NATIONAL GOVERNORS' ASSOCIATION

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WINTER MEETING

PLENARY SESSION AND
EXECUTIVE COMMITTEE

J.W. Marriott Hotel
1331 Pennsylvania Avenue, N.W.
Grand Ballroom
Washington, D.C.

Sunday, February 4, 1996
9:10 a.m.
GOVERNOR THOMPSON: I'd like to have everybody come in and be seated.

I'm certainly delighted with all of the governors and their staffs and spouses who have made this trip to Washington, D.C. I'd like to just say good morning to the governors who are here so far, the distinguished guests who are with us today, as well as who will be with us throughout the convention, and ladies and gentlemen.

And I also certainly would like, on behalf of all the governors, to welcome our newest member, Governor Paul Patton of Kentucky, who was with us yesterday.

We had a chance in the Governors Only session to welcome him. But he’s here. Paul, congratulations. Thank you very much.

(Appause.)

GOVERNOR THOMPSON: I would now like to call to order the 1996 Winter Meeting of the National Governors Association. And I would like to call upon the Vice Chairman, Bob Miller, for a motion for the
adoption of the rules of procedure for the meeting.

GOVERNOR MILLER: I move to so adopt the rules of procedure for the meeting.

GOVERNOR THOMPSON: Is there a second?

GOVERNOR SCHAFER: Second.

GOVERNOR THOMPSON: Seconded by Governor Schafer.

All in favor of that motion, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, no?

(No response.)

GOVERNOR THOMPSON: The ayes have it; the motion is granted.

Part of the rules that we have just adopted require that any governor who desires to submit a new policy or resolution for adoption at this meeting, we'll need a three-fourths vote to suspend the rules. And those proposals have got to be submitted to Jim Martin by 5:00 o'clock on Monday afternoon.

Is Jim here? Jim is right over here.
Just so everybody understands the procedure, for the edification of every member here, policy by the National Governors organization requires a two-thirds vote, if in fact you have received the policy 15 days before the commencement of a national meeting.

So, every policy that is adopted by the NGA requires a two-thirds vote. That requires bipartisanship. If there's any policy that is submitted within the 15-day period, or at the convention, it has to be submitted by 5:00 o'clock on the day before we vote, which is the final day of the plenary session, which will be Tuesday. And that requires a three-quarters vote.

So those are just two simple rules that everybody can understand. And that is how we have operated for years.

I would like to start out this morning by just giving a little bit of an overview of the next several days, to give you an idea of what I hope to accomplish. Every American supports a strong, robust economy with our new job opportunities, and access to
education and health care. A better economy means a higher standard of living for all Americans.

But there are some very tough issues facing us today, such as the budget deficit that looms over public debate. We know we must make some fundamental changes, but we are faced with some tough choices. We no longer have the luxury of the status quo.

But as I personally look around this room today, I see tremendous potential -- men and women of vision, of commitment, and of keen determination to face those tough choices.

As leaders of state government, we know the realities of, not only the federal government, but all levels of government are in a period of long-term fiscal constraint. Budget battles are fought, not only in Washington, but in every statehouse, county courthouse, and city hall of America.

Tough choices are being made every day. The states are making those tough choices, and making them work in your individual states.

What does this fiscal constraint mean for
government programs, Washington, as well as our own?

It means major reforms in programs that are not working, endless welfare dependency, four-score of federal education programs, and 50 state educational programs that come up short on performance in a new competitive world.

Over 163 government job training programs without measurable results, and a Medicaid program that continues to grow at double the rate of the economy, with the expectation that it will eventually absorb 25 percent of state budgets by the turn of the century.

And most state budgets right now have 20 percent of their budgets allocated to Medicaid, and Governor Voinovich is even higher.

It means eliminating regulations that interfere with economic growth and consumer choice, regulations that go beyond the law and stifle state and local innovation and problem-solving, laws and regulations that are never reviewed for their cost-effectiveness, and laws and regulations where benefits don't exceed their costs.
Tough choices mean that we must all have a true commitment to government, a government that serves all the people.

Governments at every level must test what they do against how well they serve their people. They can no longer just look at themselves and the special interest groups that support the status quo in government.

This meeting has two main goals. First, can we come together as governors in a bipartisan way? And of course in this city that has not been the way for quite some time. But hopefully, we will be able to show the way as governors in a bipartisan way, to help solve the partisan differences in Washington, particularly on Medicaid, welfare reform, and job training.

Second, can we learn from each other on how to develop the most effective programs, so that we can become stronger leaders in our states? That to me probably is just as important as the first one. Let me stress that it is my intent as chairman to reach across the aisle to our democratic
governors to help resolve differences in domestic policy. We have a lot more common ground than differences. I have, and will continue to work with my Vice Chairman Bob Miller, who has been a delight to work with on all issues; and with Roy Romer on Medicaid and Tom Carper on welfare.

We need to be a calming and stabilizing influence here in Washington, D.C. I don't think we can wait as governors two or three more years to restructure Medicaid, employment, and training, and welfare programs. We need flexibility to run more effective programs tailored to our individual states.

We all know that if Congress and the President do not reach an agreement on Medicaid, employment and training and welfare, it's going to place tremendous pressure on us as governors, and on our individual budgets.

And why do I say three years? If they do not resolve these differences this year, we will be going through an election. And after the election, it will either be President Clinton, or a Republican president. And then there will have to be the

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submission of a federal budget, which all of us know
will take at least nine months to complete.

And then we at the state level will have
to take those budgets up and pass them at the state
level, which will require about three years before we
will be able to implement changes in Medicaid,
welfare, and employment and training. That's why
it's so important, I believe, as governor, and
chairman of this organization, to come together this
weekend, resolve our differences, and be able to
develop policy in these three very important, crucial
areas.

NGA is a strong, bipartisan organization,
and it is critical that we work together effectively
over the next three days to solve problems. We
administer almost all domestic programs, and our
citizens are demanding change.

This meeting is about better ideas that
make a government serve people a lot better. This
meeting is about a new level of trust between the
federal government and states for better performance
at every level of government. It means true
partnerships, major program reforms, and tough standards for regulations. It means making tough choices.

As governors, we can’t wait for another election to make those tough choices. We’re going to have to make them now, and we’re going to have to make a lot more in 1996. We challenge the federal government to join us as governors and state leaders as full partners in these tough choices in times of fiscal constraint.

I now would like to convene a meeting of the NGA Executive Committee. All governors are welcome to participate, but only members of the executive committee will be able to vote.

I would hope that all of you would stay, because we’re going to take up policy on welfare, on employment and training, on the Farm Bill. Governor Voinovich has an issue on major league sports, which he is very interested in, and a lot of other interesting topics.

And after we get through the executive committee, we will be receiving some testimony from ACE-FEDERAL REPORTERS, INC.
former Congressman and Secretary of HUD Jack Kemp, and Senator Brian Dorgan from North Dakota.

I would like to at this time ask for a motion and second to approve the minutes of the October 22, 1995 executive committee.

VOICES: So moved.

GOVERNOR THOMPSON: Moved by Bob Miller, seconded by George Voinovich.

All in favor of approval of the minutes, say aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed?

(No response.)

GOVERNOR THOMPSON: The ayes have it.

I would like to quickly bring you up to date on the education summit, and to tell you, Lou Gerstner will be here on Tuesday morning before Senator Bob Dole and President Clinton to once again ask all of you, as I am sure you’re going to receive pressure from Bob Miller and Jim Hunt and Roy Romer and Terry Branstad and John Engler and George Voinovich and myself, to attend on March 26 and 27th.
This meeting is really receiving a great deal of national support. A recent CNN/USA Today/Gallup poll showed that, for the first time since President Bush empaneled us in Charlottesville, that education now is the top concern for Americans, even above crime.

I believe it’s a real indicator that the time is right right now for us to re-energize our efforts to truly improve schools in our states. I’m pleased to say that today most governors have already committed to attend the summit, and have designed a CEO to participate with them.

The purpose of this summit is to jump-start the use of standards, either at the state or local level, to truly improve educational performance, and to promote the use of technologies to help students meet these standards.

The Charlottesville summit set the national educational goals. Now, the next summit that we’re going to be adding March 26 and 27 will be setting the standards, and how we assess those standards. In addition, we need to exploit new
technologies to boost student performance, and ensure
a competitive edge for the workforce.

I certainly want to thank Governors Bob
Miller, Terry Branstad, John Engler, Jim Hunt, and
Roy Romer, who are serving on the planning committee;
and George Voinovich, who has been very much
cooperating along with us.

We were also selected by Lou Gerstner's
six CEOs who met in Chicago to plan the upcoming
summit. We will be getting into the planning of that
at our Governors Only meeting at noon today.

But a copy of the agenda is going to be
included in your meeting materials, and I certainly
appreciate all of you cooperating, picking your CEO,
and certainly setting aside those two days in
Palisades, New York, because I believe it's going to
be a tremendous jump-start, as far as assessing and
setting up educational standards for high school
graduates in our country.

Now we would like to proceed to the
legislative updates. And the first one is on
welfare. Governor Engler and Governor Carper are not
here at this point, so we will go on to Medicaid.

And I would like to ask Governor Leavitt -- I do not believe Governor Romer is here. If you would give us an update, Mike, I would appreciate it.

GOVERNOR LEAVITT: Mr. Chairman, a group of six governors, three Republican and three Democrat, have spent much of the last several months -- I think we have met on nine or 10 days for full days. By full days, I’m speaking of 12, 14, 16-hour days working to resolve this, and to bring together our view.

We have made considerable progress. We met again yesterday. We did brief the governors in the Governors Only meeting, as to our progress.

The group believes it to be a very important component in resolving the national budget discussion. We’re hopeful that during the course of this meeting, we could come together in a bipartisan proposal that can serve as the middle ground between Congress and the White House with respect to this issue, and the welfare issue, and could then open the way for a balanced budget.
That concludes the report, Mr. Chairman.

GOVERNOR THOMPSON: Thank you so very much, Governor Leavitt.

Any discussion of that subject at this point in time?

We are going to go into a very exhaustive discussion of Medicaid on Monday afternoon in the Governors Only meeting. So hopefully we can leave most of our comments for that meeting.

Governor Miller?

GOVERNOR MILLER: I just want to clarify one element, which is in perception, not the reality or the details of the Medicaid proposal. But I felt it was unfortunate watching news coverage last night, and again this morning, that some members of the media characterized this effort as being a criticism of, in one case the President, or in the other case the Congress.

It is in my estimation, at least for the six of us involved, and I think this larger group, not a criticism of either side, but just a recognition that as an independent body, we might be
able to offer a sensible solution that works for
everybody, and serves as an impetus upon which that
issue could potentially be resolved, and perhaps even
more.

So I say to our friends in the press that,
I think you need to listen carefully to what
governors are saying to you. Yes, we're all
frustrated with the inability of Washington, D.C., to
reach a resolution. But I don't think either side is
being isolated by any governor or any collective
group of governors as being responsible.

That's not our issue. Our issue is trying
to find a solution.

GOVERNOR THOMPSON: Thank you, Bob.

It's very tenuous. We have worked so many
hours, the six of us, to come this far. And we think
we're making a lot of progress. We're just hopeful
that we keep it, the details, to ourselves as much as
possible, and be able to go into the Governors Only
meetings tomorrow afternoon and hopefully complete
action on this. It's so important for all of us to
get that done.
With that, thank you very much, Mike, for your report. Ben Nelson is on his way down to talk about safe drinking water, which is also very important for us to get passed.

I would like to now go to telecommunications, and call upon Governor Tucker to give us an update on it. Jim?

GOVERNOR TUCKER: Thank you, Mr. Chairman.

Congress this week adopted the first rewrite of the Communications Act of 1934. And the President will probably sign the bill this week.

Congress started this effort in earnest in early 1993, and every year since then we’ve all been waiting. The bill makes changes in economic growth, consumer choice, and government laws and regulations.

NGA policy was focused on the need for federal action, and NGA has worked hard in pushing for congressional action that would begin the transition period towards full competition.

We did not work for a perfect bill. We just wanted a bill that would at least get competition started and recognize legitimate state
interests.

