribution that all of you have made in compiling this new set of recommendations.

In conclusion, let me say that while we have achieved much working together, there's much more to do. The other day, Governor Sununu and I were talking and he told me that we are just scratching the surface. I think he has a point. There's a lot more out there that needs to be done, damn it. It has got to be done. It's hard to do. A lot of it requires legislation. A lot of it requires Congress' working with you and with us to make these changes.

We are going to try to do more than scratch the surface. But at the same time, there's no question in my mind that our federal system, and by that I mean our system of shared power between the federal and state governments that our founding fathers intended, is healthier today than it has been in years.

Now, John Sununu is governor of New Hampshire, the state that produced the great American statesman and orator, Daniel Webster. Legend has it if you approach Daniel Webster's resting place on a stormy night, you may hear his majestic voice asking, "Neighbor, how stands the union?" If you do, you are supposed to make this reply: "The union
stands as she should, rock bottom and copper sheathed, one
and indivisible." Otherwise, old Daniel is liable to rear
right out of the ground. Daniel Webster can rest easy; we
may not have solved every problem involving federal-state
relationships, but working together we have solved a good
many.

Our union, our federal union, is strong, vital and
flourishing. Let's keep up the good work.

Thank you very much.

(Applause.)

CHAIRMAN SUNUNU: Thank you very much, Jim.

I do have that package of 163 recommendations. It
is a coalescing of over 400 recommendations that came from
the states. We are here to help you, but we also appreciate
the fact that you have come to help us, and I think this
cooperation, as it continues, is going to make a very big
difference. Thank you very much for joining us today.

MR. MILLER: My inventory is too large. Let me
give you mine before you give me this one. This is our
report on what we have done with the 80 recommendations you
gave us some time ago, and we have addressed 47 in there. I
think we are pretty far along with them, but we look forward
to getting to work on these.

CHAIRMAN SUNUNU: Thank you very much. We have
time for one or two very quick questions, if there are any.
GOVERNOR SINNER: Jim, I was with John Sununu at the lengthy meeting at the White House when many of these issues were laid on the table, and I appreciate your courtesy and your extensive work on it.

I suspect, as Governor Busbee has pointed out, that we are continuing an age-old process that will have to continue as long as there are states and as long as there is an union.

To bring it to a specific issue that is not in the book, the Guaranteed Student Loan Program, part of the deficit reduction agreement between the Congress and the Administration provided for a recall of reserves in the Guaranteed Student Loan Program. The recall has already been very damaging. One state has already discontinued guaranteeing. Many of the states that have had money recalled are in danger of jeopardizing contracts with their states. What do you see, can you stop this process, can you revert it?

MR. MILLER: Well, no -- look. When we sat down in that room, actually there were two rooms, we went back and forth from Senate side to the House side. We spent 20 days and 20 nights trying to work out a deal; half the time that Noah spent on the Ark were there. And it was tough, it was very tough. I remember one afternoon, the day before the
agreement was concluded, that we worked for five hours trying
to find $1 billion in entitlements savings. I brought a list
that had 28 items on it. Every time I would read an item,
somebody would step up and say, no, we can't do that.

We also, in the Administration, offered $1
billion, a carrot, we would match this reduction with $1
billion in revenue. But it was not possible after five hours
to find another $1 billion reduction in entitlements
programs; that totaled almost half the budget, over $500
billion, couldn't find $1 billion. It was very difficult to
do. There was an agreement over the Guaranteed Student Loan
reserves, a feeling that it could be done, that the reserves
were excessive, they could be called back.

It was a one-year deal. Doesn't go into the
second year, '89, just '88. I would be glad to go back and
look at how we are administering and carrying that out, see
if there are ways in which we can minimize the adverse impact
of that. But let me say I don't think it's likely to b
changed for this year.

GOVERNOR SINNERS: Doesn't the Congressional Act,
though, cover three years?

MR. MILLER: The savings are all in a single
year. If the Act goes through following years, there's
something different from what Congress agreed to. I will go
back and look at the reconciliation package to see.
Remember, we had such a small amount of time window to look at that thing, but I will look at it again.

CHAIRMAN SUNUNU: Last question, Governor Clinton.

GOVERNOR CLINTON: Mr. Miller, I would like to make three points, very briefly because I know we are late. First of all, as a Democrat, I would to thank you for your interest in this. I think the Administration has genuinely tried to be aggressive in this area.

MR. MILLER: Thank you, sir.

GOVERNOR CLINTON: But I would like to make two points. Number one, I hope you will have someone review these case studies Governor Sununu gave you very closely. We have two big problems there, programs which are essentially programs, but under different Congressional committees wind up with conflicting regulations that would drive us nuts, that you can at least help us with.

Second is, some of these regulations just don't make any sense and defeat their own purpose, particularly in the human service areas. And there is one in my state which is highlighted in the outline.

Second thing I would like to say is, I think the administration should review its process for trying to give us relief. Let me just give you one example. I don't want to harp on this and bore my colleagues any more. It took us
two years to get rejected for a waiver under the welfare
reform proposal. That's not important. What is important is
what happened.

When we first submitted the application two years
ago, this month two years ago, we were advised by th
Administration we ought to ask for a more expensive M dicaid
waiver, that is, we should spend more money. We should get a
more expensive Medicaid waiver. So we did it. Then when we
finally got rejected, we were rejected on two grounds, one is
that our program wasn't revenue neutral, because the M dicaid
program was too expensive. The second was on a ground I
won't bore you with, but it had to do with randomization of
selection that had not been mentioned to us in two years of
back and forth about this.

So I think if we could somehow meet and try to
resolve the process so that no one thinks there's any
politics involved in it, it would really help, because it
drives you nuts. I don't mind being turned down, but I hav
to know what the rules are, so I can come back and play on
the field again.

MR. MILLER: Let me say two things. Number one,
please tell me who told you to go for a bigger Medicaid
package, because --

GOVERNOR CLINTON: I have all that; HHS did. I'll
give you the record. The point is, if you are going to give
waivers, there has to be a process that's timely and fair and everybody knows what the rules are.

MR. MILLER: You are absolutely right. I hope you will come back with another one.

GOVERNOR CLINTON: I will.

MR. MILLER: Let's follow it through. These things are good government issues, they are not Democrat, Republican, conservative, liberal. They are the kind of things I think a very broad variety can agree on. Paperwork that's excessive makes no sense. Conflicting rules make no sense. Processes that people don't understand make no sense. We want to work on this with you.

GOVERNOR CLINTON: Thank you.

CHAIRMAN SUNUNU: Thank you very much for both your cooperation in the past and what we expect will be a continuation of that.

Couple of quick items. Number one, rules of procedure, I want to remind the governors that these rules require that the governors and the committees that intend to offer proposed policies that were not included in the required 15-day advance mailing must give notice and provide a copy of their proposal at least one session prior to, or by the close of business on the day before the vote is taken.

So please give a copy of any of these proposals to Jim Martin no later than 5:00 on Monday.
Second, we remind you that a couple of corrections have been distributed to your schedule. But one important one is that the dinner tonight at the White House begins not at 7:30, but at 7:00 sharp. You are supposed to arrange your own transportation back and forth from the White House. Please enter through the East Executive Avenue on the east entrance off of Pennsylvania Avenue.

Third, the White House business meeting with the President tomorrow morning begins at 9:45, and all the governors must travel on the bus which leaves here at 9:15. The two committee hearings that were scheduled after this will begin immediately. This session is adjourned.

Thank you very much.

(Whereupon, at 2:58 p.m., the plenary session was adjourned, to reconvene at 9:30 a.m., on Tuesday, February 23, 1988.)
NATIONAL GOVERNORS' ASSOCIATION

* * *

WINTER MEETING
SECOND PLENARY SESSION

Hyatt Regency Hotel
Capitol Hill
Yorktown Room
Washington, D. C.

Tuesday, February 23, 1988
9:30 a.m.
CHAIRMANSUNUNU: I would like to bring this second plenary session to order. I would like to welcome again my fellow governors and all the guests that are here.

This morning we will discuss a number of issues, including the federalism issue which is the theme of this event at these sessions, but also we will approach and deal with the policy issues that we have to. Two specific ways of addressing federalism that we think will give us a better handle as governors, in terms of the receptiveness to this issue by both the public and another very important part of the public sector, which is the Senate, will be the theme of the discussions of this morning.

First of all, we have with us today two very distinguished gentlemen that make a good living and provide information to those of us who are in public life, out of dealing with public perceptions. The process of polling is an interesting art, it has become a very important art in politics, and virtually anyone who has to deal with public policy ought to pay attention to what public perceptions are on principal issues. We have this morning Dr. Richard Wirthlin who is chairman and chief executive officer of the Wirthlin Group, and Mr. Harrison Hickman who is a partner in Hickman, Maslin, and both of them have agreed to give us a report on the public's perception on federalism.
Dick, would you start it off.

DR. WIRTHLIN: Thank you, Governor Sununu, governors, ladies and gentlemen. Not too long ago a TV cynic said "politics offers yesterday's answers to today's problems." In light of your association's winter theme, "Restoring the balance: State leadership for America's future," it's clear that that simply is not true.

In looking at public attitudes over a period of about 22 years, it's my view that the most important, most strongly supported change and perhaps, yes, the change that will have most lasting consequence in American politics today, is the emergence of state power as a major element on the political scene. What I would like to do, over the next 15 or 20 minutes, is review that development through the eyes of one who reads public attitudes and who will take the Republican perspective. Harrison Hickman will follow, of course, with the Democratic perspective.

In December of 1970, one month after the reelection to his second term as governor of California, Ronald Reagan launched a major program of welfare reform. The lynchpin of that program was to secure from the federal government more flexibility and more state control over welfare programs.

Four years later, when, I should add, the Republican party was at its lowest ebb with less than one out
of five Americans saying they considered themselves to be Republicans, Governor Ronald Reagan left the office as one of California's most popular governors, and established not only a constituency base, but, perhaps more important than that, an agenda for the future that would assist him in the process of becoming the next president of the United States and a key element of that agenda was enhancing the power of state government.

Some progress has been made over these last seven years in expanding flexibility and control of the states. But I am sure, in the President's mind, clearly not enough has been accomplished in this regard. But the idea of expanding the power of the 50 states' governments to give shape and direction to Americans' third century is a powerful idea, and I believe we can demonstrate that it's an idea whose time, in fact, has come.

Let's put that into an historical perspective for just a moment, by examining how people viewed governments and the role between the federal and state governments 50-odd years ago.

In 1936, when survey research or polling was just then beginning to emerge as an element of American politics, and at the end of Roosevelt's Fair Deal term, George Gallup asked a very interesting question: Which theory of government do you favor, concentration of power in the
federal government, or concentration of power in the state
government?

In 1936, 56 percent of Americans said that they
favored concentration of power in the federal government and
44 percent said concentration of power with the stat
government.

On April 23 last year, I reasked that question to
see if there had been any change. We suspected that, in
fact, there had been change. But I was very much surprised
by the magnitude in shift of attitudes.

Last year, when we asked the same question, 35
percent of Americans said they favored that form of
government which concentrated power in the federal government
and fully 65 percent said that they favored concentration of
power in state governments.

This increasing focus by the public on state
government is reflected in a number of ways. For example, in
1981, when the President had been in the Oval Office for less
than two months, he presented to the Congress some ideas
about the future. We tested some of those ideas, and one of
them was tested through this question: We said, we are going
to read you a list of some specific things that Ronald Reagan
proposed to Congress, please indicate whether you approve or
disapprove of that change.

One of those policy changes was described as
follows: Shift more resources and the decision-making authority from the federal to the local and state governments. We found then that 89 percent of Americans approved of shifting resources and decision-making authority from the federal to the state governments.

Why has this change occurred? In part, I believe that the monolithic dependence on Washington generated by the trauma of the Great Depression gave way in the late '60s, '70s and early '80s to a more pluralistic response to the solution of problems. People began expressing a very keen desire, in essence, to conduct their social experiments closer to home, and to try many, many, different kinds of approaches.

Lou Harris, in the mid-1970s, found that by 3 to 1, the public felt that most of the Great Society programs of the 1960s had not worked out. And in follow-up, asked why. The reason given to that failure was simply too much power concentrated in Washington.

To understand the depth of that change, we need to debunk three commonly held myths about state government. The first myth is that people are totally ignorant and bored with their state and local government. The opposite, in fact, is true. A very substantial 97 percent of the American people know where their state capital is located. Half the population has visited their state capital and observed.
firsthand the way state government is conducted, and a good third had visited some other office in state government.

We found that while only about 36 percent of voters know the names of both U.S. Senators from their state, 91 percent know the name of their governor and, interestingly enough, about 81 percent know the political affiliation of their governor.

The second myth is that people really don't understand the various functions to be performed by the state and the federal governments. Again, that is not true.

Drawing again from a Harris study, he asked, what are the two or three most valuable services your state government performs for its residents, again asked in an open-ended, voluntary way. The largest number of people mentioned first education, followed by highways, public health, police protection, law enforcement, welfare, parks, recreational facilities and pollution control.