There was terrific lobbying by phone companies, cable companies, wireless services and satellite services. The telecommunications industries are active in all of our states. They provide hundreds of thousands of existing jobs in our states and the possibility of more jobs and increased competition, and very importantly, new choices and products for our people with the passage of this legislation.

We did not want to get between the competitive interests involved. But we did want Congress to pass a bill and leave us the effective role in moving towards competition. All in all, I think the National Governors Association was very successful. And I want to thank all of you who wrote your delegations, trying to ensure an effective state role.

Now, the bill itself is 280 pages long. That in itself will slow the implementation of the changes. The Federal Communications Commission has to issue over 80 regulations, many of which will have
to be issued in the first six months. How the regulations are written will determine how much flexibility states really have, and how quickly competition will be able to get started.

I do want to touch on a few of the benefits of the bill, and a few issues which states need to consider. The legislation will let most telephone, cable, TV, and long distance companies compete with each other.

Long distance companies will be able to enter local phone service and cable TV or other video services. Local phone companies will be able to enter into long-distance and video services, as well as manufacturing and information services, after they take steps to open up competition in local phone service.

Wireless services and direct broadcast satellite companies can now enter new areas of competition. The bill ensures that standards for interconnection, unbundling, and centralized number assignment will be established.

Those federal responsibilities are what
the states need in order to open up local competition. Together, these actions should translate into greater opportunities for lower-cost services for many consumers, and the chance for new jobs. Also a chance for the United States of America to continue to surge ahead in the area of new technology and telecommunications, and the development of new services and opportunities for our people.

That's why NGA supported the legislation. Finally, I want to mention that at the state level, there are some steps which each governor may want to consider at home. And some of these should be included in our legislative packages as soon as possible.

The first is to review our state statutes and regulations for any provisions that effectively block new competitors from providing competitive services. The FCC does have the authority to preempt these so-called barriers to entry. NGA supported preemption, but we did not ask for the FCC role.

A second task is to look at state laws
regarding local government taxing authority, and
authority over public rights-of-way. We need to give
our local governments flexibility to establish
policies that are competitively neutral for a wide
range of new potential competitors, many of them
using the public rights-of-way. How we handle this
issue will make a difference in how attractive our
states are to the development of new services.

A third is to keep watch over how local
zoning decisions in our states are affecting the
cellular phone industry, and the personal
communications services industry. The bill does
permit the FCC to overrule local zoning decisions, if
they are discriminatory, or hinder the growth of the
industry.

Today, there are about 20,000 towers for
mobile phones alone in our states. In four years,
the industry expects to have 115,000 in place.
That's a significant increase. And most communities
across the country will be affected.

Unfortunately, the Federal Communications
Commission has been given a large role in this issue.
I don’t know why they would want to get into that business, but they are in it.

Large companies with a presence in Washington, D.C., can make use of this FCC preemption. Small and medium-sized businesses will have to seek relief in the local courts. And that’s a problem, Mr. Chairman, we’ll have to live with for awhile, anyway.

And that’s my report, Mr. Chairman.

GOVERNOR THOMPSON: Thank you very much, Governor Tucker. That was an excellent report. Like every major rewrite, there are a lot of positive things. But there’s also a few negatives. The preemption of the forbearance by FCC over our public utilities and service commissions, public service commissions and utility commissions really causes me a little bit of heartburn.

But overall, the bill in total is very positive. It’s going to stimulate competition and telecommunications growth in each and every one of our states. So on the whole, it’s a pretty good bill.
And the National Governors organization played a very important role in lobbying for it and getting it through, lobbying through the onerous parts that took away states’ power. But we lost in those regards in the conference committee. And a couple of things in the conference committee came up that weren’t even in the original bill. But on total, I think it’s a good bill.

Any questions of Governor Tucker specifically?

(No response.)

GOVERNOR THOMPSON: The only question I have, Jim, is on the rules and regulations in which FCC and the courts seem to have concurrent jurisdiction. It seems to me that’s going to cause a great deal of problems when a court in your state makes a decision, and then FCC makes a different decision in Washington.

GOVERNOR TUCKER: We’ve had experience in other areas in the past in our country when this occurred. And it does make for confusion and delay.

The sheer scope of regulations involved
should warn all of us that this is not something
that’s going to come gently for us. There will be a
great deal of turmoil over the next 12 months, at
least. And some court decisions are going to have to
reach beyond local district courts before we really
will know the guidelines.

But change is usually pretty tumultuous.

This will be no exception.

GOVERNOR THOMPSON: Thank you.

Any other questions of Governor Tucker on
telecommunications?

(No response.)

GOVERNOR THOMPSON: Hearing none, let’s go
to safe drinking water, which is very important for
us to get passed.

Governor Nelson from Nebraska.

GOVERNOR NELSON: Thank you, Mr. Chairman.

Thank you for also deferring until we got here.

One of the priority issues that the
natural resources committee has had in the past is to
reform the Safe Drinking Water Act. That law is
widely regarded as currently being broken, and EPA
Administrator Browner has said that reform of the
Safe Drinking Water Act is an urgent priority.

I am pleased to say that we recently
scored a big win in the Senate, though much remains,
unfortunately, to be done in the House. The NGA is
currently working closely with other groups
representing both state and locally-elected
officials, as well as with the water supply
community, in developing drinking water reform
legislation.

Both Governor Voinovich and I testified in
support of the bill in the Senate. Our hard work has
been vindicated because last November, when the Senate
passed a Drinking Water Reform Bill highly consistent
with the NGA's recommendations, it was done by
unanimous vote of 99 to zero.

That bill addresses critically-needed
reforms in the drinking water law. Among other
things, it ends the requirement for EPA to set 25 new
drinking water standards every three years. In
meeting this quota, the EPA doesn't have to find that
the contaminants actually occur in the water. And in
fact, most of what EPA regulates is found rarely, if
at all, in the vast majority of water systems,
something one would not expect.

For the first time in any environmental
law, the Senate bill requires EPA to consider risk
assessment and allows the EPA to consider
cost/benefit analysis in setting standards.
Currently standards are set by the courts at levels
of exorbitant expense for contaminants that don’t
occur in our water.

EPA estimates that the capital cost of one
of its pending rules is $60 to $70 billion
nationwide, plus up to $12 billion annually in
operating costs. The benefits for that rule are
uncertain, and most likely negligible.

The Senate bill also gives states the
authority to allow communities to stop continuously
testing their water for contaminants that have never
been found. Currently, communities must test
repeatedly, generally at great expense.

The bottom line for all of us is that the
Senate drinking water bill allows the EPA, states,
and communities to focus our resources where there is a genuine need and meaningful opportunity for protecting public health.

I'm convinced that this bill will greatly improve public health protection across our country. And as I indicated the Senate has already passed a bill by a vote of 99 to zero. And we now need to strongly encourage the House to pass a sensible bipartisan reform bill similar to the one that passed 99 to zero in the Senate.

I keep repeating that because of the significance of that size of margin. And I am passing around now a letter that will be sent to all House members, urging prompt action on drinking water reform consistent with the Senate bill.

And I hope that each of you will sign this. This has already been signed by the Chairman and Vice-Chairman of the NGA, the chair and vice-chair of the committee on natural resources, and Governor Voinovich as the co-lead with myself on federalism, and the committee on natural resources.

I appreciate the opportunity. I'll be
happy to take some questions if there are any, or
make any response.

GOVERNOR THOMPSON: Governor Nelson, thank
you so very much for your report. Hopefully all
governors will sign that letter as quickly as
possible, before we leave anyway on Tuesday.

Governor Voinovich, did you want to add
anything to the report?

GOVERNOR VOINOVIČH: The only thing I want
to add is that this is another example of where we
got the state and local government coalition together
to take on a subject that everyone said we couldn’t
get anything done on, the Safe Drinking Water Act.

But I would like to compliment Ben Nelson
on his outstanding leadership, because before he got
involved and brought Democratic Senators into the
game, as we started to negotiate this, we were
getting nowhere.

So Ben, I want to thank you for your
leadership, because without you getting involved, we
never would have had the consensus in the Senate.

And I’m hoping that everyone at this table will sign
the letter, and encourage their representatives in the House to pass this legislation, which is one of the largest unfunded mandates in our country.

GOVERNOR THOMPSON: On behalf of the organization, let me thank both of you, George and Ben, for what you’ve done. It’s so important for us at the state levels, and its new policy and a new program. And hopefully we can get it through the House, and I think we can.

You sign the letter in the course of the next three days. If you have a chance to interact with your Congressmen and women, please see if you can’t convince them to vote for it, at least get it up for a vote. If we get it up for a vote, it’s going to pass. So that’s what we have to do.

Any questions?

(No response.)

GOVERNOR THOMPSON: Hearing none, we’ll go on to employment and training, the education block grant, which is very important for us to get a policy on this week.

Terry? Governor Branstad.
GOVERNOR BRANSTAD: Governor Thompson, as you know, a great deal of bipartisan support and effort has gone into consolidating the Federal Employment and Training programs. The bills have overwhelmingly passed both the House and the Senate, and it's now in conference committee.

It went to conference back last fall. And this, as you know, consolidates about 160 federal programs. Despite the broad bipartisan support, the conference committee has been stalled, and no significant progress has been made to date.

I believe that this is a very important priority. And we need to work with the conference committee to quickly complete its work and send the conference report to the President for his signature.

Many states, including Iowa, are in the process of consolidating our employment and training programs. We're establishing a new Department of Workforce Development in the state. We recognize that funding from the federal government -- this is one area where we're going to see substantially less federal funding coming.
And it’s important that we be able to have with the changes in this economy, we recognize more and more people are going to have to look at lifelong learning and additional education and training in order to have the skills to be employed and to be able to support themselves and their families.

So this is a very important area for us.

There are some areas that are critical that the Governors Association has worked strongly to try to prevent mandates. And one of these issues is mandating vouchers.

Many states, especially rural states, would find it very difficult to make the employment and training work effectively if we had these vouchers. And it would cause the creation of a new bureaucracy at the state level to administer the vouchers, and to certify the providers. And in some rural states it may not be possible to even find providers at the local level.

We believe that there is a need for flexibility. And we need to eliminate the complex and duplicative federal programs, consolidate this
into a block grant.

I think it's very important that we do what we can. This has had bipartisan support in both houses of the Congress. And yet there are differences between the House and the Senate bills that have caused this to be stalled in conference.

I believe if we work together on this, this is an area where we can in fact get some regulatory relief, and have flexibility to deal with a critical issue of training the work force for the future.

GOVERNOR THOMPSON: Thank you very much, Governor Branstad, for all your hard work on this effort. This proposal, an update that Governor has given you, is so important for each of us as governors to hopefully convince Congress to take some action.

The conference committees really haven't met hardly at all since August. They've been tied up on other budgetary matters. But the truth of the matter is, in the Senator Kassebaum bill, which reduces our over 100 programs into one block grant --
it's the Kassebaum/Kennedy bill. And the Goodland bill reduces, I think, about 95-96 programs into three block grants. Both of those individual proposals are so much superior to what the existing law is.

And the problems we have as governors is this: The continuing resolutions on the 95 to 117 programs in the two proposals have been reduced anywhere from 25 to 50 percent on most of these programs through the CRs. And we have to put together our budgets with less money. And all of these oppressive rules and regulations, all this plethora of programs that we have to comply with.

And so we've got more rules and regulations with less money, which is tremendously difficult for any of us. And we're trying to get some action.

I would just like to say, like with Safe Drinking Water, if we get these bills up for debate and on the floor, we're going to get them passed. But we have to as governors, I think, encourage Senators Kassebaum and Kennedy, and Congressman
Goodland to come together.

My only question that I have of Governor Branstad and Governor Nelson on this is there's one thing in it that really bothers me as a governor. And that is that there's 25 percent still set aside for the chief school officer that they have discretion over. I would much rather, of course, have the 100 percent with the governor.

I would like to have one of you respond to that.

GOVERNOR BRANSTAD: Obviously that's been a sticking point for us all along. And we worked very hard on this.

The chief state school officers, as you know, have lobbied very strongly on this issue. And they do have some allies in the Congress. That's made it very difficult to get the kind of flexibility we want. That's something that we as governors have spoken very strongly with the committee members on. But I expect that the final result will see some kind of a set-aside.