It's interesting to note that all of these things have one thing very much in common. They impinge upon human existence on a very direct and daily basis.

The popular conception in the role of the state, compared with the federal government, resembles I think the old joke of the husband who said that he was allowed to make all the important decisions in the family, like should we approve INF or line item veto, while his wife made all the
little decisions, like where do we live, what car do we buy, and where do we take our family vacation.

When people were asked what the federal government's major services should be, they were listed as national defense, Social Security and health research including drug reform.

The third myth is that people believe that state governments are both corrupt and inefficient and wasteful. Again, citing a Gallup survey, he asked, of every tax dollar that goes to the federal government in Washington, how many cents of each dollar would you say is wasted? And then asked the same question of both state and local governments.

The public said, in 1982, 42 cents of every dollar spent by the federal government is wasted. For state government, again, that was considerably less at 29 cents.

Additionally, however, people of the United States look to their state governments to provide the single most effective deliverer of services.

Again citing a study done by the Wirthlin Group less than a year ago, we asked this question: I am going to read you some phrases concerning the functions performed at the three levels of government, federal, state and local. For each phrase that I read, please tell me whether you feel the phrase best describes the federal, state or local government.
First, which level has the fairest tax system? 27 percent said federal, 36 percent said the state government; 28, local.

Second, which level of government is prone to discrimination? 31 percent said the federal government; 22, the state; 34, local government.

Thirdly, which level of government is best able to finance and administer welfare? 30 percent said the federal, 45 percent said the state government and 21 percent said the local government.

Lastly, which level of government is most sensitive to my needs? 16, only 16 percent said the federal government; 26 percent, state; but in this case the local government, that is government that is, in fact, viewed as being most close to the people, ranked 50 percent.

The point is, and in summary, Americans are much more informed about state government and state government activities and who runs the state government than they are informed about the national government. Secondly, Americans know what the division of functions are between state governments and national governments. Thirdly, much higher level of confidence in state governments than in the federal establishment. And lastly, and I think this perhaps is most important of all, Americans do look to state governments to provide innovative solutions to the everyday and crucial
problems that they face.

Our American system, operating within the
parameters of a constitution, I believe is by nature a form
of change and never is and never can be stationary. To me,
one observer of what is happening at all levels of
governments, one of the most exciting and I would say
fascinating changes working through our American political
system is the emergence of a new role for state governments;
namely, as the instrument through which not only state but
national policy can be effective.

I wholeheartedly welcome restoring the balance of
state leadership for America's future. Thank you.

(Applause.)

CHAIRMAN SUNUNU: Thank you. Our next speaker is
Harrison Hickman, partner in Hickman, Maslin.

MR. HICKMAN: I want to thank all of you for
having me here and for Dick here. To tell you a little bit
about how this developed, we first got a call from
Governor Sununu's office saying that we would like for you
and Dick to speak on the last day of the conference at 9:30
a.m., and we will call back with the topic. I was worried to
death, and I think Dick probably was too, that they would ask
us to speak about something totally boring and something that
nobody in this room would be interested in, like presidential
politics, so you can imagine how happy both of us were when

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we found out we were supposed to talk about public opinion and the future of state-federal relations.

I will give them credit for one thing. They did not spring it on us all at one time. There were several phone calls, which was nice, and they sort of -- they were stringing us along a little bit about that. But having the two of us here, and not letting us talk about presidential politics, I mean it's one of those things that it can be done, but it's not necessarily pretty to look at. I am sorry he is not here, because I was going to say it's a little bit like having my friend and very good client, Ned McWherter, as a centerfold in Playgirl magazine.

But if I am going to take a Democratic perspective, I do want to say a special word of thanks to Governor Sununu, because one week ago today, he may have done more by pulling George Bush's chestnuts out of the fire to help the Democratic party than anybody else in this room.

I was on a flight to my native state of North Carolina once, about a year ago, to speak to quite an august body, the Democratic caucus and the state legislature ther, and the lady on the plane asked me what it is I did for a living. I told her I was a pollster. She said, honey, you are the answer to my prayers. I have had this sofa and this chair in my den --

(Laughter.)
And I don't know how Dick feels, but I was actually -- it made me realize how little skill is involved in what we do.

But what we try to do is we try to see the world from the voter's perspective, not from the perspective of columnists or from politicians, but we try to bring a sense of the voter's mind to the table, and that's what I would like to do today, much like Dick did, is to try to explain something about current attitudes and to look ahead to what is likely to happen in the future.

Now let's be candid here. I think Governor Hayden would recognize this, that when two friends of mine, Orville and Olive Hoch in Emporia, Kansas, sit down at the dinner table tonight, they are not going to be talking about alternative interpretations of the Tenth Amendment. They are not going to be talking about state-federal relations. This is not something that necessarily rivets people's attention.

What we have here, it's almost a classic case of latent public attitudes. It's not something that people have thought a lot about. As Dick pointed out, they have a lot of information about this, they have opinions on it, but it's not something that rivets people's attention, something they talk about ordinarily. It's something that they talk to pollsters about.

You know, when we have all of these people call,
these interviewers that we have, I like to describe it as an unnatural act with only one consenting adult, and especially in cases of latent attitudes like this, where what you basically have to do is make people think about things they don’t ordinarily think about.

Now, the National Governors’ Conference is very proud, and rightly so, to talk about these results about the levels of government people have the most confidence in, about the power of the federal government, and about what level of government wastes the most money. They are all in this little red book you have probably gotten about the conference.

What they don’t report, however, is that when you put all three levels of government together, and ask people what level of government do you get the most money from, get the most for your money, the money you pay in and services you get out, you might be surprised to know that only on year in the last 20 years has state government ranked ahead of the federal government.

Now, if we had a May Day parade every year and people could see the armaments that we are buying with all the federal money, it would be one thing. But they consistently say both federal and local government is the level of government they get the most for their money from.

How do you explain it? Well, the last few days we
have all been watching Jimmy Swaggart. That's what Orville
and Olive will be talking about tonight at the dinner table
instead of the Tenth Amendment. And so like Jimmy Swaggart,
in times of dire need, I decided that I would whip out my
bible of federalism, which is Terry Sanford's book, "Storm
over the States," which was written in the mid-'60s, arguing
at that time, by the way, that if people were committed to
more government action, that the way to do it was not to
spend the money by creating federal agencies, but was to give
the money to the states.

But in a very succinct little passage, he quotes a
fellow as saying, who was at the White House conference on
education in 1965: What is all this talk about federal money
and state money? It's not federal money, it's my money. I
write the check to the Internal Revenue, it goes in the kitty
to help America. There ought to be no such thing as purse
string power. It all comes out of my wallet.

I think that's where you have to look for an
explanation of all this. That is, you have to look to the
whole notion of what three factors people really care about.
Number one, they care about the input. They have two types
of input in government: They have money and they have
votes. And they care about both of those.

Secondly, they have service, the output from
government. And thirdly, they are concerned about the system.
of government. If you look at the numbers that Dick talked about, the great decline in confidence in the federal government, in 1972, early 1972, 40 percent of the people said that they had the most confidence in the federal government; only 21 percent had the most confidence, of the three levels, in the state governments. After Watergate, those numbers fell to around 20 percent for the federal government and have not recovered.

People do care about the system and they do pay attention.

I think the fundamental problem for states, and why they don't get the -- why, when they are paired with these three forms of government, or paired with the other two basic forms of government, levels of government, people don't necessarily give states credit for the things that they do.

One of the things I would argue to all of you, except in a couple of cases where we are trying to replace you this year, is that you ought to take more credit for the things that your state governments do, because after all, states get to do a lot of good things, and a lot of things people really do care about, things like education, like jobs, building roads, tangible things that make a difference in people's lives.

But states don't necessarily get credit for the things they do. In fact, you know when local government
isn't doing its job. Your garbage doesn't get picked up, you have crime in your neighborhood, you have litter on the streets. People know when local government isn't doing its job. People need to have a clearer view of when state governments are doing their jobs.

Where do we go from here? Well, even though I think some of your staff people -- you may not know this -- refer to this as the "Future Senatorial and Presidential Candidates Association," even though many of you may be thinking about moving to this city at some point in the future, I am not sure it's that good an idea, because states are where the action is. Not only do people have more confidence in their state governments, not only do they feel like the money they spend is wasted less at the state level, but there is an ugly remnant of the last eight years, whether it's Democrat or Republican, we will let others decide, but they have this budget deficit up here.

People are caught in a quandary, because what they would like to have is they would like to have a more active government; they would like to have government more aggressively trying to solve some of the problems they see. But, on the other hand, they are not so sure that the federal government is the place to do it, number one; and number two, they are aware that the federal government probably can't do it.
So who is going to assume this responsibility?

All the data that I have seen, and I think that the data Dick has seen would confirm this, where people want the action is they want the action at the state level, because they understand that most of the problems they want solved cannot be solved at the federal level, they are not sure they want them to; and on the other hand, they understand that local governments don't have the power or the capability of doing it.

So, I think we both end with the same message, which is people want action from their government; people increasingly are looking to state government for that action. And I will end by just pointing out the irony of one of the things that Dick pointed out. I don't think you can hide, because 97 percent of the people know where their state capital is. They know where to come and get you if you don't get the job done. Thank you very much.

(Appplause.)

CHAIRMAN SUNUNU: Thank you, Harrison. I guess hell hath no fury like a pollster scorned. You shouldn't take the New Hampshire voters' commentary on the quality of your polls so personally.

Open it up to questions and discussions. Mike?

Governor Castle.

GOVERNOR CASTLE: Well, for either of the
distinguished pollsters, the President said yesterday, when we met with him, that welfare reform is one of the most pure federalism issues out there in that the states are beginning to do a lot of things to cure welfare reform. In several discussions this weekend, I think we are moving closer and closer to the concept of having the Congress pass a welfare reform bill which will be aimed at what we call welfare reform. For a simple definition, that's basically the education and work training and some of the carryover financial programs to give people an opportunity to contribute rather than draw from the society. Most of the governors have experienced great success with this, where they have tried it, and generally, when you speak about it, it is something that meets great acceptance because it is something which people well understand and seem to bless wherever we go.

Have either of you polled on this, or do you have any thoughts about it in terms of where we are going?

DR. WIRTHLIN: Governor, I think it is clear from the work that we have done, going back to 1968, that if you look at areas where people are most insistent in bringing control and the flexibility back to the state, it's precisely in this welfare area. Coincidentally, the first study that I did for Ronald Reagan was in 1968 in December, and a good piece of that study was focused on this issue of welfare.
r form.

The individuality of the states, the belief that states can administer not only more fairly but more efficiently, is a very strong prime mover in the public support of the state assuming a larger and more direct role in administering welfare.

CHAIRMAN SUNUNU: Questions or comments?

Governor Carruthers.

GOVERNOR CARRUTHERS: Perhaps I misunderstood, but I thought I heard Richard say that state government had the confidence of the people. You indicated some statistics to that nature. Then, Harrison, I thought I heard you say that in the last 20 years only once has state government shown up at the top of your analysis as the one people had confidence in. Did I hear that properly? Was there an inconsistency?

MR. HICKMAN: There are two different questions -- there are actually three questions. Where people are asked to rate the state government, federal government and local government individually, how would you rate your confidence in them? The other is, of the three levels -- and they give only one question -- at what level do you think you get the most money, the most worth for your money? And so there are two different questions. I think what it is is when people think about state government, they have confidence in state government, but when they are compared to other levels of
government, you don't have either the news coverage necessarily of the federal government, and about things the federal government does, and you don't have the direct day-to-day experience with government that you do at the local level.

So in one sense, it's trapped in between. So while there's confidence, it doesn't necessarily stand out in people's minds.

CHAIRMAN SUNUNU: Governor Ashcroft -- I am sorry, go ahead, Dick.

DR. WIRTHLIN: Just another comment. While it is true that if you ask the question, which level of government provides the greatest return on your dollar, the federal government does take a rank 1. 39 percent said the federal government, but 53 percent said either state or local: 23, state, and 30 percent, local. So people do view the return on the dollar on those big issues as being more associated with the federal than with the state government.

CHAIRMAN SUNUNU: Governor Ashcroft.

GOVERNOR ASHCROFT: Yes, I was interested in the comments of Richard Wirthlin about the federal role as being perceived as defense, and then you said something about health. Was it health research?

DR. WIRTHLIN: It is health research: AIDS research, cancer research, heart research, those large
projects for which the states don't have the resources to really conduct the kind of massive research that is needed, at least as perceived.

GOVERNOR ASHCROFT: But it's not health care?

DR. WIRTHLIN: No, it's not health care. There's a big difference between health care and health research, Governor.

CHAIRMAN SUNUNU: Questions, comments? Let me ask one myself. Do you have any data that indicates that the public has any real sense of the different roles of government area by area? Do they have a sense of how much of the highways are built by the state and the federal government or funded by? Do you have any data that shows they have a sense of how much of the health care dollar comes from where, the education dollar and so on?