As much flexibility as we can give to the
governors, the better. Obviously, where you have a commissioner of education, or chief state school officer appointed by the governor, it's not as big a problem as it is in the states where the chief state school officer is elected separately, where you don't have nearly the ability to try to direct and control what they're going to do.

GOVERNOR THOMPSON: Governor Nelson?

GOVERNOR NELSON: Thank you, Governor. I think your point is well-made about the chief state school officer issue.

Fortunately in Nebraska, as in maybe some other states, we have a good working relationship, even though I don't appoint the commissioner. There is an elected board that appoints the commissioner. We've been able to work very closely together, but I know a lot of governors have already raised this issue.

And if we can get the flexibility that Governor Branstad is talking about, we can probably work our way through it in many states. Obviously in some states, it's not going to work as well as in
others.

But I hope that we can get a resolution on the '96 Farm Bill. Obviously, we've got to take care of agriculture at a time, I think, that's extremely important. And I hope that people will be supporting.

GOVERNOR THOMPSON: Thank you very much, Governor Nelson.

Any other discussions on the employment and training proposal that's in Congress? As I said, once again, it's very important for us to get it passed.

On the welfare reform update, since Governors Carper and Engler are still not here, basically we had a discussion in the Governors Only meeting yesterday by Governors Carper and Engler of their coming very close together.

The caucuses of the Democrats and Republicans yesterday took it up. And I think we're relatively close on the proposal. It's a block grant with certain oversight from the federal government.

And we are hopeful that we will be able to get a
policy through the National Governors organization on Tuesday supporting the compromise.

And I am confident that if we do that, we can hopefully break the logjam on this bill in Congress.

Are there any questions on the welfare reform bill, or can we wait till the Governors Only meeting on that?

(No response.)

GOVERNOR THOMPSON: Hearing none, we'll go on to now the policies that the executive committee has to take up. And the first one is on federalism, the state-federal relations.

There are amendments by Governors Engler, Voinovich, and Leavitt. Since Governor Engler is not here, Governor Voinovich, could you take up the amendment to the state-federal relations that you would like to have considered?

GOVERNOR VINOVICH: The policy that's before you updates our two-year policy on unfunded mandates to bring it in line with the passage of the Unfunded Mandates Relief Act this last year.
With the enactment of the legislation for the first time, Congress will have information on the cost of unfunded mandates, and votes on whether to impose them.

The statute is enforced for a point of order against new unfunded mandates. And mandates will not take effect unless they are funded in both houses of Congress, especially. And specifically, they've got to have a vote to implement them by waiving points of order.

The policy calls for the NGA to do three things to make sure that the bill provides every protection against future unfunded mandates. Number one, we should work with Congress to make sure that points of order are raised when mandates are proposed.

That means we've got to be on our toes. It's crucial that we identify mandates, coordinate our efforts to ensure that we use the point of order protection.

For example, just last week, Congressman Rob Portman of Ohio, who is the leader in helping us,
and who by the way helped us pass unfunded mandate relief legislation, used the threat of a point of order to remove an unfunded mandate on local governments from the telecommunications reform conference report.

Secondly, we should say that CBO has done a good job so far in preparing itself to issue analysis of the cost of mandates. They have a network of several hundred programs and budget experts from state and local governments to assist them. And NGA and other Big Seven staff meet regularly to consult with CBO staff. Obviously it's very important that CBO accurately identify the cost of any potential mandates.

Finally, we need to ensure that the report from the ACIR, the advisory committee on intergovernmental relations, includes more than just some 14 mandates as part of the mandate relief legislation. The ACIR was charged with the responsibility of coming back to recommendations to Congress on unfunded mandates that we need to get rid of.
We submitted some 250 recommendations to them. And they've come back with 14 of them. This policy urges us to get back in contact with the ACIR, and urge them to include more of those unfunded mandates in their response to Congress.

I move the adoption of the policy.

GOVERNOR THOMPSON: George, would you just hold up on your motion until we get through with Governor Leavitt? Then you can make a motion on all three.

But let me, before I go to Governor Leavitt, thank you on behalf of the whole organization for your leadership role on the unfunded state mandate program. It was outstanding. I believe it was the first bill that was passed in this Congress and signed into law. And you should be complimented for the job and work you did.

Governor Leavitt, you have an amendment on this policy, as well as, I believe, you're going to make a motion on Governor Engler's amendment?

GOVERNOR LEAVITT: Yes, I will do that.

First, Mr. Chairman, Governor Engler has asked me to
offer this in his absence, education, which is the
most local of functions.

Recently, the United States Government,
the federal government, argued in the United States
versus Lopez, that education was so important that it
ought to be considered interstate commerce, an
indication of the stretch, I think, that’s often
taken to regulate aspects that are uniquely local.

Fortunately, the United States Supreme
Court ruled that the Congress had overstepped the
bounds of the Commerce Clause.

The purpose of this resolution is for the
governors to express their firm desire and hope that
this decision marks a meaningful change in the
Court’s Commerce Clause jurisprudence, and that it
will lead to some limitation on congressional
activities in areas that are uniquely local, and
properly left to states and local governments.

The resolution would affirm that the
national government is a limited government; that is
has enumerated powers; and that, under the Tenth
Amendment to the Constitution, it may not legislate
in areas that are reserved to the states or the people.

It encourages the federal government to restrain from taking legislative or regulatory measures that usurp state authority or stifle innovation. It would encourage the courts themselves to place meaningful restrictions on federal activity with respect to the Tenth Amendment or the Commerce Clause.

It encourages the federal courts to limit injunctive relief against states in both time and scope, so that such relief extends no further than necessary to remedy violations of constitutional rights.

And it encourages Congress to limit the federal court’s jurisprudence in certain areas if they prove unable to limit the remedies to address constitutional violations.

Finally, the resolution encourages the federal courts to permit the states to craft innovative solutions to state problems, and to not substitute their own judgment for that of the states.
and their elected officials.

That is the resolution offered by Governor Engler, and I might add, I personally support.

GOVERNOR THOMPSON: Thank you, Governor Leavitt.

Will we go on to your amendment then, and you and Governor Voinovich move and second all of the amendments?

GOVERNOR LEAVITT: The further amendment that I'm offering is a result of the Federalism Summit that this organization participated in among five organizations, including the legislation organizations, the Council of State Governments, et cetera.

We developed four items that each of those organizations felt should become our agenda for our federal committees to look at specific ways of being able to assure that the states' roles are maintained. This simply moves those forward to study through the regular NGA process.

With Governor Voinovich's forbearance, I will move adoption of all three of these items. And
I am confident Governor Voinovich will second them.

GOVERNOR THOMPSON: I'm confident he will, too.

Governor Leavitt has moved the policy amendments to state-federal relations. Governor Voinovich, will you second it?

GOVERNOR VOINOVICH: Second.

GOVERNOR THOMPSON: Governor Voinovich will second.

Any discussion of the amendments put forward by Governors Engler, Leavitt, and Voinovich on state-federal relations?

(No response.)

GOVERNOR THOMPSON: Hearing none, all those in favor of these three amendments, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed signify by saying nay.

(No response.)

GOVERNOR THOMPSON: The ayes have it. A great deal of enthusiasm for those three amendments,
I might add.

(Laughter.)

GOVERNOR THOMPSON: The next one will probably elicit a little bit more discussion. And that is the policy, the readoption of the policy on the Consumer Price Index.

I call upon former Chairman Governor Howard Dean to discuss it and make a motion. Howard?

GOVERNOR DEAN: Thank you, Mr. Chairman.

The CPI policy was a policy that was adopted on an interim basis by the executive committee some months ago to help deal with the closing of the differences of opinion between the Republicans and Democrats on the Hill over the federal budget, and also in our view to right a chronic wrong in dealing with how we calculate the various cost of living increases, which are automatic federal budget escalators.

For some time, there are many who have been of the opinion that the CPI is inaccurate. The CPI is calculated with a number of factors in it. Those factors discount or fail to account for a
variety of consumer and other behaviors, and the CPI
does not reflect the true increase in the cost of
living.

Most people believe, as do I, that this
would have a positive effect on the federal budget
deficit, and make it easier both to balance the
budget and to achieve a political solution to this.

This was done on a bipartisan basis by the
executive committee, and we are now asking the full
body to accept this as policy. So I would move the
CPI policy, which calls for use of an accurate CPI in
further dealings with the federal and the state
budgets.

Such a CPI would be derived from a formula
that is currently known, but that I can’t explain,
and if somebody wants to hear about, we’re going to
have to get Ray or somebody to get into the details
because it’s a complicated economic -- I was going to
say gobbledy-gook, Mr. Chairman, but that wouldn’t be
fair to any economist that might be among us.

So let me just move the policy.

GOVERNOR MILLER: Second.
GOVERNOR THOMPSON: Moved by Governor Howard Dean and seconded by Governor Bob Miller, to have the readoption of the policy on the Consumer Price Index which the executive committee had an interim adoption in Cincinnati this past fall.

Any discussion of using accurate numbers on CPI?

(No response.)

GOVERNOR THOMPSON: That's basically what it is.

Hearing none, all those in favor of the motion to send notice to Congress to use the actual numbers, the accurate numbers, and the actual numbers on CPI, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

VOICE: Nay.

GOVERNOR THOMPSON: One nay, six ayes; it passes.

I'd now like to go on to the reaffirmation of the policy on health care for undocumented
immigrants, and call upon Governor Leavitt.

GOVERNOR LEAVITT: Governor, maybe you
should go to the next resolution because I’m not
familiar with my role on that resolution.

GOVERNOR THOMPSON: And we scripted it out
for you so well, Mike. I’m sorry. Thank you very
much.

The next one I’d like to call upon is
Governor Voinovich, who is going to consider and
discuss a new policy for NGA.

Governor Voinovich?

GOVERNOR VOINOVICH: I already understand
from members of the executive committee that this may
be a very controversial amendment to the policy of
the National Governors Association.

As a preliminary to the discussion, I
might add that there’s 102 professional major league
baseball, basketball, and hockey franchises located
in 40 American cities in 24 states. So there is a
lot of activity in the area.

I particularly became involved in this
issue because of the fact that I have a major league
football team in Cincinnati and one in Cleveland, and also major league baseball teams in both cities.

In the instance of Cincinnati, the owner of that club, Mike Brown, came to the community and said to them, "I've got to have a new facility. If I don't get the new facility, I'm going to have to leave town."

Last week I was in Cincinnati to kick off a campaign to increase the sales tax in Cincinnati and Hamilton County, to build new facilities for both the Reds and the Bengals.

Up north, where I was mayor for 10 years, as many of you know, the Cleveland Browns suddenly made a decision to move out of town, and that has involved a great deal of my time, along with the time of the Mayor of the City of Cleveland and many other people way beyond perhaps what we think is needed in terms of its priority. But anyhow, we've been involved in it.

One of the things that I discovered is that the National Football League indeed is trying to keep control of what's happening among their members.
But one of the major problems that they have is that the antitrust laws of the United States make it very difficult for them.

For example, when Oakland decided to move to LA, Al Davis wanted to take them there. They voted not to move the franchise, and they were taken to court. And they had a $50 million fine to pay.

We think that we should have some recommendation in our NGA policy that suggests that they be given some type of antitrust provision so that when they do make a decision based on their criteria that they don't have to worry that they're going to end up in court.

Second of all, we think that the issue of tax-exempt financing is one that we should all be concerned about. For example -- and I'm sure that maybe Governor Glendening might explain this a little differently than I am here today.

(Laughter.)

GOVERNOR VOINOVICH: But the fact of the matter is that currently the Cleveland Browns have a leave to play in Cleveland until the end of the '98
season. The Cleveland Browns have had one of the best attendances in NFL history, at least over 75 percent, in periods of time when they were playing less than 500 ball. And the community came forward and said that they were willing to either build a new facility, or remodel the facility that now exists in Cleveland.

Unfortunately, the team has decided to move. And the place where they're moving intends to issue tax-exempt financing, which is going to cost the tax payers of the United States $35 million, including the people who live in the City of Cleveland.