MR. HICKMAN: In fact, in state after state where we have done surveys, people -- they tend to be really wrong, both too high and too low. For instance, people greatly overestimate the amount of money that states put into state universities, for instance, or the percentage of the state university budget that comes directly from the state. They overestimate that.

On the other hand, they grossly underestimate, in most states, the amount of money that states spend on public education. They are more likely than is really the
case to think that it comes from local property taxes in most cases.

So I think there's a -- what it is, it tends to wash out over -- when you average everything together. But in terms of specifics, people are a little bit confused about it. That's one area where education is -- people of the states really need to educate those people about those numbers.

CHAIRMAN SUNUNU: Any other questions? We thank you both very, very much. We appreciate your coming.

(Applause.)

CHAIRMAN SUNUNU: While we wait for Senator Domenici, why don't we start into some of the policy issues. I think that will make people's travel schedules a little bit easier to handle.

Let me first make some comments relative to policy. The consideration of the new and revised committee policy positions that were sent to you on February 5, 1988, what we have before us today are the committee policy positions plus any amendments made by the executive committee and the standing committees at this meeting as a result of the discussions that we have had.

There is one resolution. Please note that the resolutions can only recognize persons, places or events or support existing policy of the Association. No new policy
will be adopted by means of resolutions, and policies and resolutions require a 2/3 vote of those present and voting.

We will take the policies in alphabetical order by committee with the executive committee last. Where appropriate, as recommended by the chairman of those committees, we will vote en bloc on the proposals of each of the committees unless there is a specific request to pull one of the policies out of the block for individual consideration.

We would ask that the committee chairs move the adoption of their policy positions and resolutions so that we can maintain a little bit of order in the process.

Governor Sinner will start with the committee on agriculture and rural development.

GOVERNOR SINNER: Thank you, Mr. Chairman. You are looking for the gray covered, kind of gray -- maybe it's my eyes this morning -- with the ag policy in it. Global agricultural trade and development, G-1, has two new elements: A new policy which states that dairy programs should be adjusted to recognize regional differences in production so that farmers in one part of the country are not penalized for production excesses of farmers in other regions. That proposal came out of the New England states led by Governor Kunin.

Second part of that, we also proposed that
bilateral and multilateral trade talks includ elimination of
nontariff barriers such as governor ownership, government
marketing, transportation subsidies and manipulated exchange
dates.

We also propose that world food reserves be shared
by all exporting countries.

G-2 contains amendments to our rural development
policy dealing with the additional support for our
infrastructure and the elimination of impractical and
unenforceable regulations consistent with our federalism
theme.

G-5, we have made several changes to our natural
resources policy. We call for, first, uniform policy on
wetlands; second, fine-tuning of the sod buster and swamp
buster provisions; and three, the ability for states to have
bonding authority as it relates to the conservation and
reserve program.

G-8 is our ag chemical safety policy. The new
policy language calls for a tightening up of tolerances of
pesticide residue on imported food, making them consistent
with the tolerances on domestic-produced food.

We call for the acceleration of the timetable for
establishing maximum contaminant levels in drinking water.
We also address some problems with the Endangered Species
Act.
Mr. Chairman, I will move the adoption of the report.

GOVERNOR CARRUTHERS: Second.

CHAIRMAN SUNUNU: Governor, are you moving the four policies, G-1, 2, 5 and 8, as a block?

GOVERNOR SINNER: Yes, Governor.

CHAIRMAN SUNUNU: Is there a second?

GOVERNOR CARRUTHERS: Second.

GOVERNOR SINNER: There is a second.

CHAIRMAN SUNUNU: Additional discussion? If not, we will move to a vote. All those in favor?

(Chorus of ayes.)

CHAIRMAN SUNUNU: Opposed? The policies have passed.

Move to the committee on criminal justice and public safety, which is chaired by Governor Deukmejian.

GOVERNOR DEUKMEJIAN: Thank you, Mr. Chairman.

Our committee was convened on Sunday afternoon. We focused most of our attention on the impact of AIDS on our criminal justice system, in particular in our correctional systems, the prisons. There was also concern expressed about the issue of consent decrees, those decrees entered into between the states and federal agencies. On this concern, the committee proposes a policy r vision for consideration. It's in your package under the goldenrod color. I would move that
we adopt this proposed policy on managing consent decrees.

GOVERNOR CARRUTHERS: Second.

CHAIRMAN SUNUNU: Moved and seconded. Is there a discussion? We are voting on policy B-20. Let's move to a vote. All those in favor, aye.

(Chorus of ayes.)

CHAIRMAN SUNUNU: Opposed, no. Policy passes.

Committee on economic development and technological innovation chaired by Governor DiPrete of Rhode Island.

GOVERNOR DI PRETE: Thank you, Mr. Chairman.

Before I offer the committee report, I would just like to briefly invite each governor's attention to copies of two letters that you have before you dated February 21, 1988, addressed -- one is addressed to the President and the other is addressed to the Congressional leadership dealing with mortgage revenue bonds. As I am sure many of you are aware, the Tax Reform Act calls for a sunset of states' ability to issue mortgage revenue bonds as of December 31, '88.

We reiterate the importance of the states' ability to issue these bonds and legislation, H.R. 2640 and S. 1522, has been introduced to extend the life of this program through 1992. The letters that I referred to encourage the President and Congress to support these bills; and, as you can see, they have been signed by me as chairman, by
Governor Roy Romer, and of course by Governor Sununu and Governor Baliles. I would certainly encourage each of the governors here to do whatever each of you can to support the continuation of the mortgage revenue bonds.

On the formal report, Mr. Chairman, from the economic development committee, policy E-3, targeting resources for economic development, was amended to strengthen our position on the importance of tax-exempt revenue bonds to the state.

Policy E-4, housing issues and needs, was amended to put forth eight basic principles that we intend over the upcoming months to expand to a new national housing policy for the governors to consider at our summer meeting.

The third policy, policy E-10, civil space policy, is a new policy intended to encourage the continuation and improvement of our space program.

I would move passage of these three policies.

CHAIRMAN SUNUNU: Is there a second? Seconded. We are considering policies E-3, 4 and 10. Any discussion? If none, we will move to a vote. All those in favor, say aye.

(Chorus of ayes.)

CHAIRMAN SUNUNU: All those opposed, nay.

Policies have been adopted.

Move now to the committee on energy and
environment, chaired by Governor Moore of West Virginia.

GOVERNOR MOORE: Mr. Chairman, the committee on energy and environment has submitted four amendments to existing policy positions and encourages your favorable consideration of a new proposed policy position designated as D-49.

Taking them in the order of their presentation to you, D-17 addresses the question of hazardous waste, in the amendment outlines the governors' support for funding federally of mandated requirements for states to assist local and regional emergency response agencies.

I respectfully then refer you to D-42, which is in the area of solid waste. The proposed amendment here states that the Congress shall direct EPA to establish a minimum national standard for incinerator emissions, a management scheme for incinerator ash, state-based tracking system for biomedical waste, and take steps, Mr. Chairman, to facilitate waste reduction and recycling.

The proposed amendment also touches on mining wastes and onshore oil and gas drilling wastes and address how they should be handled through nonhazardous state-based approaches.

I respectfully draw your attention to the proposed amendment to policy position D-45, which addresses the question of indoor air pollution. The amendment states that
the Consumer Product Safety Commission should develop a
national product guideline and EPA should establish a
research effort and share comprehensive information on indoor
air pollution for consumers, industry and the states.

To proposed amendment to policy position D-48,
ocean and coastal policy, that particular amendment states
that the Congress shall appoint a national ocean polici s
commission to develop a comprehensive marine policy,
recognizing the need for a real and effective federal-stat
relationship.

The new policy position, designated as D-49,
Mr. Chairman, touches on the question of emergency response,
liability and regulation of petroleum products and hazardous
substances. This policy calls for federal funds to be
automatically available under the national contingency plan
for major or multistate petroleum and hazardous waste
spills.

Mr. Chairman, I move the adoption of the four
proposed amendments and the one new policy position en bloc.

GOVERNOR CARRUTHERS: Second.

CHAIRMAN SUNUNU: Policies have been moved and
seconded. Is there any discussion? Hearing none, we will
move to a vote. All those in favor, say aye.

(Chorus of ayes.)

CHAIRMAN SUNUNU: All those opposed, nay.
Policies and the amendments are adopted.

Move to the committee on human resources, chaired by Governor Castle. He has some resolutions and policies.

GOVERNOR CASTLE: Thank you very much, Mr. Chairman. I might say at the outset that we had a very interesting meeting yesterday, for those of you organizing these meetings. I find that the best part of those meetings is not the discussion of the resolutions as such, it's generally a substantive presentation when you can do it. We had everything from Captain Kangaroo to welfare recipients yesterday in our room. I think it attracted a lot of interest. As soon as all of that was over and we got down to the government work, everybody left. But we discussed child care, we discussed welfare reform, we discussed infant mortality. Indeed, it really is interesting to bring the programs to life and to see what people really have to say about those different areas and what they are really doing in the states to try to help resolve some of those problems.

Let me say before I go on, on this whole subject on the welfare reform issue, that most of you have been kind enough to sign a letter -- I think there are 46 signatures on it now, 43 states and three territories -- to sign a letter in support of the governors' welfare reform policy. It's very vanilla as far as that's concerned. We are not endorsing one piece of legislation or another on Capitol
Hill. But I think we have seen in the last two or three days a great deal of movement from talking to some of the key people, and we are going to be talking to more of them about this whole area of welfare reform, to see if we can adopt a policy around this country equal to Wisconsin's, which is in many ways leading the country in terms of what is happening.

We feel very strongly that these changes have to be made, that we should have a public policy in place which encourages people to complete their education, to be able to be self-sustaining because they are able to work, and we have to back it up in every way possible in order to get that done. That's essentially what we said in our policy; it is essentially what we said in our letter. I think that letter is going to be very helpful in terms of convincing some Congressmen, Senators, to support where we are going, and we are very appreciative of that.

This is a vital issue in this country. Many, many people have talked to me about it, and I think it is something that we have shown almost unanimous support for, and it's an area we can march ahead and accomplish a great deal.

We have several policies which I will move en bloc, and then I would like to call on Governor Baliles to talk about health care cost containment and some issues related to that for a moment if I can.
The policies are set forth in what I think is sort of a mint green cover in your booklet here. It's on child care, which is a new policy basically talking about just the need to look into child care and for the federal and state governments to become aware of it. The issues of employment security are set forth there. Immigration refugees has been amended somewhat. In education we talked about some of the postsecondary costs, and there's some technical revisions which are included there.

If there are no questions about that, then I would move that these policies be adopted en bloc.

GOVERNOR CARRUTHERS: Second.

CHAIRMAN SUNUNU: Been moved and seconded that we adopt these policies. Any discussion? If not, we move to a vote. All those in favor, say aye.

(Chorus of ayes.)

CHAIRMAN SUNUNU: Opposed, nay. Policies have been adopted.

GOVERNOR CASTLE: Mr. Chairman, if I can call on Governor Baliles for a moment to discuss those issues.

CHAIRMAN SUNUNU: Governor Baliles.

GOVERNOR BALILES: Mr. Chairman, I would simply bring to the attention of our colleagues that while at the federal level, there is a great deal of discussion regarding health care costs and catastrophic health legislation, and
Medicare, what is beginning to happen at the state level is an enormous increase in the rise of our Medicaid budgets. It is a problem that I think will hit us, if it hasn't already, in a very strong way within the next two to three years.

Let me give you an example. In fiscal year '75, Virginia's Medicaid budget was $186 million. The federal government paid for 61 percent and Virginia paid for the rest, a total of $73 million.

For fiscal year 1990, the total Medicaid budget for our state will be $1 billion. The federal government's share will drop to 51 percent, and Virginia's share will be roughly a half a billion dollars.

In the last two years, our Medicaid costs have leaped by 1/3. I would submit to you that that kind of growth in our Medicaid expenditures is occurring all over the country. An obvious question is why are those costs rising so rapidly?

The answer lies within ourselves: We are aging as a society. A greater proportion of our population, now and in the future, is becoming much older to the point that it will soon be the case that it will be common to have two generations of the same family in retirement. That means that the trends for the demands of health care services will increase proportionately, and state governments are beginning to feel the impact.
At the Medicaid level, it seems to me the choices are threefold. You can reduce the program; you can reduce eligibility; and in many cases, politically, that's impossible. The demands are too great for those programs to be reduced. Taxes can be raised to produce the revenue and that also is politically unpopular.

The third option is to try to find a way to share the costs with those who profit from health care maintenance and health care services.

I would suggest to you that if you do not yet have a study under way in your own state of what Medicaid trends and costs are likely to be in the next two to three years, it ought to be done. It is likely to become an increasing financial problem for all of us. And when the problem is compounded by hospitals and nursing homes that are charging $5 to $6 for a 2-cent aspirin, or are merging into other fields of unrelated services, such as office buildings and laundromats and many other activities that are profit-generating, then you can see what the implications are for our financial planning. It is something that I think will occupy the time of this organization and our individual states for many years to come. I simply wanted to bring it to your attention.