Our feeling is that this is something that ought to be discussed by all of us because, not only do these teams have a big economic impact on our communities, but we're into an era right now where, if this isn't brought under control, as I mentioned to the league owners when I spoke to them in Atlanta, that those franchises are in deep trouble.

Because if the fans turn themselves off to organized football and don't show up at the stadiums,
they turn off their TV sets, they're not going to generate that big advertising dollar, and their franchises will lose value. As they lose value, then that has some dramatic impact on political subdivisions who have invested a great deal of money in those physical facilities.

So what we're talking about doing here today is to try and have some type of policy adopted that would at least speak out from this organization on the fact that we are concerned about this.

Now, resolutions have been adopted by the U.S. Conference of Mayors, and by the National League of Cities. I understand from talking to my staff that some of you have got some problems with this language. And therefore, I'm not going to ask you to approve it today. But I'd like to work with some of you who have some problems with the language to see if perhaps we can adjust it so that you would feel comfortable with it.

GOVERNOR THOMPSON: Thank you very much, Governor Voinovich.

Just as you were talking about the NFL and
moving football teams, we've got a great professional
quarterback here. And he says you're right on,
Governor Voinovich.

(Laughter.)

GOVERNOR THOMPSON: George, thank you so
very much.

I think, you know, Governor Voinovich has
really raised an issue that all of us have got to be
concerned about that have professional teams within
our states. We should discuss it.

And I appreciate, Governor Voinovich, your
not bringing the policy ahead at this point in time,
because I think governors need to be comfortable with
it.

George has asked that governors come up to
him and work with him on some language that they
would feel comfortable with. And I personally want
to do that, Governor Voinovich. Thank you very much
for bringing it up.

Governor Lowry from Washington.

GOVERNOR ALLEN: Mr. Chairman?

GOVERNOR THOMPSON: Governor Lowry first.
GOVERNOR ALLEN: Mr. Chairman, may I make a comment on Governor Voinovich's --

GOVERNOR THOMPSON: Governor Lowry wants to first.

GOVERNOR ALLEN: I'm sorry. Go ahead.

GOVERNOR LOWRY: Actually, I just liked the discussion here about the great football player, Jack Kemp. But I did want to add just a little bit to the discussion.

The Seattle Seahawks, with two days' notice, gave notice that they were up and moving with 10 years remaining on a contract. It was just about the worst type of performance, I think, that fits into Governor Voinovich's discussion.

In a publicly owned facility -- compare that to the Seattle Mariners, whose baseball franchise, who was losing money, but who had said for two years that they wanted to work something out. We had plenty of notice, and we did get something worked out. And we've saved baseball from having to move.

And so the difference between the way different franchise ownerships approach this problem
is significant.

I look forward to working with Governor Voinovich. But frankly, I'd like a stronger resolution than this because this is really the breaking of trust, the breaking of contracts, and just up and walking out for nothing but to make money.

And this is so unfair to consumers and fans all across the country. So I'd like to work with you on it.

GOVERNOR THOMPSON: Thank you, Governor Lowry.

Governor Allen?

GOVERNOR ALLEN: Yes, Governors. As far as this is concerned, I know there's a great deal of emotion that gets into sports franchises. I have a great deal of concern about us having any policy. I guess I have the complete opposite view than Governor Lowry of the State of Washington.

I think that you ought to look at this like you would look at any other economic development situation. It is a decision to be made by localities
if they're involved in it, or states if they care to 
get involved in it. In the event that the State of 
Maryland decides they want to do certain things, that 
is their business.

I think the implications of this on a 
resolution on this particular economic matter, I 
think is bad policy. I think it's a bad precedent. 
It would have us saying who can win and lose. 
Whether individual owners have less loyalty to 
communities than others, who are we to be sitting 
here judging, especially the federal government 
deciding who has the proper loyalty to the community?

The implications of this would be, when 
any company might move from one state to another 
because they may want to be in a state that has a 
right to work law, or they may want to be in a state 
where the taxes are less, or in a state where the 
regulations are more conducive to investment and 
prosperity for whatever product they may manufacture 
or assemble.

These are decisions that should be made by 
the marketplace, and as they may get affected by tax
policies. To say that individuals in one state are somehow subsidizing another because there's tax-free bonds, to me, you know, the logical conclusion is that somebody invests in an IRA.

And I suppose that that is having some impact on somebody in some other state because there's less revenue going into the federal government, or because somebody's getting a deduction for interest on the mortgage on their home, that somehow is affecting a taxpayer somewhere else because there's less revenue to the federal government to be spent on who-knows-what.

I think that so long as your federal tax policies make available to every American citizen the same opportunities and risk-taking, I don't think that we ought to be trying to favor winners or losers one way or the other. I don't think that it's right as a matter of emotion, I suppose, what is going on with some of these franchises that leave under the cloak of darkness and all of that.

And there's a lot of things that, you know, we won't agree are appropriate actions. But in
a free market system there are -- just like on the football field, there are winners and losers. And those decisions are made. And each jurisdiction has to make their own decision as to whether or not the subsidies or tax breaks that are given make economic sense.

Because I guarantee you, there are other transfers or movements or relocations of businesses that have a whole heck of a lot more impact on the community as far as jobs and investment and revenue than do sports franchises. That's why I have a great deal of fear and in fact opposition to us getting into this sort of matter, because of the implications and precedents it would set.

GOVERNOR THOMPSON: Thank you very much, Governor Allen.

I'd like to now more on to Governor Leavitt of Utah on the reaffirmation of the policy on health care for undocumented immigrants.

GOVERNOR LEAVITT: Mr. Chairman, my role in this resolution has come clear to me.
(Laughter.)

GOVERNOR LEAVITT: I move the reaffirmation of an existing policy.

GOVERNOR THOMPSON: That was excellent, Mike.

(Laughter.)

GOVERNOR THOMPSON: Is there a second?

GOVERNOR BAYH: Second.

GOVERNOR THOMPSON: Second by Governor Bayh.

Any discussion on this very controversial subject?

(No response.)

GOVERNOR THOMPSON: Hearing none, all of those in favor of this motion, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

(No response.)

GOVERNOR THOMPSON: The ayes have it; the motion carries.

I'd like to now call upon the Vice
Chairman Bob Miller to give a year to date financial update, and the report on the grants and contracts.

GOVERNOR MILLER: Anybody who desires to look at the actual numbers can look under Tab E of their booklet in front of them that outlines it.

In the fiscal year 1996 through the month of November, NGA shows a surplus of $400,000. Income is on target. Expenses are below budget. But that is mainly due to timing differences. And we continue to project a budget balanced for the fiscal year.

The second component is the approval of grants and contracts. Those are on pages 4 and 5, should you care to review them. If you have a question, please submit it in triplicate 30 days in advance. If you require an immediate response, Ray Shepach will do that.

Otherwise, I move both proposals.

GOVERNOR THOMPSON: Motion by Governor Miller. Is there a second? Governor Voinovich?

GOVERNOR VOINOVICH: Second.

GOVERNOR THOMPSON: Any discussion?

(No response.)

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GOVERNOR THOMPSON: Hearing none, all 
those in favor of the motion on grants and contracts, 
signify by saying aye. 

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, no? 

(No response.)

GOVERNOR THOMPSON: The ayes have it; the 
motion is granted. 

Now, ladies and gentlemen, we go into the 
second part of our program on tax reform. As all of 
us know as governors, tax reform is always a hot 
item, but especially this year. There is a 
discussion on the flat tax as well as tax reform, not 
only in Washington, D.C. and our nation's capital, 
but across the country. 

There are increasing concerns about our 
tax system. Number one, it is too complex for the 
average citizen to understand. The many deductions 
and credits distort economic decisions. And three, 
it stifles investment, entrepreneurship, and thus 
limits economic growth. 

There are several options on the table for
reform, that include various flat taxes that
eliminate most credits and deductions, national
sales, or value-added taxes, and consumption-oriented
income taxes such as those recommended by Senators
Nunn and Domenici.

Over a year ago, Speaker Gingrich and
Senator Dole asked Jack Kemp to chair a national
commission on economic growth and tax reform. The
purpose of the study was to first find out how
restructuring the tax code would unleash a greater
entrepreneurial spirit, foster economic growth
without inflation, and create opportunities for
people to escape poverty.

Mr. Kemp continues a long career of
distinguished public service, beginning in 1971 as a
nine-term Congressman from Buffalo, and later serving
as Secretary of Housing and Urban Development. Jack
Kemp is also the founding member of Empower America,
along with William Bennett, Jean Kirkpatrick and Ben
Weber.

Jack is an outstanding individual. He’s a
friend of all of ours, a great public servant, and
we're delighted to have him here this morning.

Jack?

(Applause.)

MR. KEMP: Thank you so very much, Tommy, distinguished governors, friends, family, and all of you involved in this incredibly important debate that discusses the future of America, whether or not the Browns will move to Baltimore.

(Laughter.)

MR. KEMP: Let me give you the supply-side, pro-growth hope and opportunity answer to this problem. A pro football team in every state and every city of the United States of America. This is not a zero-sum gain. We want every city, every state to participate in American sport.

I am delighted to be here. And talking about professional football, may I introduce the only woman in the history of America who is both the wife and mother of three pro football quarterbacks, my wife, Joanne Kemp.

(Applause.)

MR. KEMP: I guess I should explain. My
13 years in the American and National football Leagues, our oldest son Jeffrey played 11 years in the NFL, and our youngest son plays in Canada. So if you don't tell Pat Buchanan, I will say how important NAFTA was to the Kemp family when we exported our youngest son to the Canadian Football League.

(Laughter.)

MR. KEMP: I am of course well known as the Hubert Humphrey of the Republican Party, well known for the length of his speeches. But I will do something totally un-Kemp-like. I will keep within the 15 minutes to the best of my ability, and answer questions and turn it over to Byron Dorgan then who will trash everything I'm about to say.

Byron, it is a pleasure to be with you on the podium.

Let me start by saying a couple of summers ago Joanne and I went to China. We talk about crises in America. It's a much over-used word. In the Chinese language, there is no word for crisis. There are but two characters, one the Chinese character for danger; the other, the Chinese character for
Clearly, we can look upon this period in American history as one of incredible opportunity. The President of the United States in his State of the Union talked about the possibilities of this era.

And of course, we are well familiar with those men and women who have looked out on the future of this country and the world on the eve of the 21st Century, the next millennium, and recognized that we are probably faced with unsurmountable opportunities.

They are unsurmountable in terms of what we can look forward to as we approach the 21st Century.

In my opinion, we can't do it with an economy and that social contract that is so frayed by an economy that it is ultimately reaching a deficit, not so much in its budget, albeit that is a problem.

But the real deficit in America is the deficit in hope, and the deficit in wealth, and the deficit in employment, and the deficit in the potential of the American people. It is not that they have a deficit. It is that our economy has
somehow not performed up to standards.

It is true we have recovered from a recession in the early 1990s. But clearly, as you look at the morning paper, whether it's the Wall Street Journal or the Washington Post or Investors Business Daily, this economy is approaching perhaps a recession.

We had slow growth in '95, 1.9 percent. The predictions for '96 is that the economy will grow somewhere in the one percent range. There is no approach to balancing our budget with a one percent in '96 or '97. There is no way we can meet the social contract with the American people, jobs and opportunity, if the economy is not expanded.

This is not a football game. I heard Governor Allen give a very thoughtful analysis of how markets should determine ultimate decisions in the marketplace, particularly with regard to the choice of businesses or franchises of the National Football League or anybody else. But this is not in America a football game. This is not where one team is going to win and the other team is going to lose.
We can't have a country in which it's approached as a winner-take-all society. We have a family to think about, and America is one family, one nation under God. And we have a big stake in making sure that no one is left behind as we approach this 21st Century economy.

So in my opinion, tax reform is at the heart of opening up opportunity and opening up chances for growth. May I say parenthetically that the governors, Democrat and Republican, working on a budget compromise between a Democratic White House and a Republican Congress, are on the cutting edge of one of the most important things that our society can do right now.

And that is to give us a budget that restrains spending on Medicare and Medicaid; that restrains spending on government; that begins to approach the problem of welfare reform, Medicare reform, Medicaid reform; but clearly in my opinion also reduces the tax burden, not just on the family, but on the economic opportunities for a growing entrepreneurial society that calls, in my opinion,
for a strong approach to the effort that’s being made in this body for a welfare reform approach that can be supported by both parties.