CHAIRMAN SUNUNU: Thank you very much,

Governor Baliles. I just want to, recalling one item that we
have discussed in our state in recent weeks, point out that there are other areas in health care in which the same kind of escalation, if not even greater, is evident. We were arguing the issue of cost of vaccine for children. One particular vaccine has risen in prices from 1983 to the present from around a half a dollar per dose to over $14 per dose. That is a tremendous increase, a factor 28 times more significant. Part of it is a result of changing perceptions in terms of liability and perhaps changing reality in terms of liability. But this is all coupled together and what Governor Baliles has underscored in his presentation I think is the real challenge that we as states are going to have to deal with in the next few years.

Any other comments associated with the issues relative to the committee on human resources? If not, we move on to the next committee, the committee on international trade chaired by Governor Gardner.

GOVERNOR GARDNER: Mr. Chairman, I would like to recommend that we take resolution H-7 and discuss that separately. That's the free trade agreement. We have two other resolutions, H-6 and H-9, H-6 having to do with tourism and H-9 having to do with the GATT agreements wherein the governments affirm our support of the multilateral negotiations now underway. I recommend we take 6 and 9 in a block and dispense with them and then spend our time on a
discussion of the free trade agreement.

CHAIRMAN SUNUNU: There is a motion to adopt policies H-6 and 9. Is there a second? Second by Governor Thompson. Discussion? All in favor.

(Chorus of ayes.)

CHAIRMAN SUNUNU: Opposed? It has passed.

Governor Gardner, do you have a motion on policy H-7.

GOVERNOR GARDNER: Yes, I move that the body approve resolution H-7. Governor Thompson will speak to that and then we have an amendment to that resolution by Governor Carruthers.

CHAIRMAN SUNUNU: Governor Thompson, are you seconding that?

GOVERNOR TOMMY THOMPSON: I will second that, Mr. Chairman.

CHAIRMAN SUNUNU: Do you wish to address that issue?

GOVERNOR TOMMY THOMPSON: I certainly do.

CHAIRMAN SUNUNU: You may address us.

GOVERNOR TOMMY THOMPSON: Thank you very much, Mr. Chairman. First let me thank Governor Sununu and Governor Gardner for giving me this opportunity to chair the free trade agreement task force. We have had I think some very spirited discussions and some very constructive discussions that have taken place over the last three days at
the National Governors' Association. I am firmly convinced that the amendments that are going to be offered by Governor Carruthers and another amendment that was offered by Governor Campbell of South Carolina will certainly appease some of the problem areas that the original resolution was able to attract.

When you look at this historic document, and the opportunities we have as national governors to be able to approve a policy that will set up free trade when our country has got the huge trade deficits that we have, and the opportunity to strike new ground to open up an expanded trade with our biggest trading partner, Canada. At the present time the trade amount between our two countries is $150 billion. This free trade agreement will expand upon that.

When you realize that Canada is not only our biggest trading partner but imports 70 percent of its products from the United States and we export -- approximately 25 percent of all of our exports goes to Canada, it's no small thing to think that this free trade agreement, if we adopt it here, and if it's adopted in Congress and by the Premiers, that we will have the opportunity to change the trade deficits in this country.

It's an historic document, and I know there is going to be a motion to table this. I think that would be a terrible mistake.
Congress and the leadership in Congress has reached an agreement with the Administration to introduce the trade agreement on June 1 and take it up and have a vote on it this year. There is a possibility that the trade agreement will be voted upon before we reconvene in our summer meeting.

I think we have to adopt it, and I would certainly hope and appreciate all of the support of the governors to adopt this very historic document because I think it's going to allow us to expand our trade with our partner to the north. The Canadians are also looking very seriously on this meeting today. It has gotten a lot of press in Canada. We have met with the ambassador from Canada yesterday, who is working very hard to adopt this particular proposal.

There are things in here that I don't like and there are things in here that each and every governor around this table can find problems with. But overall, when you look at the opportunities, a free trade agreement that all of us have been talking about as governors, and the need to expand trade, this is the document that is going to allow us, I hope, to expand our trading with Canada and other countries. I think it's a sort of precursor to what might happen in the future with this country and with other trade arrangements.

I would hope that you would look at the totality
of the agreement. The totality is that it's a good document, a first step, and there are going to be further negotiations going on between our trade representatives, Mr. Yeutter, Mr. Murphy and Mr. Murkin, and the Canadian Premiers. I think we can iron out some of the problems as we go along.

With the amendments, it's an outstanding document, and I would hope that we would have the approval of the National Governors' Association and not table this resolution, amend it and get on with adopting it and really allowing our Congressional delegations from our respective states to know that the national governors are in support of free trade, expanded trade, and the need to pass this document this summer in Congress.

CHAIRMANSUNUNU: Thank you, Governor Thompson.

GOVERNOR CARRUTHERS: Mr. Chairman, thank you very much. We are all free traders. However, we believe that in two areas in particular, free trade does not exist under the U.S.-Canadian policy. One is in agriculture, the other in extractive industries. Therefore I move to amend our policy document H-7 on U.S.-Canadian trade to include the following.

The governors have significant concerns about issues created or not fully resolved by the agreement, and ask to be consulted as the implementing legislation or other
measures are developed to ameliorate these problems. The
Administration should enter into additional negotiations to
address inequities regarding subsidies. Fair and open trade
for all businesses requires resolution of the reality or
perception of unequal treatment of certain industries due to
differing national policies on subsidies.

That is the motion, Mr. Chairman. We discussed
two issues with Ambassador Yeutter yesterday. We discussed
this language with him. I think it would be fair to
characterize his attitude as restrained enthusiasm, but h
said he could live with this language. We additionally
discussed with Ambassador Yeutter the position of some of the
territories, that they were not included. He said at that
meeting that he would work with the territories to negotiate
a separate agreement between Canada and some of these
territories.

Mr. Chairman, I move to accept this amendment to
our document and encourage the support of all governors for
this modification.

CHAIRMAN SUNUNU: Is there a second to the
motion? There is a second. For your information, the
amendment is at all of your seats on a yellow paper. Am I
correct? Is that the correct wording?

GOVERNOR CARRUTHERS: That is correct.

CHAIRMAN SUNUNU: Discussion on the amendment?
GOVERNOR GARDNER: I would just echo Governor Carruther's words. This amendment has had a great deal of work from proponents and opponents of this particular piece of resolution. It's an amendment, as he said, not necessarily a friendly amendment but one which has support of all the committee members who have worked this issue in some depth.

CHAIRMAN SUNUNU: Additional comments or discussion on the amendment?

GOVERNOR SINNER: Mr. Chairman.

CHAIRMAN SUNUNU: Governor Sinner.

GOVERNOR SINNER: I am a member of the committee who has worked in depth on the issue for a long time. While I like the sentiment of the amendment, I would feel remiss to not say that if it gives the agreement at this point in time an aura of acceptability, when in real fact we don't know what the hearings are going to produce. We have really not given industry a chance to respond. It seems to me to approve this amendment with the idea that somehow or other it makes it all acceptable when we don't know the finished product, or the program that will be developed alongside it, is horribly premature.

CHAIRMAN SUNUNU: Governor Carruthers and then Governor Ada.
GOVERNOR CARRUTHERS: Mr. Chairman, the nature of the amendment is to ask those who negotiate and those who legislate on this agreement to consult with the governors, and secondly, according to Ambassador Yeutter's testimony to us yesterday, there will be continuing negotiations with respect to the subsidy issue. What we are asking as governors is to be part of the deliberations. I don't think we can ask any more at this time.

CHAIRMAN SUNUNU: Governor Ada.

GOVERNOR ADA: Mr. Chairman, I am from the territory of Guam, and I want to register our concern that the U.S.-Canada trade agreement did not include the territories, more specifically, the territory of Guam. Earlier I did commit to support the agreement, but only soon to find out that Guam was not included. The thing that hurts the most was that they knew of the situation among the territories, with respect to free trade, with respect to our problems in terms of trading in the U.S., especially in the garment industry, watch industry and so forth; to know that it was purposefully omitted, and we were dealt away again, as in many cases in the past, where Guam has been the pawn for many negotiations between the U.S. and other countries, which includes as well as interest in the airline industry and other types of industries where Guam can potentially be competitive.
I just want to register to the chairman our concern and hope that this problem can be resolved and reconciled in the future, that my brothers in this National Governors' Association continue to treat us as coequal partners in this association and not the way that we have been treated by the State Department, just to be used to -- to achieve a goal and not consider the goals and aspirations of the people of Guam.

CHAIRMAN SUNUNU: Governor Sullivan.

GOVERNOR SULLIVAN: Mr. Chairman, I would support the amendment which I worked with Governor Carruthers, however I would like to say that I do that in that it only points out in its language about significant concerns, the major concerns with respect to which I have for the treaty and I would like to reserve the opportunity to relate those concerns on the debate for the main motion.

CHAIRMAN SUNUNU: Additional comments on the amendment?

GOVERNOR TOMMY THOMPSON: Mr. Chairman, I would like to quickly answer Governor Ada from Guam. The territorial question was brought to our attention on Sunday afternoon in our committee on international trade. We discussed that with Mr. Yeutter, Mr. Murkin and Mr. Murphy over the course of the last couple of days.

Ambassador Yeutter and Mr. Murkin, I believe, met
with Governor Ada and the other governors from the territories last evening at my request. They are more than willing to try to respond to any problems the territories are, and they are also very concerned, Governor Ada, to make sure that you feel comfortable with this trade agreement.

There was some problem with including the territories in the original document. As everybody knows, it was very complex. Negotiations fell apart on many different occasions and finally came together in the last 72 hours before the deadline of midnight on October 3. They felt it was just too complex at that time to include the territories. But the future negotiations will include the territories. You have my guarantee on that and also that of the ambassador, Mr. Yeutter. I would hope that you could support this resolution knowing full well that you will have something to be considered in the future.

CHAIRMAN SUNUNU: Additional comments on the amendment?

GOVERNOR CARRUTHERS: I call for questions on the motion.

CHAIRMAN SUNUNU: Move to a vote on the amendment. After vote on the amendment, we will open up discussion on the policy itself. All those in favor of the amendment, please say aye.

(Chorus of ayes.)
CHAIRMANSUNUNU: Opposed, nay.

(Chorus of nays.)

CHAIRMANSUNUNU: Ayes have it. The amendment is adopted. We will now open up discussion on the policy as amended.

STATES' CO-CHAIRMAN CAMPBELL: Mr. Chairman.

Mr. Chairman, just a brief comment on an amendment that was offered in the committee, which is contained in paragraph 1. To give you the background of that amendment, the background simply is that there had been some discussion in Canada about changing their tariff structure by providing tariff rebates for textiles, which of course would negate the free trade advantage that the United States would gain, and would in our opinion have violated the spirit of the accord of January 2.

Therefore, the language was inserted that our support was contingent upon both Canada and the U.S. doing nothing that would violate that spirit. It is aimed directly at that particular matter and other matters that have been under discussion in Canada concerning tariffs and rebates that would adversely affect the outcome of the agreement.

CHAIRMANSUNUNU: Thank you, Governor Campb 11.

Governor Andrus.

GOVERNOR ANDRUS: Mr. Chairman, as you can see, there's a lot of discussion around here of questions on this...
matter. There are people that have opposed it. It was debated and discussed in our committee meeting yesterday at length. There was a move there to question it. I think there's a move here today, the territories have been left out. Mr. Chairman, I would observe that there's enough question in this that there's a lot of people that are going to be forced to vote no on this if we vote right now. I would point out, in my part of the world, the National What Growers Association is opposed to it. Some of the other agricultural components. There's a question on plywood. Governor Carruthers has brought up the question of uranium, precious metals in my area, natural gas -- all of these things. I think it would be more appropriate if we held this over until such time as our summer meeting. Therefore, I would move that we table the motion to pass this resolution.

CHAIRMANSUNUNU: Motion to table. Is there a second?

GOVERNORSINNER: Second.

CHAIRMANSUNUNU: It is nondebatable. If you wish to table it, you will vote aye. If you wish to continue the discussion on the issue and vote on the body of the policy, you will vote nay. We will move to a vote. All those supporting the motion to table, vote aye.

(Chorus of ayes.)

CHAIRMANSUNUNU: All those opposed, nay.
(Chorus of nays.)

CHAIRMAN SUNUNU: I believe the nays have it. The nays do have it. We will now move to a continuation of the discussion on the policy. Governor Goldsmith.

GOVERNOR GOLDSMITH: I arise or sit, as the case may be, in support of this resolution and say to my fellow governors, having spent the last year of my life before my campaign running a business for an American company in Canada, that I want to express my feeling to Mr. Yeutter and to this administration that the strides they have made are really quite phenomenal.

This is a country that several years ago, in a previous administration, administered an act called the Foreign Investment Review Act in which every acquisition of a business in Canada was decided on by the central government in Ottawa. These acquisitions were messed around with politically by people that were invisible to American businesses. It was pernicious, it was dangerous, and I think we have to applaud our neighbors for ending a period of time in which there was trade that was free on the surface and anything but that underneath it.

We have experience with free trade with the Canadians under the current Ottawa pact. In fact I think the Canadians right now probably have a balance of payments in their favor under this particular agreement.
My wife drives a Chrysler minivan made I think in Windsor, Ontario. Parts from our side of the border cross to the other side. It works; it has been a tremendous experience for both parties.

I do want to say, though, in relation to the concerns that have been expressed, Governor Andrus and I, both of us have some of these interests in our state. Plywood in particular is in ours. But as I look at this agreement, I want to say to my fellow governors, if there isn’t somebody in our state that isn’t happy with this agreement, I am going to be stunned. If every time we have a situation like that, where we can knock down trade barriers but we will only do it if we will protect some particular group in our state, it just isn’t going to happen. Whether it’s wheat in Oregon or timber in Oregon or energy in the Rocky Mountains or the Canadians trying to hide behind a shield of cultural identity saying all kinds of activities in Canada have to be protected for that reason, how they deal with third countries in demanding that they build plants in Canada and then in theory allow them to export to the United States, these are just going to have to be worked out, including these issues with the territory.

But I want to conclude with one point. If this agreement is not consummated, the long-term legacy in the United States frankly isn’t very significant politically, but
it's incredibly damaging in Canada. It's a country with 10 percent of our population. They are our best and most important neighbor in terms of trade and maybe in some other ways as well. If this administration rises or falls because the United States hasn't got the courage to have a free trade agreement with the Canadians, I think the legacy is permanent, dangerous, and it's one that we ought not to accept.

I have to respect the states of the United States that are along the northern tier that are closer to Canada than I am, but in every dealing I have had with their government, either at the provincial or national level, my instincts tell me that their concerns about this agreement in its detail are very similar to ours, and they will work to solve them in good faith. I support the committee's proposal.

CHAIRMAN SUNUNU: Thank you, Governor.

Governor Thompson of Illinois.

GOVERNOR JAMES THOMPSON: Thank you, Mr. Chairman. I agree with everything the preceding speaker has just said. I simply wanted to observe, after nearly 12 years of listening to debates and resolutions and votes in plenary session in this extraordinary association, I think it's fair to say that nothing that we do that is important is without controversy and nothing that we do that is important
is without question or fear or debate.

It is on those occasions when governors can set the example, by putting aside partisanship which we almost always do, and by putting aside some of the parochial fears that arise from our states that we would normally be politically responsive to back home for the greater good of the country, that we are at our most effective. When we fall by the wayside in this regard, our position on the Hill on issues like the budget deficit, welfare reform and other matters where we expect Congress to show leadership, courage and resolution, and to put aside parochial or partisan or ideological considerations, is diminished.

If, as other speakers have said, we cannot find it in our hearts to support a fair agreement with our most important neighbor and our largest trading partner, then I have to say that I would return to the Hill on other issues where we want Congress to show the same kind of leadership, and I guess my voice would have to be a little softer in demanding that they do so.

CHAIRMANSUNUNU: Thank you. Governor Sullivan of Wyoming.

GOVERNORSULLIVAN: Mr. Chairman, I don't think there's anybody sitting around this table who doesn't support the ultimate objective of this agreement, that is, to move U.S. and Canada toward free and open market for increased
economic activity. It is my position that next summer the governors will be in a much better position to determine whether that objective will be achieved by this agreement or whether a wide range of U.S. products are to be left at a disadvantage, as I am convinced the energy area is left as a result of this agreement. I refer you to a letter which will be circulated for Senatorial execution in which it is suggested that natural gas production, fisheries, auto parts, manufacturing, uranium, mining, nonferrous metals, plywood and other areas are left at a disadvantage as a result of this agreement.

In the energy area, DOE is already implementing a study to determine whether the potential for U.S. gas producers to lose a substantial market share to Canada will result from this agreement. Hearings will be held on incentives and subsidies to Canadian oil and gas producers to determine the potential damage in our energy area, and the Supreme Court will soon rule on whether or not the Atomic Energy Act protects uranium producers under a provision which this agreement, as we understand it, negates.

The energy issue, in my view and the view of my state, is too important to our foreign relations, to our nuclear weapons program, to our trade imbalance, as President Reagan said yesterday when talking to us, to remain unresolved or essentially undiscussed, at this point in time.
when the nation's governors are proposing to express their support for the agreement.

We can express our support for free trade with Canada. We can stay on the table for consultation on implementing legislation and other matters, without endorsing the agreement at this time. There are many products left at a disadvantage. There are many unresolved issues such as subsidies. The implementing legislation has not been developed. For the governors to give a nearly unconditional endorsement of the agreement in my view is premature.

I guess I would ask this question, and that is, has anybody seen the agreement? It is still, as I understand, being developed and has not yet been submitted to Congress. It was intended to be submitted in January or February, now has been delayed to June 1, reflecting the problems. Governor Thompson has suggested there is a possibility, "possibility" that it will be debated and passed before we have our summer meeting.

I suggest that to take this action and act upon agreement that hasn’t been submitted to Congress, that hasn’t been debated, while we all reflect on its objectives and support its basic tenants, would be premature and we would better serve by doing it and discussing it during the time when it’s being discussed by others at our summer meeting. Thank you.
CHAIRMAN SUNUNU: Governor McKernan.

GOVERNOR MC KERNAN: Thank you, Mr. Chairman. I want to echo the words of Governor Sullivan. I supported the motion to table because I do believe that much of this discussion is premature. However, I also think that consideration of this resolution puts us as an association in a difficult position, because I think that overall, it is a good agreement, that most governors ought to support the concept of free trade and ought to support most of what is in this agreement.

Frankly, the concerns that I have with the agreement is not what is in it but what is not in it. I believe that that can be cured through appropriate legislation instructing how we want the additional negotiations to take place. But that's not going to happen until we have the hearings in Congress.

So, for that reason, I cannot support the resolution today. I feel it would be sending the wrong signal, however, to oppose this particular resolution.

For that reason, I want to go on record as saying that I intend to abstain from the vote. I do not want to vote against it, but I also cannot in good conscience vote for it, knowing that there are a number of things that need to be done from a legislative standpoint to make it acceptable to people in my state.
CHAIRMANSUNUNU: Thank you, Governor McKernan.

Governor Carruthers.

GOVERNOR CARRUTHERS: Mr. Chairman, adding to what Governor Sullivan said, who indicated that he has not seen the treaty and he understands that they are still working on the language of the treaty or the agreement. I would suggest to you that now is the appropriate time for the National Governors' Association to take action, very simply because if that is the process that is under way, we ought to be part of it. This resolution asks that we be part of the process which leads to implementing legislation. I think we ought to get on board right now, and therefore, I recommend that all governors vote in favor of this policy change.

CHAIRMANSUNUNU: Governor Thompson.

GOVERNORTOMMYTHOMPSON: Thank you, Mr. Chairman. To answer Governor Sullivan: The agreement is done, Governor Sullivan. I have seen it, and I believe quite a few of the members on the task force have seen it and have read parts of it, if not all of it, as I have.

The agreement is -- the enabling legislation has not been drafted yet. That's because of an agreement that has been made between the Administration and the leadership on Capitol Hill not to introduce the enabling legislation until June 1, unless all parties agree to introduce it before then. But the agreement is done, and I have asked the trade
representative and the office to submit the trade agreement to each and every governor. It will be sent to you hopefully in the relatively near future.

But the amendment does everything I think that Governor Sullivan and Governor McKernan are asking about. If you read the amendment that was offered by Governor Carruthers, it does exactly what everybody is arguing about. The governors have significant concerns about issues created or not fully resolved, and each and every one of us -- I don't like the beer, you don't like the energy, Governor Sullivan, but how are we going to have some input by tabling or not voting on this resolution? This resolution gives us, as governors, the opportunity for the input. I think that is the important issue here. It allows us as governors to set the way, and I think it should be adopted and hopefully unanimously.

CHAIRMAN SUNUNU: Governor Sinner and then Governor Waihee. Governor Sinner.

GOVERNOR SINNER: Mr. Chairman, can you help me understand how the staff, in NGA's official position, will be executed? Am I to understand that an ongoing decisionmaking process will go on, and if the requirements of the recent amendment are not fulfilled, that our position changes and we then oppose the agreement; is that the understanding that you have?
CHAIRMAN SUNUNU: All communication and lobbying is dependent on the specifics of the policy. If there are areas of interpretation, the chairman of the committee and the task force will be in communication with the members of those groups, and the policy will be the basis for whatever communication goes from NGA to the members of Congress as they deliberate the particular issue.

Governor Waihee. Then Governor Sullivan.

GOVERNOR WAIHEE: Mr. Chairman, I think that the agreement before us is a very historic one. In many respects it takes our nation in the direction that we ought to be going. If it was simply a question of the controversies that could be aroused by the various interests that may or may not be included in it, that would be one thing. But I am actually saddened by the effect of the agreement because of the neglect or the deliberate exclusion of the Pacific territories from within its realm.

One of the strongest support bases for such an agreement is the fact that it would lay the foundation for making our nation extremely competitive in the Pacific-Asian rim. This would be the foundation for a new kind of market system that this country could use as the basis for its own rediscovery of our region of the world. Yet to write off the Pacific at the same time is far too easy a trade-off.

While it is possible for us now to follow up on
that matter, it was far too easily handled in the beginning. I think that it set a precedent that for many of us goes against the very grain of our beliefs and commitment to the nation and what it means.

Therefore, it is not an issue that can be resolved through further negotiations. It is, in many respects, a principle that needs to be upheld. Either we are all one nation that can participate in the very foundation of what that means, which is, in its economic structure, or we are not. It is therefore with a great deal of sadness that I find myself caught in the quandary of wanting to see this agreement pass, because it sets the right tone, and yet knowing that certain precedents need to be spoken out against, and therefore Hawaii will not participate in the vote on this agreement.

CHAIRMAN SUNUNU: I will take two more comments. Governor Sullivan and Governor Baliles. Unless there's strong objection, we will then move to a vote.

Governor Sullivan.

GOVERNOR SULLIVAN: Quickly, Mr. Chairman, in response to Governor Thompson's comment that with the amendment, we are now part of the process and our concerns will be given great deference, I would suggest that we are not part of the process with the amendment. We are asking to become part of the process.
I would suggest that the first sentence of our resolution, which says the governors support implementation of the free trade agreement, and the amendment says we ask to be consulted. Now we are all strategists around here in differing ways and I would suggest to Governor Thompson and to the rest of you, if we want to be consulted, if we want to participate in the process, are we more likely to be invited in if we have supported it today, or if we reserve our support until we determine whether we are asked to be consulted and participate in that process.

CHAIRMAN SUNUNU: Governor Kunin then Governor Baliles.

GOVERNOR KUNIN: I will keep my remarks very brief. I think most of the arguments have been made. I would just like to strongly endorse the resolution.

I think we are all comfortable with the words "global economy." We use it a lot in our own discussions and in bolstering our own economies. This is our opportunity to really put teeth into those words. This is the first real step that we can take to brick by brick tear down the borders that separate these two great nations and really provide new opportunities, increased economic opportunities for both partners. Thank you.

CHAIRMAN SUNUNU: Governor Baliles.

GOVERNOR BALILES: Mr. Chairman, if we were to
adopt this resolution supporting the free trade agreement, we
would not be alone. A coalition of over 500 U.S. businesses
and trade organizations is strongly behind this proposal.

    Last year, we sold about $60 billion worth of
goods and services to Canada. That in a situation where the
average Canadian tariff was about 9 percent and the U.S.
tariff was about 4 percent. This agreement brings those
tariffs to the zero level. I know that there are concerns
about the subsidies, concerns expressed by the territori s,
and I respect those concerns very much. I think those issues
must be addressed and will be addressed over time. The
sooner the better. I think Governor Carruthers states that
quite well and ably in his amendment.

    I don't know what the outcome of this vote will
be, but I think we ought to put it in perspective. Last year
this organization devoted a great deal of time and effort to
the issue of competitiveness, about the need to recogniz if
we are a part of a global economy, that we have become
interdependent as a nation with other nations. I think that
we said it well last year, and it ought to be remembered
here, that trade is essential for our survival as a nation.

    This agreement, in my view, is in our long-term
best interests in a world of rapid change. Very much like
our Constitution, which was ratified 200 years ago this
year. This agreement is not perfect. It can be improved.
Undoubtedly, like our Constitution, it will be amended in the future. But as 200 years ago, this proposal, in my judgment, is far better than its predecessor.

I sometimes think it's unfortunate that we become prisoners of our own terminology, and the words "free trade" and "protectionism" become code words, litmus tests, symbols of sentiment. There are often barriers to communication. It seems to me that all of us, and I think we do share this objective, should be seeking the goal of expanded trade. You cannot expand trade unless you eliminate barriers.

This agreement, in my judgment, goes a long way towards reducing trade barriers between our two nations, the United States and Canada, and that's why I shall support the resolution.