I think we need a budget. The Congress, both Democrat and Republican, recently passed a telecommunications bill. Most Democrats and most Republicans supported it enthusiastically, recognizing that it is not only going to help us as we approach the millennium have a telecommunications policy that will open up competition.

But it will create thousands if not millions of new jobs. Certainly in the next century it will. And I want to applaud the Senate and the House for coming together on a bipartisan basis. But if we can come together on a bipartisan basis over telecommunications, we must in my opinion come together on a bipartisan basis on a budget.

Again, it doesn’t have to be win-lose.

Both President Clinton, Bob Dole, Newt Gingrich, Republicans and Democrats alike in the Senate and the House have a big stake in getting a budget that, as I suggested, can restrain spending, bring our budget...
into balance over the next six or seven years, and
indeed reduce the tax burden on the family, probably
the over-taxed institution in the United States of
America.

Let me say parenthetically when the
American family back in the 1950s and '60s -- my
family was just beginning. Joanne and I got married
in '58, had one child in 1959. Probably two to three
percent of our income was paid at the federal level
to income taxes.

Today the median family income in the
United States of America pays 26 to 27 percent of its
income to the federal government in the form of
taxes.

The federal government's share of revenue
has increased by 58 percent over the past 20 years.
But the median family income has not kept up. In
fact, prices have more than doubled over wages in the
past 20 or 30 years.

We need a society in which wages double
over prices in the next 20 years. And the only way
to get from here to there is to reduce the tax
burden, in my opinion, on middle-income working men
and women, on labor, on capital, and on
entrepreneurship and success.

In 1980, I had the opportunity to speak at
our Republican Convention. To quote myself,
something I love doing --

(Laughter.)

MR. KEMP: I can remember in 1980 saying
that we have a problem in America. We are taxing
certain things and subsidizing other things and that
we had it upside-down. I suggested that if you tax
something, you get less of it. And if you subsidize
something, you get more of it.

And in America, we were taxing the worker,
the saver, the investor, the producer, the
entrepreneur, and the men and women of achievement,
production, output, and success; while subsidizing
welfare, unemployment, debt, consumption, idleness,
mediocrity, and leisure.

And we had to change it. We began to in
'80. It was all predicated upon the Kennedy tax rate
cuts of 1962, in which he said, "It is a paradoxical
truth that high tax rates cause low tax revenues."

And the best way to get more revenue for government
is to bring down the tax rates on working, saving,
investing, producing, and expand the economy.

He said, "There's not to be a tradeoff
between the budget and cutting the tax rate." He
said that's a false dichotomy. In his speech to the
New York Economic Club in 1962, he suggested that,
"You cannot get to a balanced budget unless you bring
down the rate of taxation on the factors of
production, and grow or expand the economy."

Well, you can say that this is a partisan
issue. Bob Dole and Newt Gingrich appointed Jack
Kemp, a well-known partisan, Abraham Lincoln, 18th-
Century liberal Democratic bleeding heart
conservative Republican.

But clearly, as Tommy Thompson pointed
out, Senators Nunn and Domenici got together on a tax
reform package. It's not something that I am
thrilled about. But at least they began to suggest
that we should repeal the whole code, start over,
tabula rasa, and design a new system.
I think there is an emerging consensus -- Dick Gephardt has said the same thing. Remove the whole system and start over. He wants a 10 percent tax rate on 75 percent of the American people, with a 34 percent tax rate on capital gains, and income above a level -- I think it’s $250,000.

But irrespective of that, there is an emerging consensus, I think in this country, that Republicans and Democrats alike can agree on, that the current code is costly, cumbersome, and confusing. It takes 5.1 billion hours -- not according to Kemp, but the IRS -- in order to fill out taxes. It costs more than $200 billion to raise $700 billion in income tax. It costs us almost 25 percent of our income tax revenues to support raising it, which is just absolutely mind-boggling to think of the consequences of a $200 billion cost.

It’s clear that our system is not working. As I suggested, prices have risen twice as fast as wages. And I want to suggest, that is unacceptable in a modern day democracy, particularly one that wants to teach the rest of the emerging world,
particularly in Eastern Europe, how to form a
democratic capitalistic society.

Some thoughts. We had six months of
hearings. We had over 1,000 witnesses, spent over
2,000 or 3,000 hours of testimony, went through South
Central Los Angeles and Silicon Valley, California,
to Omaha, Nebraska, to Boston, Massachusetts,
Charlotte, North Carolina. Went to East Harlem, and
Howard University.

We heard from low-income working men and
women, as well as minority entrepreneurs that the
cost of capital and the inability to get access to
capital is denying people their chance to get a stake
in the American system.

And I would make a case that revenues have
not gone up in the last four years with two tax
increases. Revenues when Ronald Reagan left office
in 1989 were 8.9 percent of our gross national
product from income taxes. Now they're 8.2 percent.

I'm not making a case against the
President. I am making a case that the rates are too
high on working and saving and investing, and of
course entrepreneurship.

We finished our report by suggesting that there is a way to solve the problem in our opinion for the middle class that would relieve the burden on the poor in toto, and bring down the tax rate on labor and capital, take out the whole system, take out 7,000 million words of IRS regulations, and replace it tabula rasa with a single tax rate on income, taxed but once.

I don't know. I was accused by the Washington Post of not suggesting what the rate should be. We didn't suggest the rate because we wanted to lay out a philosophical road map for this country to move into the next century. But we suggested in our press conference with Bob Dole and Newt Gingrich that the top rate ought to be closer to 20 than to 40. I would prefer 19.

But whether it's 19 or 17 or 32, or whatever it is, it seems to me that Republicans and Democrats can agree that we cannot solve our problems in America, and you can't solve the problems of your fiscal situation, without a growing economy.
And really, the federal government has a large responsibility for the size of the economy because of the impact on interest rates of the Federal Reserve Board, the impact of regulations on entrepreneurship and output and production, and of course, what the tax code does to the ability of people to make decisions to work, save, invest, and produce income.

I think the rate should be 19, hypothetically. We think there should be a large exemption for the poor. Low income people face the highest income tax rate in America. Someone challenged me the other day to prove it.

Well, if you're on welfare in any state in the union, almost, and you take a job -- if a woman with two children takes that job, she loses welfare and health care and food stamps, and they hit her with a payroll tax, which according to most analyses, is the toughest tax on the first five or six rungs of the ladder.

So we suggest that, not only should there be a large exemption for low-income people, the
payroll tax should be fully deductible. And whether
you leave in the earned income tax credit or not is
less important than the fact is, we must do something
about the impact of the payroll tax on an unemployed
father or a welfare mother taking his or her first
job in our society.

Tax income once. Whether you tax it on
the business side or to the side of the recipient,
clearly it ought to be taxed once. When Joanne and I
were in Budapest, Hungary two years ago, we heard
Vaelar Klaus tell us, when I asked him if he was
going to raise the tax on capital gains in the Czech
Republic, and he laughed and said, "Oh, Mr. Kemp,
we're not going to do to our new country what you
have done to your country. We're only going to tax
income once."

They had a flat income tax rate. They
don't tax capital gains. They don't tax -- double-
tax dividends. They don't even tax inheritance
taxes. I frankly think states should have the
opportunity to tax wealth that is passed on to
children. But it ought not to be the federal
government's purpose to redistribute wealth. It ought to be the purpose of the federal government to create the conditions for a growing economy.

Let me just stop with this thought. A tremendous debate is taking place. But the one thing about which liberals and conservatives, Republicans and Democrats, big state governors and smaller state governors and mayors, to whom I spoke last week to the U.S. Conference of Mayors -- whether, I said, it's city or suburb, we have a stake in getting this economy growing to higher levels.

And my hope would be that we at least make it as a national goal, in both the Republican and Democratic conventions this summer, that we double the rate of growth.

Someone said, "We can't do it." Robert Samuelson of the Washington Post said, "There's no way Kemp could possibly get the economy to four percent growth." He said, "The highest our country has ever grown for any period of time was 3.9."

At 3.9 percent growth over the next seven years, you'd have a budget surplus. You'd have more
than 25 million new jobs. The GNP would be $3 trillion higher. And the deficit would be lower, without gouging or cutting programs instrumental to the social fabric of our society.

I want to close with this thought from Mr. Lincoln. He said, "Our system was founded on a great principle." He said, "The progress by which the poor, honest, industrious, and resolute man" -- excuse me, ladies, this is the way they talked in 1961. Today all of us are politically correct, and wisely so. We'd talk about resolute men and women.

But Mr. Lincoln said, "The progress by which the poor, honest, industrious, and resolute man raises himself is that he may work on his own account, and be able to save, and someday be able to hire others to work for him. This the great principle for which this government was really formed."

Let me close with this thought. Class warfare is unbecoming, Democrats and Republicans. I am embarrassed that in my party, one of our leading candidates has been attacked for being rich. I've
been attacked for helping the rich. It is unseemly
to have in either party a campaign being run on class
warfare or class distinction.

We have a stake in each other’s well
being. How do we get capital into the hands of those
who have no capital, if it is not by unleashing and
liquefying the markets of America?

Someone suggested that cutting the capital
gains tax in this budget, as being suggested by some
Democrats and Republicans for a budget compromise,
would unlock close to $6.7 trillion of capital.

Where’s it going to go? It is not going
to go into consumption. There’s only so much
consumption that one can make. It’s going to liquify
our markets. It’s going to flow into our inner
cities. It’s going to help the poor get jobs. It’s
going to help people not only get access to being
truck drivers, but someday being truck owners and
starting their own businesses.

In my opinion, there’s so much that has to
be done. I would hope that we end any smacking of
envy in the tax code. The tax code is not meant to
redistribute wealth. It is meant to create the conditions in which people can unleash their own talent, their own potential, and their own resources so that we can get this country to the highest level of opportunity for all of the American people.

I want to thank you for giving me a chance to come by your very important meeting. I think this is the most important meeting going on in the United States of America because next week we're either going to make it or break it in terms of getting a budget compromise.

And I personally believe that it is absolutely essential, not only to reduce the tax burden on the family, but to reduce the tax rate burden on the formation of the capital, so important to the future of this economy because all of you have a big stake in making sure our economy grows by more than one percent in 1996.

Thank you very, very much.

(Applause.)

GOVERNOR THOMPSON: Thank you very much, Jack. I want you to know I have been with you on
many occasions and listened to you hundreds of times in your speeches. That is the fastest you’ve ever completed a speech, and I compliment you on it.

(Applause.)

GOVERNOR THOMPSON: Questions of Secretary Jack Kemp?

Yes, Governor Bayh, then Governor Whitman.

Evan?

GOVERNOR BAYH: Mr. Secretary, I’d like to know your position or your opinion on the deductibility of the home mortgage interest? And in the absence of such a deduction, what in your opinion would be the effect on housing prices in the country?

I know this is an issue that many middle Americans are concerned about.

MR. KEMP: Governor Bayh, in my opinion, being an old unemployed HUD Secretary who tried to stress ownership and expanding ownership, both of businesses and of homes for low-income people, particularly in urban America, I am very sympathetic to the deductibility of mortgage interest.

I think it is a misnomer to fight this out.
so early in the debate because it is not the most
critical issue. But it is an important issue, so I
would say leave it in. It is moot.

If the lending institution pays tax on the
interest it earns from a mortgage, then mother and
dad, the homeowner, should be able to deduct that
interest. It is a wash to the Treasury.

We can design a tax system that would
allow for the full deductibility of the payroll tax,
the deductibility of interest on mortgages, and
charitable contributions, because one other thing I
learned at HUD is that the Salvation Army, Habitat
for Humanity, Christmas in April, Catholic Charities,
United Jewish Appeal, Boys and Clubs of America do a
far better job of taking care of low-income people
than HUD was ever able to do in the last 30 years of
its creation.

(Applause.)

GOVERNOR THOMPSON: Governor Whitman?

GOVERNOR WHITMAN: Yes, Mr. Secretary.

You mentioned what the top rate should be. Is there
any reason to concern, or is there any way that you
have in the study that you did that you addressed the
issue of, how do we stop it?

I mean, it may be great to have a
simplification or a flat tax at 17 or even 20
percent. But if it gets to 30 or 35 -- I don't think
it would happen with this Congress -- we're going to
see changes and back to spending ways.

MR. KEMP: In 1986, as Governor Whitman
pointed out, we thought we had the rate down to 28.
It went up to 32, and then up to 40, as it is today.

In my opinion, having left this out of my
speech, I appreciate very much the question. I think
the tax code should be stable. I think it should be
locked in. I think it should take some form of a
constitutional majority to be able to raise that
rate.

But I would suggest one way to keep it
stable is to make it very visible, put it low enough
so the American people can see it, and then have a
national debate every two years or four years over
whether or not raising that tax rate would be good
for the economy.
In Hong Kong, they've got a 15 percent income tax, a 16 percent corporate income tax, and a zero capital gains tax. And the last two members of the city council who tried to raise it were defeated. That's ultimately the only protection you have in a democracy, is that when people come up with stupid ideas, they don't get elected.

But I think there should be a constitutional majority to have to raise that rate.

I pick 19, incidentally -- and this is Sunday, so I will give you Genesis 41:34 in which Joseph, the little 19-year-old Jewish boy sold into slavery to Pharaoh's Egypt by his jealous brothers, told Pharaoh, if he wanted to get the economy growing again, stupid, he should cut the top tax rate from 80 down to 20.

Well, you've got to read between the lines. But clearly, he said, "Take up to one-fifth, no more." And that sounds to me like a pretty flat tax rate. I would be happy to start at 25 and go down to 19, with the fiscal dividend, in my opinion which would come as a result of lowering tax rates on
labor and capital.

GOVERNOR THOMPSON: Governor Engler?

GOVERNOR ENGLER: Mr. Secretary, I very much appreciate your comments this morning. I find myself in accord with what you're saying, and I think you made a point about the unseemliness of this class warfare.

But I think in this debate, one thing that's lost sight of -- it's in many ways the segment of the population that's sometimes very difficult to communicate with, those at the lower end of the economic ladder. Under these proposals, I think there's a common ground, at least in the treatment of lower income populations.

What's your sense in terms of being able to get this point across, to sort of push it through the clutter of the debate? Because those incentives, in terms of moving people off of welfare, or keeping somebody from falling into welfare, and helping those who are working hard, but feeling like every day they get further behind -- there's an awful lot of optimism in this message.
And I'm struggling a little bit, how do we overcome some of the clutter out there? Because this is a critical, critical point for, I think, the national debate.

MR. KEMP: An 11th Century Talmudic philosopher, Maimonides, said, "The noblest charity is to prevent someone from having to take charity."

The highest form of charity, Maimonides said in the 11th Century of the Talmud, is to create a job for someone so they could take care of themselves.

It seems to me you cannot create jobs when you over-tax the men and women who create the jobs. I would suggest that the Fortune 500 do not create the jobs. As every governor in this room knows, the ultimate generator of new jobs are those men and women who start the new ones. According to David Birch at MIT, they create 91 percent of all the new jobs in America.

Clearly, if we want a high-growth economy and a high-job-generating economy, we should eliminate the tax on the capital gains of those men and women who begin to start those new businesses.
Someone said, "Well, isn’t that going to help the rich?"

I tell people -- I would have liked to have spoken to the Million Man March on this issue. I tell folks all over this country, the rich are already rich. If the tax code was supposed to help the poor, how is it helping the poor to allow the top one percent of the U.S. taxpayers and income levels to be able to generate 95 percent increase in wealth over the past, say 25-30 years?

The system isn’t working. So maybe we ought to, as Emerson warned us -- he said, "You cannot see the field well from within the field." As an old quarterback, every now and then, you’ve got to step out of the field and look down in order to see a bigger perspective.

And I think, John, you’ve raised a great issue. You cannot help the poor by soaking the rich. You help the poor by giving them access to the opportunity on that ladder so they can get rich themselves. And ultimately, to be rich in America is to be, not only rich in creature comforts, but to be
rich in jobs, education, a savings account, ownership of property, access to capital, and a chance to move from being a truck driver maybe someday to be a truck owner.

I'm very sensitive to this. My daddy was a truck driver who bought the truck and started a trucking company that put four boys through college in the 1940s and '50s. In my opinion, I think we could as Democrats and Republicans agree upon one thing in '96, that we're going to start over, replace the code, commit ourselves to high levels of economic growth, the type of welfare reform that's being discussed and debated and actually carried out in the State of Wisconsin and Michigan and throughout this great country, and commit ourselves to doubling the size of the U.S. economy in the next 10 years.

That would give us a $12 trillion economy, $1 trillion more of revenue, a lot of new jobs, and an opportunity to really have a debate on other peripheral issues.

But let's not get hung up on class warfare in 1996. I must go. But I wish you well, and look
forward to your effort to make sure we get a budget, because I think it would lower interest rates and lower tax rates on families, and the formation of new capital.

Godspeed to each and every one of you.

(Applause.)

GOVERNOR THOMPSON: Thank you very much, Congressman and Secretary. It’s always a pleasure to hear from you. Thank you very much.

I’d like to call Governor Ed Schafer to the podium to introduce our next speaker.

GOVERNOR SCHAFER: Esteemed colleagues, it is true we North Dakotans sent a tax collector to Washington to represent us in the U.S. Senate. Senator Byron Dorgan’s long public service career started in the State Tax Department. Soon after he received his masters degree.

His performance there led to an appointment to Tax Commissioner. And at 26, he became the youngest constitutional officer in the history of our state.

He was subsequently elected twice to that...
position, and was chosen as one of the 10 outstanding
state officials in the United States by Washington
Monthly.

In 1980, Byron was elected to the U.S.
House of Representatives, and spent 12 years there.
I know first hand his acceptance by the people of
North Dakota, for I challenged him in 1990 for his
fifth term in the House. And after a hard-fought
campaign, Byron managed to eke out a victory by a
mere 65 percent of the vote.

He is now serving his first term in the
Senate, having won an impressive victory in 1992. He
is the Assistant Democratic Floor Leader, and Vice
Chairman of the Ethics Committee.

In this session, we’re talking about
numbers and tax policy, and how it affects the
budget, and importantly, how it affects other
people’s pocketbooks. We have some interesting
numbers in North Dakota, too. In Rock Lake, North
Dakota last week the wind chill temperature reached
minus-102 degrees. The good news though, this
morning it is only 16 below.
That kind of reminded me, when I was in Las Vegas not too long ago for a Western Governors Association meeting, I was visiting with a person in the hotel. He said, "How are the winters in North Dakota?" I said, "They're cold. It could get to 40 below." And he looked at me and said, "Forty below what?"

(Laughter.)

GOVERNOR SCHAFFER: Interesting perspective. But it is a dry cold.

Numbers are important to our state. I'd like to remind you that our tourism number is 1-800-HELLO-ND. And numbers are important to the Senator as well. He's proud to tell you that he graduated fifth in his high school class.

It is my pleasure to introduce to you the Senator from the great State of North Dakota, Senator Byron Dorgan.

(Applause.)

SENATOR DORGAN: Thank you very much.

There were nine in my high school class.

That's why the Governor mentioned that. I come from
a town of 300 people. I was the first baby of the year. My folks got all of those presents you get. I was born May 14th. You didn’t have to be born real early to be first in a small town.

(Laughter.)

SENATOR DORGAN: Following Jack Kemp is really quite remarkable. I served with Jack for many years in the House of Representatives. And typical this morning of Jack is, I think he philosophically weaves a wonderful garment, and is one of the brightest, most interesting, thoughtful people I know.

The details occasionally get missed. My name is Byron, not Brian, per Jack’s introduction. Jack cloaked his presentation of the flat tax. In support, he drew from the Scriptures. He said he was supported by the Bible. He said he was supported by an 11th Century philosopher, and also seemed to suggest he was supported by Abraham Lincoln.

Now the fact is, none of us know very much about this subject. And I thought I would quote Ogden Nash about a man who drinks too much and a
woman who nags him about it. "He drinks because she scolds, he thinks. She scolds because he drinks, she thinks. Neither will admit what's really true: He's a drunk, and she's a shrew."

(Laughter.)

SENATOR DORGAN: The fact is, none of us know very much about this subject, taxes and economic growth. There's a notion, it seems to me, especially listening to Jack and others, and probably listening to me, that we have an engine room on this ship of state, and in this engine room, there are dials, knobs, and gauges, and levers. And if you simply adjust them all exactly right, taxes, M1B, and all the other notions -- just get all of them adjusted right, and the ship of state moves right ahead.

The fact is, that's not what moves the ship of state. We I think, almost all of us who talk about economic theory, have an over-inflated sense of self-importance. No one I know knows very much about this subject. I used to teach economics, actually part-time. I taught economics in college for a couple of years, and was able to overcome that
experience nonetheless and go on to other pursuits.

My notion then was that economics, the study and field of economics, was largely psychology pumped up with a little helium to demonstrate that nothing really seems as it is. The Federal Reserve Board exists in this town. All of you know that. It’s in a big concrete bunker over here not too many blocks from where you meet today.

They’ve got folks sitting in there who would never have to see the sun in order to do their jobs. They could sit in some concrete enclave and just whir all their computers and use all their numbers. And you know what they do? They decide with their models that a car accident is economic growth. They decide that Hurricane Andrew was one-half of one percent of economic growth for America. That’s the way they look at the economy.

My point is, no one here knows very much about what’s happening. But the central thesis of Jack Kemp is one that I share, and one that I think most of you share: This country can and should experience better and more robust economic growth.
And providing that kind of economic growth will offer and provide more opportunity for everyone in this country.

The question is, how do you get that?

Some maintain that the central economic issue of the day is, shall we have a flat tax? And if we do, will the flat tax spur new economic growth in America?

In 1986, we went through an enormous tax reform effort in the Congress. And we destroyed, virtually destroyed the entire tax shelter industry in America. You'll recall all those folks whose business was to get good grades and graduate from college, and then go to work trying to figure out how you avoid taxes and make millions of dollars advising others how they could save millions of dollars by sheltering their income.

We don't have much of a tax shelter industry in America anymore because we decided with the '86 tax reform effort that we were going to have the market system send signals about whether apartment buildings needed to be built, not the tax
code. We’ve made some real progress.

However, in 1986, the effort was fairness and a more market-oriented tax system. But it was not simplicity. The tax system is not as simple as it should be. Jack Kemp is correct about that.

But what do we do to simplify it without undercutting the central fairness of a tax system?
If I might, just in a thumbnail sketch, give you the context in which we debate this -- and I’ll get you back on schedule here, I won’t be long.

But the context is this. We have a $7.5 trillion economy. The federal government has a budget of about $1.5 trillion. We have a $160 billion budget deficit if you don’t count the Social Security revenues, which are now being misused, which adds another $70 billion to the deficit.

We have a merchandise trade deficit in American today that exceeds the federal budget deficit. But there’s almost a conspiracy of silence about it. You won’t hear anyone speak of the trade deficit. You can reasonably make a case, although in my judgment it wouldn’t be a good case, that the

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budget deficit is a deficit we owe to ourselves
because it’s unequally held. We wouldn’t want to
decide to repay it immediately because we’d have a
mal-distribution of income.

But no one can make the case that the
trade deficit must be repaid with a lower standard of
living in our country. It must be repaid with a
lower standard of living in America. And we have a
higher trade deficit, merchandise trade deficit, now
than we have a budget deficit.

We have a global economy. We operate in a
global economy. The stock market is at record highs
in this country. Profits are at record highs.
Productivity is on the rise. And as Jack Kemp
mentioned, accurately so, wages are down in real
terms. Sixty percent of the American households now
have less income per worker than they had 20 years
ago. And that’s a real problem.

We spend more on gambling than we spend on
defense. We have 23,000 murders. We have somewhere
around 110,000 rapes and a million aggravated
assaults in America. We have about 10 million people
out of work, 25 million people on food stamps, 40 million people living in poverty.

About 1.25 million babies will be born this year out of wedlock; 900,000 will never in their lifetime learn who the father was. And some will take those numbers together and say, "This is an awful place. This place is a terrible place to live."