CHAIRMAN SUNUNU: Thank you, Governor. We will now move to a vote on resolution H-7 as amended on the floor already. I have been asked that the vote be cast by the raising of hands so that we can have a count. The vote is now on the amended resolution. All those in favor, please raise your hand.

Thank you very much. All those opposed?

The vote passes, 30 to 5. The policy is adopted.

We will pause in this consideration of policies. Our special guest has arrived. Then I will return to the floor and allow for comments on other issues and addressing
of policies. But our special guest has arrived and I would
ask Governor Carruthers if he would do the introduction of
Senator Domenici.

GOVERNOR CARRUTHERS: Thank you very much,
Mr. Chairman. It's my pleasure.

Most places, as in New Mexico, we address
political leadership by title. We call the President
"Mr. President." We call congressmen congressmen. We call
governors "governor" or "hey you." But there is one
exception in New Mexico, and that is for Pete V. Domenici.
In New Mexico the senior Senator is not known as Senator
Domenici, he is known as Pete. He is by far and away the
most popular individual in our state. He experiences over an
80 percent approval rating by the voters. He is on his third
term as a United States Senator. He is a former baseball
player, having played for the Albuquerque Dukes, and that's a
Los Angeles Dodger farm club and we are all proud of the
Dodgers in New Mexico. He is a former mayor of Albuquerque
and survived that to become a United States Senator.
Probably his greatest pride is he is father of eight children
and the grandfather of four.

A couple of comments that have been written about
Senator Domenici that I want to share with the governors.
One, and I quote, "Pete Domenici has been a national
treasure characterizing the best in American government and
politics." Another wrote, "he has been his own man in
important leadership roles nationally; at the same time he
has remained a loyal New Mexican and a servant of New
Mexico's people and interest. His seniority is important to
our state. But even if this were not the case, his abilities
would still be of great value."

Please welcome our senior Senator,
Pete V. Domenici.

(Applause.)

SENATOR DOMENICI: Thank you very much. Thank you
very much, Governor Carruthers. Governor Sununu reminded me
that I keep writing those introductions and you keep giving
them. Thank you very much for that fine introduction.

Governors, let me just say, I did not have the
privilege of being a governor. I only got as far as the
mayorship. I decided that the political adage that fit me in
particular in a mayorship was to get in and get out quick. I
did that, and I was very fortunate. Six short years after I
entered politics, I found myself plunked down on the floor of
the United States Senate as a Senator from New Mexico. It
has been a rare 15-year privilege for me to serve here, not
only for New Mexico but hopefully a little bit for our
country.

I would want to tell you that while there are an
awful lot of discussions around about the United States
Senate and whether it's a good place to work and serve and live, from my own standpoint, in spite of its difficulties, I have grown in admiration of the American system. I have no cynicism whatsoever in my bones about it. I am fully aware that we are extremely fortunate to be so free, and I am also aware that with our political institutions, that from time to time, clearly, things get bogged down and it's a mixture of politics and institutional kinds of pride, but I do believe that the United States Congress is clearly capable, in the years to come, to sort out and make some of the decisions that are going to have to be made. I think we have made some difficult ones already in the last few year, and clearly we have more to make.

I would like to share a couple of observations about the American economy, but just very quickly with you.

Over the weekend, I had a startling experience. I am going to talk about the budget and fiscal trends and what is happening this year in the President's budget, but I want to share a startling bit of information about American enterprise that I happened to be schooled on by accident over the weekend. Forgive me if I bore you. You may know more about this than I. But it was startling to me to find the following facts.

Hewlett-Packard presented, before a group of leaders, their history of survival and competition in this...
fast changing world, and listen to this number. They are
currently competitive in the world; they are doing well. You
know what kind of company they are. But listen to this
number. Of their entire sales for last year, the whole
package, 50 percent, 50 percent of their sales were from
products that are three years old or younger. Isn't that a
fantastic statistic? That means that one of America's major
competitors and employers and applicers of science in the
marketplace is turning its entire product line, if that
statement holds true, every three years.

I then heard from a fellow from Harvard Business
School who researches the next 3500 American companies, after
you leave the top thousand, which Hewlett-Packard is in, and
this man had researched the success of the next 3500 in size,
where growth is occurring at an average of 12 to 20 percent a
year in that group. I thought surely he will tell us
something different; and listen to his statistics.

In that group of companies -- so they are not
computer research, technology application oriented, we
thought, right? Of that group, 50 percent of their entire
American and international sales are five years or younger.
To me, a rather startling fact.

So it seems to me that as we look out there at our
future, while we better be very concerned about fiscal
policy, tax policy and the other things that we are going to
address here today and that you have heard from Paul Volcker
and others, we ought to face up to the reality that in this
changing world, this almost free world market, as far as the
industrial trading nations, that science and technology and
preeminence in science and the ability to apply science in
the American marketplace rapidly is probably as significant
as any other single economic fact of life. It brings with it
a total new set of educational needs, of worker training
needs, and a whole host of things that we had never perceived
as being national in nature before, and that we kind of took
for granted.

Now having said that, let me move quickly to the
budget this year and some trends that are inevitable,
couching them first in a congratulatory note to the governors
of these United States.

Frankly, it is obvious that when the President of
the United States, in his State of the Union address, mad a
statement, and I paraphrase: Let us humble ourselves and
acknowledge the fact that in our sovereign states, thanks to
many of you and your predecessors and the evolution of
governors in America as strong executives and forces for
change -- parenthetically added by Domenici -- the President
said, let's humble ourselves to the realization that
significant innovation and change for the better, in terms of
the delivery of services, such as education, welfare, and
even economic development activities, are now coming up from
the states in abundance, and they are doing far better at it,
for the most part, than when the United States used to decide
that we should decide most of those kinds of innovations in
national legislation and national funding programs.

Now, this Senator does not make that statement
because of fiscal policy. I make that statement because I
think it is a reality of fast changing times and the reality
of tremendous change in the inventory of problems in America,
and the obvious inventory of how you will solve them.

I congratulate you. It doesn't cause me to have
to be humbled. I was a staunch advocate that that was going
to occur eventually in America in any event. Whether it is
new programs in homelessness solutions, we don't know how to
do it. We can spend some money, but we need some mod is from
you all and you are providing them. Welfare reform. We
don't know how to do it, we think we do, but you are finding
ways, and we need to make sure that we are helpful, not
harmful, of those kinds of things.

You know how to give American industry a fair
break within your state when it comes to competition, to the
extent that you can, as far as the world market, and you do
it. We compliment you for that.

Now having said all of that, let me suggest to you
that an interesting event is occurring this year. Some of
you are aware of last year's economic summit conference. It was both praised and dramatically belittled, from a mouse turned loose to solve a lion's problem, to those of us who served on it, who went to the Congress and to the people and said it surely has proven something. And that is, that a Republican President can sit down with Democrats and Republicans and arrive at some conclusions in an informal manner, because there is no formal manner in America's democracy; and then implement the results almost to the letter. We did that. It bodes well for the future. And in the meantime we did something rather incredible that I will address in detail and tell you what has occurred.

We established a two-year budget without knowing it. That is very important, because we spend so much of your time and our constituents' time going round and round annually on a budget resolution, appropriations, continuing resolutions, and you perceive properly that we're totally confused and bogged down. In that budget summit, we have now done something that we are for better or for worse going to live with. And it's very simple, as you look at it. And I see my friend, Henry Belmon, who was a budgeteer in past years in the sense of the budget process. We have established the exact dollar number for all of defense. We established it a full year in advance, and there it sits to be implemented.
And for the first time in eight years, the Secretary of Defense, since our President agreed, took the defense budget of the United States -- and I see sitting over here the Senator from Texas who knows an awful lot about that process -- this Secretary of Defense then said, if that's the agreement, we change the military game plan. He took $33-1/2 billion out of the defense, joint chiefs, form r secretaries, not wish list, but literal game plan for America's defense. He picked and chose and canceled weapons systems, and he got to the number that we agreed upon.

Now that number is $33-1/2 billion less in program authority than they would have submitted but for the summit, and you all should know that while the hue and cry has been to cut defense -- and I don't want to put myself in that category, I am much more concerned about some other things than I am the impact of defense on the deficit at this particular moment -- but for those who said "let us reduce it," it is reduced. You are going to feel the consequences in your respective states because you can't take that much out, you can't cancel weapons systems that eventually were going to cost $50 billion, that this year was going to cost $6 billion, 5-1/2, you can't take 50 million men and women out of uniform, whether you call it attrition or whatever, and 45 out of the civilian part and not have some impact. You can't cancel 17 naval vessels and put some in mothballs.
without some effect.

So your states, many of which have been having extremely high defense expenditures, some will get hit a little bit, some will get hit a lot.

Nonetheless, we will be hearing from you all, I am sure, if not from you, from your Senators and Representatives, as we attempt to take that one dollar number, and all that will be left will be for the appropriators in the United States Congress to fill in the blanks. And they will live up with the agreement and meet it, they will argue with the President’s priorities, but that’s all there is. There is no more money, and we can’t borrow from defense for domestic. The number is there.

In past years, the President has asked for more than we give him, and then we take defense money and we spend it somewhere else. That gets me to the second part of why this is a very interesting year.

We also agreed on the sum total of domestic discretionary spending a full year in advance. The number is now fixed, Senator Belmon, and there’s no moving between the defense, foreign aid and domestic. All we will do now is take the 11 domestic appropriation bills, and we will see whether we can fit them within that agreed-upon number.

So you will know, and I am sure that you sit out there and look at us and say "why don’t you balance this
budget?" Let me suggest to you that on defense, which is
almost all annually appropriated, thus discretionary, and the
second number that I am telling you about, the big pot of
discretionary, which is about 166 billion out of
$1,100,000,000,000 American budget, roughly speaking, neither
of those accounts will grow even at the rate of inflation.
For the most part, both will be growing at about 2 percent
nominal.

You who are familiar with budgets understand that
if inflation is 4.3 and programs are growing at 2, you have
to restrain, cut, change, do something. Especially if
programs are automatically increasing within that pot, you
have to decide to do something.

This year, because that number is agreed upon on
domestic, the President of the United States agreed to live
within it but did not abandon his right to submit his
priorities by way of what goes up and what comes down to meet
that target.

Let me suggest to you that what is obvious is a
continuation of what has been going on for the last decad
with more prominence in the last four years. That is, that
the expenditures of the national government on discretionary
appropriated accounts are becoming more national program
funding and less funding of programs that the states
participate in, the so-called grant-in-aid program in generic
terms. For that kind of program will only grow at about 1/2 a percent, that big package, if the President's budget prevails.

But the President has chosen national programs to increase. For instance, in the field of research, he has added money for the superconductor/super collider. In the area of space, he has added about 27 percent increase to get the space program back on the level that it was expected to be on, including eventual space station funding. I am not now agreeing with this. We will work on this for the next couple of months. I am telling you the theme.

In the areas of education, the President has recommended a very substantial increase, almost 20 percent, year over year. But it's interesting to note that the President asks in that increase for $900 million for a new American program in the area of adult worker job retraining. Congress has not yet passed a statute on that; it's in the trade conference. But clearly the President, in my opinion, on this one, is addressing the issue that I brought up in my opening remarks, that adult worker job retraining is a fact of life. Somebody will do it, or America and America's workers will suffer. He is suggesting a rather substantial new program there that you will share in, extremely flexible, I hope we fund it.

But the kicker is, remember, there's an
agreed-upon pot of money now, and you can’t exceed it because
the summit said that’s it. So the appropriators will have to
decide whether they want to increase education that much, and
if they do -- and incidentally, let me tick off the other
increases. Pell grants, significant increase; AIDS research,
substantial increase; National Institutes of Health, in
certain significant areas of research, up dramatically; drug
enforcement prevention, increased, not decreased; shelters
for the homeless, because we have a new program, up, not
down.

Now you can’t go up with a fixed pot of money
without reducing some. So I submit to you, those which he
asked that we reduce or eliminate are not all that simple
either. Many you won’t like and obviously many the Congress
won’t like, but we are stuck with fitting everything within a
number this year, which is the exciting notion of the summit
having agreed in advance to the next year’s dollar numbers.

Naval petroleum reserve, he suggests we sell it.
Rural housing, he suggests we terminate the traditional
direct loan and grant program and substitute something else.
Postal service, he submits we should not subsidize any of
their activities. Eliminate direct business lending through
the Small Business Administration and let the banks with
guarantees do it. Transportation assistance, he recommends
that Amtrak’s be reduced substantially; mass transit
operational subsidies, which we are now doing for the states, be dramatically reduced. Community and regional development programs such as EDA, Appalachia, et cetera, be either reduced or terminated.

There are others. We are going to have to make those choices. But the conclusion, in terms of what is happening to the American budget in tight fiscal times, is unescapable. Part of those national programs that he recommends -- incidentally, I missed the National Science Foundation. He recommends it be doubled in five years. The principal American tool for centers of excellence in engineering science and the like, at many of your universities.