But as all of us know, the other side of this is, we’ve got people talking about building fences around our country to keep people out. We don’t have people rushing to leave America. We’ve got people trying to get into this country because the other side of the equation is, this is a wonderful place with a lot of good news.

Good news doesn’t get much attraction these days. The old story, bad news travels halfway around the world before good news gets its shoes on, all of us in politics especially understand that dimension.

In the New York Times, I read about a fellow who died some months ago. And I called about
it because I was curious. Stanley Neuberg -- Stanley
died and did something unusual. He came to this
country -- when I called and found out about him --
he came to this country with his parents, fleeing the
Nazis and persecution of the Jews in Austria; reached
New York with nothing; and with his daddy, walked
beside his daddy day and night on the lower East Side
of New York peddling fish.

That's the way they made some money. They
made enough money so Stanley could go to school.
Stanley went to school, did very well; went to
college, did well; went to work for an aluminum
company, did very, very well; rose to manage the
aluminum company, and then bought it and made a lot
of money.

And then he died. And when Stanley died,
they opened his will. And he left $5.7 million to
the United States of America, with, he said, this
admonition: "It's with gratitude for the privilege
of living in this great country." And I thought to
myself, that's pretty remarkable. That's the kind of
news that won't get spread very far, I suppose. But

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he understands, and so many others do, what we have
in this country -- opportunity.

The question is, in the context of all of
these discussions about who we are, what we are, and
where's headed, can we provide, or will we provide
better opportunity in our country by changing the tax
code, and therefore triggering more economic growth?
And that's the central question, I think, that Jack
Kemp asks.

The flat tax is not a new idea. In my
judgment, we should have substantial tax
simplification. I think it's very important for us
to change the tax code. And I would agree with some
of the tenets discussed by Jack Kemp.

The interesting thing is, two-thirds of
the American people pay more in payroll taxes than
they do in income taxes. Payroll taxes in this
country, in my judgment, are becoming too high.

We say to people, "If you have a choice
between hiring a machine and hiring a human being --
there's no choice. We're not even going to give you
a choice." Our tax system says, "Hire a machine, for
God's sake. We'll give you a tax break if you hire a machine. We'll allow you to write it off on an accelerated basis.

"But you hire a human being, guess what happens? We use that as a clothes hanger to hang on all kinds of social costs."

Our payroll taxes have gone up and up and up and up. The act of creating a job becomes an act that says, "We're going to require it to bear a substantial increase in tax responsibility." Well, it seems to me we ought to address that. There are a lot of ways to address that.

But that is not the same issue as addressing the question of, what kind of an income tax do we collect in this country? The flat tax, the so-called flat tax, as I said, is not a new idea. It's been around for many, many years. Congressman Armey offered, I think, the first flat tax in the Congress. Mr. Forbes running for President offered the next real major flat tax proposal, and it became part of the debate.

There are three in my judgment central...
problems with the flat tax. First of all, of those
proposed, it is not flat. It is a 17-percent tax
rate on people who work for wages and salaries, and a
zero tax rate for people who receive their income
from inherited wealth or capital gains or interest or
dividends. So it is not flat. It is two rates, 17
percent and zero.

Second, it doesn’t add up. Senator Dole
has an ad on the air in the primary states, which is
an accurate ad, saying that the Steve Forbes plan
will add $186 billion to the federal deficit a year
because it doesn’t raise enough money. This plan
adds $1 trillion to the federal debt in seven years.

Well, heck, if there’s no requirement to
have it add up, then I’d like to weigh in with a
three percent, and probably make the three percent
only on investment income, and zero percent on work.
It seems to me that there must be some requirement
that it must add up. And the major proposals, both
the Armey proposal and the Forbes proposal, simply
don’t add up. They’re not flat. They don’t add up,
and they’re not fair.
The two major proposals eliminate the earned income tax credit. The result of it would be, people who are now in the roughly $20,000 income bracket would end up paying more in taxes than they now pay. And someone in the $300,000 bracket would receive about $330,000 tax cut.

So on the lower end of the scale, you end up paying more. The upper end of the scale, you end up paying a lot, lot less.

I'm not going to quote an 11th Century philosopher. But let me quote my Uncle Joe.

(Laughter.)

SENATOR DORGAN: My Uncle Joe -- we were talking about this. My Uncle Joe says, "Here's the way I figure it. If the poor end up paying nothing, and the wealthy end up paying less, it seems to me that there's not much room left in there for me. It seems to me like I'll probably end up paying more."

And Uncle Joe had it right. The fact is, those folks in the middle are going to end up paying more, assuming that you have to raise the same amount of revenue.
Now, let me just conclude with a couple points. We have some very significant economic challenges which should be addressed through thoughtful, new, innovative, and exciting approaches, by you and by us and by the American people.

We should eliminate the trade deficit. That ought to be something all of us ought to work on together on a priority basis. We ought to restore good jobs by eliminating the trade deficits, which can bring jobs back to this country. I notice those Hershey's kisses in front of all of you. You know, they're Mexican now. They used to be made here in America, but they're made in Mexico.

I could talk an hour about NAFTA and trade, but I won't do that.

We've got to reduce the trade deficit, which will restore more jobs, back into this country. It's fine for us to say, "Let's have the American worker compete with two or three billion others around the world." But the American worker can't and shouldn't be asked to compete with someone who works 14 hours a day for 14 cents an hour when they're 14
years old. That happens all too often, and it
happened to help to create the trade deficit that we
now experience here in this country.

We need to find ways to produce more here
at home. Those who measure, including the Federal
Reserve Board, and virtually everyone else, measure
economic health on what we consume, do no service to
this country. The issue is not what we consumed this
month or last month or last year. The issue is, what
do we produce in America?

The genesis of economic health, in my
judgment, relates to having a healthy, vibrant,
productive sector. That's the sector that produces
good-paying jobs in the future in this country.

The second thing, in addition to dealing
with the trade deficit, we have to get more economic
growth. And one of the ways we ought to do that is,
all of us to the extent we can ought to try to find a
way to bring the Federal Reserve Board to change
their modeling techniques. If we live in a global
economy, then they ought not model with 50-year-old
models.
The fact is, the Fed says, "If we have less than six percent unemployment, it's a bad thing. If we have more than three percent economic growth, it's a bad thing."

I mean, I don't understand the Federal Reserve Board sitting there with a foot on the brakes suggesting that we can't tolerate any less than six percent unemployment, and can't tolerate any more than three percent economic growth.

Jack Kemp and others are exactly right. We can and should have better economic growth numbers in this country. In this global economy, with more accurate modeling, I think even the Fed would understand that we don't have inflation clouds over the horizon. Those sudden interest rate increases that they gave us, they were wrong. They said they were wrong, and in retrospect it's clear they were wrong.

Third, we should simplify our tax system. There isn't any question about that. We have to deal with this issue of payroll taxes, and see if we can find a way to create a new tax system that recognizes...
that, if you start taxing the way we do at our
levels, the creation of jobs, you're doing no service
to your productive economy.

And I would say one other thing. There's
one tiny little insidious provision in our tax laws
that says, "Let's provide a tax break." If you close
your plant in America and move it overseas, any
country that decides that it ought to give a tax
break for those who move their jobs overseas is not
thinking very straight.

If we can't close that little insidious
tax break, there's something wrong. I offered an
amendment on the floor of the Senate and lost four or
five votes on a partisan vote. We ought to at least
start down this road of saying, "We ought not to have
imbedded tax incentives in our tax code that make it
more attractive to move American jobs overseas."

Let me conclude by just mentioning one
other person who I served with in the House of
Representatives, Don Sundquist and Mike Lowry and
others will know here, Claude Pepper. Claude Pepper
was a wonderful man. In the first week I came to
Washington, came to Congress, I walked into Claude Pepper’s office. He was the oldest person here.

One of the sights I saw in his office as I walked in were two pictures behind his chair, hanging on his wall. And I’ve never forgotten it and what it represents.

Claude Pepper had a picture of Orville and Wilbur Wright making the first airplane flight. And it was autographed to Claude. Orville Wright autographed it to Congressman Claude Pepper:

"Regards" -- and it was Orville Wright before he died, and then underneath it a picture of Neil Armstrong standing on the moon, autographed, "To Claude Pepper."

It occurred to me, when you think of what it means between going from the ground to the air to the moon, the technology, the burst of progress in this country, what this country accomplished in dozens of areas, yes, that’s technology. Medicine and education and so many areas -- sometimes we take all of that for granted. We have had a remarkable history of achievement, and I think we’ll have a
remarkable future of achievement.

These kinds of discussions and debates about flat taxes and budgets are good. I mean, it’s what this country needs to do. It’s what our political system is about. And through it all, I hope that, instead of getting at the worst of what political parties have to offer, we can get the best of what both political parties have to offer.

Because I think there is a reservoir of good ideas all around this country, from every corner and every source that will advance this country forward in the future.

Thank you very much.

(Applause.)

GOVERNOR THOMPSON: Senator Dorgan is willing to answer some questions. Any questions?

Yes, Governor Nelson.

GOVERNOR NELSON: Senator, would you describe the effort at working for a flat tax for fairness and equity, a typical effort where there tends to be a belief that somehow everybody will pay less, but somehow we’ll raise more? Would you
describe it that way? Or is that a fair assumption?

SENATOR DORGAN: Yes.

(Laughter.)

SENATOR DORGAN: I think you’ve said it well. I think the basic thesis here is that, if you simply cut tax rates generally for everybody, that somehow you will end up getting more from everybody. I think that’s an acceptable way of describing that particular philosophy.

GOVERNOR NELSON: Part of the philosophy goes that, if the taxes are actually reduced as to rate, there will be more money flowing through the economy for more jobs. And somehow, that will come back in to increasing the amount of revenue by rate.

SENATOR DORGAN: Right. And I think if all of you as governors, or all of us in Congress could get a revenue estimated to share with us, if we can reduce all these things, that there will be this nirvana in the future and a burst of new revenue, we’d have a much easier time moving legislation forward because you could propose all kinds of constructs, and maintain that, even though you’re
reducing your tax base, you’re actually going to get much more revenue.

You could do a lot of creative things. Of course, the Congressional Budget Office will not allow one to do that.

GOVERNOR THOMPSON: Governor Engler?

GOVERNOR ENGLER: One of the people that Secretary Kemp quoted was President Kennedy. I was wondering if you could just walk us through the fallacy of the Kennedy argument that was quoted by Kemp. Why didn’t that work?

SENATOR DORGAN: Actually I missed the Kennedy quote. Did he quote Kennedy?

GOVERNOR ENGLER: Yes, he did, the 1962 speech to the New York Economic Club. He has been talking about reducing capital gains rates, and the idea of bringing those down.

I certainly take it from your comments you disagree.

SENATOR DORGAN: No, not at all. It’s interesting. Go back for a moment and think through what President Kennedy was proposing. President
Kennedy was proposing bringing capital gains rates down to 28 percent. Ask yourselves, what is the capital gains tax rate in America today? Twenty-eight percent.

I mean, I think that we have a circumstance where, in the 1950s, the top income tax rate was 90 percent. In 1980, the top income tax rate was 70 percent. In 1981, the top income tax rate went down to 50 percent. It has systematically been reduced, moving in the direction that most Americans wanted it to move in. It went down. The top tax rate now is about 39.5 percent.

But, you know, we don’t have many Americans paying that rate. But we now have a capital gains tax differential, and that differential is at 28 percent versus the 39.5 percent.

GOVERNOR THOMPSON: Governor Tucker?

GOVERNOR TUCKER: Senator, do you see any prospect of movement towards a consumption, greater reliance on consumption tax rather than an income tax?

SENATOR DORGAN: I think that will happen
at some point in the future, and there is some
discussion about that. In fact, the Nunn-Domenici
tax approach is basically a consumption-based
approach. I think in the longer term, probably as an
offset to some of the payroll tax issues I discussed,
there will be more serious and thoughtful discussion
about some other kind of consumption tax.

This country will probably in the longer
term also take a look at the European models in those
areas. But we’re not anywhere near that at this
point.