It's obvious that the trend is, with tight money and tight fiscal policy, to fund national programs of that type, and you can see the beginning of the evolution of not funding programs that are more closely related to direct state responsibility: Mass transit, subsidy for operational purposes; the ad hoc program to build capital improvements in the transit area aside from the trust fund involvements that we have.

The numbers are inescapable. That relationship of spending for national versus state-type grant-in-aid is a huge trend line downward. It has already diminished in the last eight years 37-1/2 percent.
This year it will grow only at a half a percent in a 4.3 estimated inflationary economy.

Now, no new taxes are recommended, and I will give you the following estimate of what all of this will do. If we live up to these agreements, you might ask a very logical question: Will you really reduce the deficit substantially come the end of the year? All I can tell you is -- and this sounds startling, but I will live by it for now -- obviously at the end of any year, when you finally know the economics, when you finally know what interest rates were, when you finally know what GNP growth is, when you finally know what unemployment is, when you finally know what inflation is, you will know the reality of your activities.

But under almost any set of economic assumptions, we have reached the point in America where -- let me give you the best example I can. If we had a constitutional amendment for a balanced budget, and if the Congress of the United States in a given year eight years from now, in October said we just passed a balanced budget, and assume there were no loopholes and we didn't trick the American public with taking things off of budgets and the like, at the end of the year it is my best estimate that acting in good faith, you will be plus or minus $40 billion in any event at the end of the year. Because your economic assumptions cannot be right, they are nothing but estimates, they have such an impact on a
$1,100,000,000,000 budget that moves with those things, that
you would be plus or minus 40 under a balanced budget
constitutional amendment.

That means that the best we can do is come up with
the closest thing to realistic economic assumptions now and
then proceed to implement this budget and come July or August
when we have to finish, see who was right on the economic
assumptions.

I happen to think that the economists are going to
turn around and their assumptions are going to get more
optimistic with each month rather than pessimistic. First
evidence of that is almost all blue chippers in February went
slightly more positive than in January and substantially more
positive than December. Therefore, I assume that the Office
of Management and Budget's economic assumptions are
realistic, not far off the mark, and that CBO, Congressional
Budget Office, is unrealistic in one major way: They have
too high of interest rates on the T-bills and national debt
during the year. I think we will choose OMB, and if we do,
the implementation of this set of facts that I have given you
will yield a deficit in the neighborhood of the
Gramm-Rudman-Hollings target of 136, which is a dramatic
reduction from 220 billion just two years ago.

I don't think that's terrible performance. I
think it's reasonably good performance in very difficult
times.

Now, it is also obvious that for the next six or eight years, the growth in the federal government is in the entitlement side. While revenues are estimated to increase in the next five years on annual 7 percent, it is estimated that entitlements will grow on average 6.8 to 7 percent. Almost the same rate of increase there as the increase in revenues based upon growth.

On the other hand, if you are going to move the balance line down, the rest of the programs that will have to grow at between 2 and 3 or 3-1/2 percent, even if inflation gets to 5, 5-1/2 percent. They are already low. Defense is already where I have told you. For the fourth year in a row the programmatic authority for defense will not go up, in spite of a myth that it has grown astronomically. It is the fourth year in a row that the program authority, which drives the outlays eventually, it is the fourth year in a row that will not go up but rather go down. It should stay there for a while in most people's opinions.

So, the programs that the President is recommending go up on the discretionary side, and those that you are aware of that we run, those cannot continue to grow at all if we are to move down the Gramm-Rudman mark of four years from now reaching a balanced budget.

Now obviously I am assuming reasonable economic
growth for a number of years far beyond anything we have achieved in past economic history. On the other hand, we have already broken economic history in terms of the number of months of sustained recovery. There has not been anything like that, unless you had a war in the middle, since the Second World War.

That is essentially what I see, where we are, that the dispute will be very real this year in terms of increasing the programs versus decreasing and cutting others, and there's very little wiggle room for the Congress this time, because the numbers have already been agreed upon.

Thank you very much for your attention. It's always a pleasure to speak with you. If you do want, Mr. Chairman, I will be pleased to answer a question or two. But if you have none, that will be all right also. Thank you very much.

(Applause.)

CHAIRMAN SUNUNU: Thank you very much, Senator. I am sure there will be a couple of questions. Let me ask one question. What is the likelihood that having learned that there is a constructive tool in getting these numbers pinned down ahead of time, what is the likelihood that you will learn from that and do it again in a rollover for the next year after this?

SENATOR DOMENICI: Governor Sununu, I have been
for some time, interestingly enough, and I am really not
trying to pat myself on the chest; but frankly, I have
suggested for three consecutive years that Congress, in
advance of the appropriation process, do something very
simple: That we agree as a Congress on the level of defense,
and that we set that number there and say since we hav
agreed, it is there. Thus leaving the rest for discr tionary
domestic. In fact, the Senate has done that twice; the
Congress has refused. Consequently you get the mixture of
cutting defense and spending it in domestic and there's an
awful lot of wiggle room and confusion.

I think this summit has now proven that th re is
some merit to breaking the government down early into at
least defense and nondefense and sticking with it. We might
have learned a lesson. Although it may be so onerous that
they may still want the wiggle room of putting it all in one
package and letting them move from one to another.

However, the other proposal that has been on the
table that many of us have been saying we just ought to do,
that is two-year budgets and two-year appropriations. I
don't understand why we have taken so long in that the
appropriations are about 85 percent repetitious in the
national government, about 15 percent change. I think the
lesson we learned this year is that two-year budgeting at the
United States Congress level is a reality, something that has
very significant merit, and I would not be surprised that we have back-doored ourselves into accepting it as a modus operandi.

However, if the economics are way off in August, those who argue that we must take it one at a time will win. If we make a mistake on the economic assumptions and do our work and we are 30 or 40 billion off, obviously the only argument against two-year budgeting as a macroeconomic issue is you don't know the economics well enough two years in advance. I could argue all day that it's not terribly relevant unless you have a recession, but I haven't won that. But maybe this time they will see the merit of it.

CHAIRMAN SUNUNU: Governor Baliles.

GOVERNOR BALILES: Senator, most of us budget for programs on an appropriations process. In other words, what you see is what you get. But at the federal level, that doesn't appear to be the case. The money authorized for a program is or may be far different from the amount of money actually appropriated. So the public is never quite sure at which level you are talking or taking action.

For example, the budget discussions can involve a proposal that a program be cut by 5 or 10 percent, but the money actually appropriated could be 5 or 10 percent greater because of carry-forwards, or the President might ask for and get Congressional approval for an increase in a program and

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yet the appropriation amount is actually far less. So that
the budget appears to be a moving target for everybody.

My question is this: Can the budget process be
amended so that it is understood as well as managed?

SENATOR DOMENICI: I don't know about that. It
didn't used to be very important that it be understood, but I
believe it has reached a level of confusion that is now
discernible and the President can't explain it nicely like he
did in his State of the Union, so I believe an understanding
of the process by the public may become -- the fact that it's
not understandable may be the impetus for some reform.
However, let me just take two minutes and tell you, I don't
believe the budget of the United States and its total process
-- budgeting, appropriating and authorizing -- will ever
become extremely simple.

In the United States Congress, the appropriation
process some 35 years ago, believe it or not, was a reform
approach to permitting the authorizing committees to spend
the money on the basis that they had a special interest and
they ought to kind of tell us what we ought to be doing but
we ought not give them the purse strings because they would
be prejudiced for their programs over others.

The appropriations as a separate committee became
the special way of seeing that that was not the case.

I smile because I assume that it has now become
the case within appropriations.

But then we decided to have a budget process, and we didn't want to get rid of either of the other two, so we built a third process on top. Obviously that has got to be fixed where there is a much more discernible relationship between the budgeting process and appropriating. Let me just throw out to you the one thought that I do have on major reform in the budget process. It has not been talked about much, but I would submit that one way to do this is to have the budget process, the goal setting, be done in the first 90 days of every two Congresses for two years, but be done -- and listen carefully, this is really a proposal that is way out, but simple -- by a joint budget committee, a committee of the House and the Senate, appointed by the leadership, representing the leadership, and they would fight and argue and the joint committee of the two houses would report out the budget targets for both institutions, and then they would both be bound by it. I will be recommending that to the group seeking reform. I think if you built in a little bit more tightening of the mandate there, I think you might have a stroke of reform that would do a lot of good.

CHAIRMAN SUNUNU: Governor Cuomo.

GOVERNOR CUOMO: Senator Domenici, first let me say that those of us who have the privilege of knowing of your work in the Senate in New York State share the
extraordinary respect and admiration that we have heard
described by Governor Carruthers of your own state of New
Mexico.

The budget process may not be clear. A couple of
things appear to be clear. That is, that unless we do things
in one or both of two areas in the future, we are going to
continue to be in difficulty.

I wonder if you could share with us a sense of the
prospects for two possibilities: One, that in the area of
entitlements, we might move to a heavier insistence on the
criterion of need to limit the growth in entitlements; and
second, the prospect for tax increases. Call them revenue
enhancements if you like.

It appears inevitable that unless you do one or
both of those things, we are going to be in trouble. What is
your guess as to what will happen next year and thereafter?

SENATOR DOMENICI: Well, Governor, let me suggest
to you that your extraordinary suggestion of some seven or
eight months ago for an economic commission, albeit much
broader than what we ended up adopting -- we adopted a
national economic commission, six Republicans, six
Democrats. I happen to be the Republican Senator that gets
to serve, and I am very pleased. So let me suggest to you
that since you are so certain that it has an admirable chance
of solving our fiscal policy, and so do I, permit me to say

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that, let's let the commission work its way on the issues you raised.

GOVERNOR CUOMO: Excuse me, Senator Domenici, nobody knows better than you and Senator Dole that when I suggested it, I said the worst thing we could do with it is to use it as an opportunity not to address the questions now.

SENATOR DOMENICI: Governor, let me suggest this. First of all, thank you for your opening remarks about me. I greatly appreciate them.

I would offer to you this suggestion, and I think you ought to urge it on those commissioners. I believe the worst thing that can happen to the national economic commission is that they either singularly or as a group begin to openly discuss the issues as they see them. I believe they ought to take six months and really learn. And some say, what is there to learn? I guarantee you, there is an awful lot more to learn than just Pete Domenici presenting them a pie graph of where the budget has been and where it is.

This group, to do its job, better understand the new international marketplace; better understand something about money in the marketplace, currency; better understand something about the Federal Reserve Board and its powers; better understand something about entitlements and what they
really mean, something about revenues and how they can hurt and how they can help.

Frankly -- you know my views. I have worked very hard. I have never been -- I have in the past said nothing should be off the budget and I have acted accordingly. I have asked some Republicans to march down that line. Some of them suffer right now from that, and we didn't get it done. Part of it because the White House and others decided after agreeing that we shouldn't agree.

I am not critical. I am merely saying that those two areas are dynamite in the American political arena. Eight, nine months before the presidency, they remain dynamite. From my standpoint, I am willing to address them all openly, fairly, with the proper perspective, that what we want is a growing, prospering American economy, which is really the beginning and end of almost everything good in this country.

CHAIRMAN SUNUNU: I'll take three more quick ones. Governor Celeste, Governor Hayden and then Governor Clinton.

GOVERNOR CELESTE: Thank you very much.

Senator Domenici, I would like to go back, if I may, to the process question, because I found that having a budget which one understands and one can control is absolutely vital in the management of any program, in evaluating the success of
any program. Governor Baliles raised an important question, and that is that we have in effect a blur when we look at the federal budget. Many of us are asked to begin to implement something before the budget action has been taken in a particular fiscal year.

While we are talking about process, you talked about biennial versus annual. We operate with a biennial project in Ohio and I understand the problems of revenue projections and how we pin our hopes to them, but we have been within 1/2 of 1 percent each year the last four years in our efforts. We set aside some money to take care of the problems that arise.

I am puzzled by this. Among the efforts at reform around the federal budget, has any thought been given to distinguishing between what our operating expenditures and what are in effect capital expenditures and really working with two budgets, so that when we don't spend -- when money is appropriated for a particular department or agency or program in a year, you know whether that is being used wisely or well, and we don't get into this notion of appropriated but unexpended funds. For example in the Defense Department where we have $250- or $300 billion backlog to have to do with weapon system purchases or construction or whatever.

It seems to me that in order to manage these resources wisely and well, and to know what our real costs
are at any point in time, it would be very beneficial not
only to go to a biennial budget -- I would certainly support
that for the federal government, it would help us -- but also
to distinguish between in effect what is capital expenditure
and what is operating expenditure and really hold departments
on that operating line in a very strict way.

SENATOR DOMENICI: First of all, Governor Celeste,
might I, just on a personal note, might I congratulate you
and say to you that I have greatest the admiration for an
effort that you have undertaken in your state with reference
to the seriously mentally ill. I really believe that the
attitude you have taken about it and the way you speak to it
in terms of it being an illness and a disease has contrasted
with what we used to talk about 10 years ago and how
Americans are beginning to understand that it is an illness.
Even those who suffer with youngsters in their family ar now
willing to talk about it instead of hiding. You are a part
of that and I thank you for that. I think it's a marvelous
contribution.

Governor, let me just suggest to you that if it
was simply the issue of operating expenses and capital
expenditures, clearly we ought to look at it and I would
assume that this major group will look at it.

The problem we have had in the last three or four
years, when this notion was promoted or promulgated by a
national-type leader running for president or the like, or somebody in the Congress, it took on a funny color in that it seemed to many that it was a way -- could be a way to obfuscate the deficit, because if in midstream you have been doing accounting this way, and the deficit is big, and somebody suggests that you ought to take the capital out of it, which has been part of it for a long time, and do it another way, we are very suspect that that is kind of a gimmick to say the deficit isn't really 136 but really 26. But I believe, in terms of looking at America's overall future and the macro impacts of our budget, we ought to take a serious look at that.

Please don't confuse that with the kind of unappropriated, unexpended balances in the weapons system inventory of the United States Department of Defense. They are caught in an enormously difficult position. We appropriate annually, but they must buy multiyear and commit in advance. The best way we found to do it and they is to give them the program authority needed for the system. And so what they don't spend becomes an unappropriated or unallocated balance. But unless one is ready to say that purchase, that decision is a wrong-headed one that you don't want, or the cost is erred, inflated, just wrong, unless it is one of the two, it is a real expectation that has to be fulfilled.
Now where they have been wrong in the past is that they didn't know the exact cost, because inflation was on cost all over the place, and so some of those unexpended balances truly were never going to be needed. I think we have taken a lot of that out of there. I don't think it's just sitting around as froufrou to be thrown away, to be honest.

CHAIRMAN SUNUNU: Governor Hayden.

GOVERNOR HAYDEN: Yes, Pete, you outlined to us a plan of deficit reduction over the next four years. You said that you thought nonentitlement programs, which our states are major recipients, would grow at about 2 percent. Certain presidential candidates and members of Congress have called for a one- or two-year, maybe even some vary from that, spending freeze on the part of nonentitlement programs.

Since our states are major recipients of those programs, would you first illuminate us as far as the worthiness of those programs and the likelihood that they might be adopted by the Congress, especially if one of the candidates advocating them is elected president.

SENATOR DOMENICI: Governor, are you distinguishing between a freeze on entitlements and a freeze on appropriated accounts? Is that what you are doing?

GOVERNOR HAYDEN: Yes, sir.

SENATOR DOMENICI: Frankly, if you want, if anyone
wants to freeze the appropriated accounts of the government, including defense, which is, for all intents and purposes, almost all annually appropriated, although you have personnel in there and you can’t do much but pay them, and it’s now up -- it’s down from your day, I say to the governor from Texas -- but it’s still about 35 percent of the budget for defense when you include pensions. Maybe 40.

If somebody wants to solve the deficit problem with a discretionary freeze -- this is my honest opinion -- it really won’t solve the budget problem but it might be a way of hitting the ground running come the beginning of this next term, because in the meantime, that new president has very little time to get anything planned and in place. The Commission, if it’s meaningful, hasn’t done its work yet, and it may not be the thing that you ought to wait around for. But we said in March they would report. So it might not be a bad way to say, if nothing else, let’s hit the ground running with a simple proposition of freezing discretionary accounts for a period of time while we decide where American fiscal policy is or isn’t going.

If it was proposed on that basis, even if that hitting the ground lasted a year, I don’t think it would be a disaster. But if somebody is talking about doing it for five, six, seven years, in my humble opinion, we really are not answering the problem. It’s really a cop-out in the
sense of taking a small portion of the budget and addressing
the entire reduction of the federal government on it.

GOVERNOR HAYDEN: If someone is elected, Pete, and
they have that in their platform and they call for it, as
governors, could we expect the Congress to adopt it?

SENATOR DOMENICI: Governor, I would believe that
the next president of the United States, with reference to
that issue, whomever he or she is, I assume if they asked for
it on that specific a term -- and I am talking about as
limited as you said it -- I assume that the most difficult
part of it would be defense, but I think they may get it from
Congress.

CHAIRMAN SUNUNU: Last question,
Governor Clinton.

GOVERNOR CLINTON: Senator Domenici, I just wanted
to return briefly to something Governor Cuomo said and I
certainly understand the nature of your response to him. But
the problem that you all have is that we are trying to pursue
really two objectives at once. We want to bring down our
deficit, but within the money we have, there is obviously a
consensus now that we need to shift spending patterns, not so
much what the states get and what the federal government gets
but away from current consumption and more toward investment
in our future. That's what the National Science Foundation,
the education, the Pell grant increases, all that -- and I
congratulate the President on that. I think that's a hopeful
direction.

I think what he was trying to say is that we
think, down the road, you are going to have to deal with this
entitlement issue, maybe after the election, and that at
least I feel -- I don't want to put words in his mouth -- I
feel that this group is prepared to work with the Congress
and the next president, whoever he or she may be, to get the
country to deal with it. I think the Democratic governors
have a special responsibility in that area, and I think
that's what we are trying to say. Whenever the appropriate
time for you to talk about it is, we will be glad to have you
come back and take that issue up.

SENATOR DOMENICI: Don't worry, I talked about it
two years ago, in fact, three. I asked you to support it.
So I really wasn't being facetious. I think Governor Cuomo
knows my thoughts.

GOVERNOR CLINTON: I think he is saying and I am
saying, we don't want to run from that issue either and we
are ready to take it up when the appropriate time comes.

SENATOR DOMENICI: Let me just remind you all.
The Governor raises a very good issue but I would remind you
of another thing. Frankly, with the Social Security tax
being added to the general tax base of this country, and
unless somebody really wants to take the position that they
are in some way different in their macro effect and their
effect on the daily lives of working men and woman, you
understand that kind of tax has been increased dramatically
to make the Social Security trust fund solvent. With any
reasonable economics for the next four, five, six years,
don't forget that the Social Security will have an enormous
surplus. It will be there for a long time. Unless there's a
catastrophy, it will be there beyond the year 2010 and then
start coming down.

What is the significance of a Social Security
reserve fund in the neighborhood of $1,500,000,000,000? What
is the significance if it gets to $4 trillion, bigger than
the national debt? We have got to talk about that, don't
we? That doesn't lead one to quickly talk about raising
taxes or lowering taxes, but it's a phenomenon of some
interest in terms of capital formation and taxation.

My last point is, while I am not trying to be
partisan any of these issues, I want to tell you, the notion
that the American taxpayers as a whole have had their taxes
cut enormously in the past seven or eight years just ain't
true. When you add the Social Security taxes to it, let me
tell you, we are very, very close to a national mean for the
last 40 years, right around 19-1/2 percent of gross national
product, to the federal government. The thing is that much
of it is shifted to Social Security and away from corporate
and individuals.

Now that is why, perhaps, average working men and women respond to Ronald Reagan's notion of no new taxes. It's not because they are undertaxed, and out there gleeful about the great tax reductions, it's because they are looking at their paycheck and their withholding, and they are saying, you know, if anything, it's gone up a little bit.

So I don't think the issue is as simple as some would think. Very, very difficult, and economicwise a very complicated issue also. Thank you very much.

(Applause.)

CHAIRMAN SUNUNU: Thank you very much, Senator.

As always, very informative, very interesting, and let me just reiterate what Governor Clinton said. We really do stand ready to help in any way we can to deal with some of the tough issues.

Let us return and quickly complete our previous agenda. Governor Ada asked for one moment to address an issue relative to international trade.

GOVERNOR ADA: Mr. Chairman, I would like to address this august body, not in respect to international trade but with respect to our political status in Guam.

CHAIRMAN SUNUNU: Go right ahead.

GOVERNOR ADA: As far as back as 1985, this body adopted, as part of the official policy, support strongly of
Guam's quest for commonwealth status with the United States of America for a new relationship with America, founded on mutual respect, a closer relationship and greater self-government for our people in the Pacific.

Today, I am pleased to report that the people of Guam have drafted a Commonwealth Act for our territory, that this draft act has been approved by our people in plebiscite, and that just these past few weeks, a draft Commonwealth Act for the Territory of Guam has been transmitted to Congress for its action.

Throughout this struggle of the past three years, and in the struggle to come, the support of our fellow Americans, as expressed by the governors in the Association, has been a tremendous help. On that glorious day when the people of Guam are able to realize their dream, a dream that has slumbered for over 450 years of occupation and domination by others, a dream awakened by the American promise of democracy, a dream of closer and more equitable participation in the American family, of dignity, we shall owe a great debt to you, governors of the United States.

Mr. Chairman, I have flown for over 9000 miles to come to this beautiful country, and may I walk 40 feet to present you this great Commonwealth Act of the Territory of Guam, if you don't mind.

CHAIRMAN SUNUNU: With no objection.
(Applause.)

CHAIRMAN SUNUNU: Thank you very much, Governor Ada.

We will move on to deal with two items under the policies, the report of the committee on transportation, Governor O’Neill.

GOVERNOR O’NEILL: Thank you very much, Mr. Chairman. Under our policy F-9, motor carrier transportation, we are moving on two modifications. I will describe them briefly and then ask for movement on both at the same time.

The first change asks states to collect information on truck accidents using uniform data elements and definitions. These elements should include information on the driver, the motor vehicle, the carrier, the roadway, and environmental conditions, accident events and the types of involvements of hazardous material. The standard collection of accident data will enable the states and the federal government to reevaluate safety programs designed to reduce the volume and the severity of truck accidents.

The second item, this modification urges that a committee be established, chaired by a member of the National Association of Regulatory Utility Commissioners, to develop a model based state agreement for administering state operating and authority requirements. The committee would be comprised
of state officials, motor carrier and insurance industry representatives. Development of the model based stat agreement will demonstrate progress in our commitment to simplify reporting and administrative burdens on the interstate and motor carriers themselves.

Those are the two policies. I would move them both.

GOVERNOR CARRUTHERS: Second.

CHAIRMAN SUNUNU: Moved and seconded.

Discussion? Move to a vote. All in favor, aye.

(Chorus of ayes.)

CHAIRMAN SUNUNU: All opposed, no. Policies are adopted.

Last item under policies is the consideration of the executive committee policy positions. Governor Baliles.

GOVERNOR BALILES: Mr. Chairman, two policy issues, A-27 and A-28, are self-explanatory. The first one calls for more streamlined and efficient federal system in administering crosscutting requirements. The second one calls for changes in the federal fiscal impact statements regarding federal legislation. I move their adoption.

GOVERNOR CARRUTHERS: Second.

CHAIRMAN SUNUNU: Discussion? All in favor?

(Chorus of ayes.)

CHAIRMAN SUNUNU: Opposed? Policies are adopted.
I have named and will announce here formally a working group on the budget that we hope will provide some liaison gathering of information and trying to express our concerns about some of the issues both in terms of programs and deficit. That group includes Governors Baliles, Clinton, Blanchard, Campbell, Carruthers and Mickelson.

Governor Celeste, would you like to tell us what a wonderful time we are going to have in Cincinnati this summer.

GOVERNOR CELESTE: Thank you very much, Mr. Chairman. As you know, we will be meeting in Cincinnati August 7 through 9 to continue our discussion of federalism and a future-oriented perspective on it. I hope that many of my colleagues had an opportunity to taste some Skyline chili and Graeter's ice cream the other evening to get a little flavor of the enthusiasm of our hospitality as we welcome you to Cincinnati this summer.

I want to encourage governors to bring their families, if possible, to come on Saturday as well and enjoy what we have to offer. There will be some private time for governors and their families at the Jack Nicklaus golf course just outside of Cincinnati. That evening we will all be getting together for the Cincinnati Reds-Padres game. For those who have requested a chance to meet Pete Rose, we will see if we can't make sure that that happens as well.
Sunday there will be a family brunch for governors at the historic Taft family home, which cost me a great deal to arrange that, but nevertheless I was delighted to be able to do so. That evening, we will visit Sawyer Point where there will be a laser-lighted performance of the Cincinnati Pops Orchestra.

I might say, as many of you know, this is the 200th anniversary of the city of Cincinnati. They really are looking forward to rolling out the red carpet. The Toronto Globe has said in a recent story that Cincinnati is one of 10 places in the world to visit in 1988 because it is going to be so special. So we hope that you come, come prepared not only to work hard but to have a good time. On Monday night we will take a boat down the river to a place where we can enjoy Dick Clark and some old rock and roll music and we're just going to have a good time.

CHAIRMAN SUNUNU: Thank you, Governor. We look forward to August in Cincinnati.

I would like to, before adjourning this meeting, just thank you all for your participation and your cooperation. Senator Domenici was kind enough to point out what the President noted in his address and what we all know, that the real action really is at the state level. I thank you for being here. We go back to our states to make the quality of life a little better and the efficiency of
government a little better. We do look forward to seeing you all at the summer meeting. I will entertain a motion to adjourn.

Moved and seconded. All in favor, aye.

(Chorus of ayes.)

CHAIRMAN SUNUNU: Opposed? None. Have a nice day.

(Whereupon, at 12:12 p.m., the meeting was concluded.)