And I think frankly we are I guess at an
intersection where we’re now talking about the flat
tax. I mean, that happens to capture the public
debate at the moment.

And you’ll forgive me I hope for just
mentioning -- I don’t want this to be class warfare
or anything of the sort. But it is, at least in my
judgment, unusual that a near-billionaire proposes to
reduce his own taxes, and everybody in Washington,
D.C. calls it a new idea. That probably could only
happen in this town.
GOVERNOR THOMPSON: Thank you very much.

Governor Whitman is the last questioner.

GOVERNOR WHITMAN: Senator, I just have one question. As this issue of the taxes gets debated in the Senate and in Washington, are you looking purely on the revenue side? Is there any attention given to possible cutting of federal expenditures? I notice that you say if you cut taxes, you lower revenues. You're presuming the same level of expenditure.

Do you in your discussions and deliberations consider at all the possibility of cutting federal spending, and that there would be any way to achieve a balance?

SENATOR DORGAN: Sure. If you simply took the lower of the two offers on the table in these budget talks -- in every single category of spending, take the lower of the proposed spending cuts, because in every area you're talking about cuts -- take the lower of the cuts in every area, you have $711 billion in the seven years of spending cuts.

Everyone is now talking about spending
cuts. We’re not a city or a Congress any longer
talking about what kinds of programs will be
increased.

The dilemma I would say, however -- and I
think as governors who understand this as well as we
do -- we in this country have attached our
entitlement programs to inflation so that their
spending goes up with inflation. Then we’ve attached
the tax code to inflation so that it’s prevented from
increasing revenues with inflation.

I mean, it doesn’t take anybody more than
a fourth or fifth grade understanding of math to
understand what we’ve created. And we must deal with
that somehow. We must bring spending and revenues
into balance.

And the question of how that’s done will
really relate to how the American people want it to
be done. You and other governors and we in the
Congress are creatures of this political system,
hired by and serving at the pleasure of the American
people.

They, it seems to me, will provide the
signals how we balance this budget and how we deal
with the question of revenues and expenditures.

The American people, in my judgment, will
want less spending in a lot of areas. They want a
fair tax system. They want more economic growth and
more opportunity. And they're very concerned about a
circumstance where everything looks like it's hitting
new records, except wages for working families, which
are falling. That's of great concern to many
American families and something all of us had better
be concerned about as well.

Thank you very much.

(Applause.)

GOVERNOR THOMPSON: Thank you very much.

(Applause.)

GOVERNOR THOMPSON: We have two more
policy issues that have got to be discussed before we
break for lunch. The first one is on the farm
program. I'll call upon Governor Branstad quickly, and Governor Nelson.

GOVERNOR BRANSTAD: The 1990 Farm Bill has expired. Yet a new farm bill has not been passed.
This is causing a great deal of concern among America’s farmers, because farmers are trying to plan for the coming year, and want to know what the federal program is going to be.

Governor Nelson and I are the lead governors on agriculture, and are recommending a resolution urging quick action on the farm bill.

Passing a farm bill that gives greater flexibility to farmers in making their choices and lets farmers take advantage of the tremendous opportunities that are growing in the international marketplace, and one that fosters efficient family-based agriculture is something that we need, something that also contributes to preserving our natural resources through the conservation programs.

We already in some of the southern states, farmers, and those people that raise winter wheat have already planted it. Farmers are getting ready for their 1996 cropping year, deciding what to do. It is critical that this matter not be delayed any further.

I would hope that the governors, by coming
together in a bipartisan way, urging action, as soon as the Congress gets back, and one that would be supported on a bipartisan basis so that it could be approved by the President, is critical.

The National Governors Association urges Congress and the Administration to expedite the development of the 1996 Farm Bill, consistent with the NGA’s approved policy regulations. Every effort must be made to finalize this farm legislation before February 15, 1996. The consequences of not taking action on this is to revert to the old law.

I think back in the 1930s, it is not designed for the modern circumstances with the international marketplace that exists today.

GOVERNOR THOMPSON: Why don’t you move it, Governor Branstad?

GOVERNOR BRANSTAD: I would move the draft resolution.

GOVERNOR NELSON: Second.

GOVERNOR BRANSTAD: I would like to yield to Governor Nelson.

GOVERNOR NELSON: Thank you, Governor.
Branstad and Governor Thompson.

I'll second that motion.

The truth of the matter is that our association has already adopted a policy on agriculture for a farm bill that would increase flexibility in agricultural programs, allow farmers to take advantage of international market opportunities, and to foster an efficient family-based system on agriculture, and contribute to natural resource conservation goals in the process.

The longer this languishes, the less likely it is that a bill that will come through that will take care of all of the policies adopted by the NGA, and it leaves agriculture in a suspended state where we need to in fact move beyond that.

I certainly hope that we will pass the resolution here, and adopt one that will urge finalization of farm legislation before the 15th of February.

GOVERNOR THOMPSON: Thank you very much, Governor Nelson and Governor Branstad.

We'll have to have the executive committee
move that.

Governor Voinovich?

GOVERNOR VOINOVICH: I move that.

GOVERNOR CAPERTON: I’ll second it.

GOVERNOR THOMPSON: Is there discussion?

GOVERNOR DEAN: Mr. Chairman.

GOVERNOR THOMPSON: Governor Dean?

GOVERNOR DEAN: I was not aware this was coming up, because I had a nice five-hour stay in our airport yesterday trying to get down here. I fully concur with the notion that the governors ought to support getting a farm bill out, but not any farm bill will do. And our Senators are very much involved with the farm bill, as you can imagine.

I would like to propose an amendment to this resolution, which would be one sentence, which I would take from our present policy. It’s just a very specific reiteration of our policy, and it’s based on the notion that states themselves might do a better job of regulating certain commodities, in my case dairy. They are the federal government.

This policy statement is taken from page
146 of the Policy Manual, which I probably grant that most of you don't have, dated August 1995, and would say that the governors also recommend that Congress gives states flexibility to create multi-state marketing agreements in order to enhance farm prices within their borders. Such authority would not be intended to permit states to erect trade barriers. That is our existing policy.

We are in a battle probably with your own state Senators, Governor, over the New England dairy compact. This would simply reiterate our existing policy. It's important for us to have that in there if we could.

GOVERNOR THOMPSON: Governor Dean, are you going to make a motion?

GOVERNOR DEAN: I would move it.

GOVERNOR THOMPSON: Is there a second to the amendment?

GOVERNOR ALLEN: I'll second it.

GOVERNOR THOMPSON: You're not on the executive committee; I'm sorry. And I'm adamantly opposed to it, George. Is there a second?
GOVERNOR CAPERTON: I’ll second it.

GOVERNOR THOMPSON: Any discussion?

(No response.)

GOVERNOR THOMPSON: Hearing none, all those in favor of the amendment to the farm policy which allows for a group of states to set up a marketing agreement which is CNG policy -- but all those in favor of that amendment, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

I want to be recorded as voting nay, loudly.

Thanks, Governor Voinovich, for your assistance here.

(Laughter.)

GOVERNOR THOMPSON: It passes, in spite of the cheer.

(Laughter.)

GOVERNOR THOMPSON: All those in favor of the farm policy as amended with this terrible
amendment, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

Nay.

The ayes have it. This is under suspension. We will have to have a three-quarters vote on Tuesday.

The last thing I’d like to bring up concerns a new thing that came to my attention that I think is near and dear to every governor’s heart.

That is that the Pentagon right now is reassessing the force structure and equipment needs of the United States Armed Forces. Every time they do that, they tend to really reduce the National Guard.

As part of this reassessment of the National Guard, it has once again become the focus of possible structural changes. And there has been a proposal granted. This is not what the Pentagon has agreed to right now. This is a proposal they are discussing. But there is a proposal that will delete
Guard units in over 20 states, and refocus the
mission from being a part of the combat-ready force
to being just the maintenance force, and the
secondary forces.

I would think that each and every governor
would be adamantly opposed to this. We have a policy
that I would like to have us reaffirm that supports
an Army National Guard force structure allowance of
405,000 individuals as approved by the current U.S.
Secretary of Defense two years ago in the bottom-up
review and the Army Off-site Agreement.

The governors remain committed to a
National Guard that provides sufficient forces and
capabilities for dealing with state emergencies, as
well as the federal mission, should the need arise.

The governors believe that the Guard
should and will be the primary force in our country,
and will continue to play a critical role in peace
and war. Their strengths are our citizens, their
unique state and federal ties, their unique dual
mission, and their cost-effectiveness and combat-
readiness.
They are the national insurance policy for domestic and foreign emergencies.

I would move the reaffirmation of that policy, and send the proposal to the Department of Defense.

GOVERNOR VOINOVICH: Second.

GOVERNOR THOMPSON: Second by Governor Voinovich.

Any discussion?

(No response.)

GOVERNOR THOMPSON: Hearing none, all those in favor of that policy, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

(No response.)

GOVERNOR THOMPSON: The ayes have it. The motion is granted.

Now a motion to adjourn is in order.

VOICES: So moved.

VOICES: Second.

GOVERNOR THOMPSON: All those in favor of
adjourning, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: We will reassemble at the Governors Only luncheon that's very important to the direction of our organization. So I hope you will all come as soon as you possibly can, starting at 11:30.

(Whereupon, at 11:20, the meeting was recessed, to reconvene at 1:30 on Sunday, February 4, 1996.)
NATIONAL GOVERNORS' ASSOCIATION

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WINTER MEETING
PLENARY SESSION

J.W. Marriott Hotel
1331 Pennsylvania Avenue, N.W.
Grand Ballroom
Washington, D. C.

Monday, February 5, 1996
1:30 p.m.
PROCEEDINGS

GOVERNOR THOMPSON: We have an extremely interesting afternoon. So I would hope that the governors who are slowly filtering into the room would hurry as much as possible, because I would like to get started.

We have of course just an outstanding speaker who is a friend of all of ours here today. And I would like for everybody to get a chance to hear Mr. Greenspan and give him as much time as possible.

So those governors out there that are in the hallway, I would hope that they would quickly come in here.

(Pause.)

Would the governors please come in? We have a very busy afternoon, but an exciting one. We have some outstanding speakers that are going to be addressing the governors this afternoon. And I would like to have as many governors come in as soon as possible so we can get started.

Ladies and gentlemen, it is my distinct
honor this afternoon to have the privilege of
introducing an outstanding leader in America,
somebody I think that all Americans are deeply
indebted to him for his leadership and his
dedication.

We're going to be able to discuss this
afternoon as governors a crucial national issue:
What is driving the United States economy? And how
is the structure of the economy changing?

And I believe very strongly, personally,
that one of the primary reasons our economy is as
strong as it is today is that the Federal Reserve
Board and its esteemed Chairman, Alan Greenspan, has
supported sustained growth with low price inflation.
This means more Americans can afford college loans,
and more young families can buy their first home and
have their first new car.

Chairman Greenspan knows what he talks
about. He is the former Chairman of the Council of
Economic Advisors, Chairman of the National
Commission of Social Security Reforms, and board
member of several Fortune 500 companies.
Mr. Chairman, we are deeply in your debt for taking time out of your busy schedule to be with us today. And we appreciate your leadership, and we thank you for coming.

Mr. Greenspan.

(Applause.)

MR. GREENSPAN: Thank you very much, Governor. I'm really quite impressed to look around the room and see that everyone apparently has got the same first name.

(Laughter.)

MR. GREENSPAN: I hope I can live up to Governor Thompson's view of what I'm supposed to do. But I'll try. And I must say that we are dealing in a period which is probably one of the most fundamentally changing periods in American economic history.

The United States is currently confronting a set of forces pulling us in divergent directions. The rapid acceleration of computer and telecommunication technologies can reasonably be expected to appreciably raise our productivity and
standards of living in the 21st Century, certainly, and quite possibly in some of the remaining years of this century.

In the short run, however, the fallout from rapidly changing technology has created a marked degree of uncertainty and insecurity among a significant segment of our work force.

It should not be surprising to find that when the stock of plant and equipment with which most Americans have to interact in their day by day job routines is turning over rapidly as it is today, human skills are subject to obsolescence at a rate perhaps unprecedented in American history.

Almost six years ago, I stressed to this association the dramatic trends towards an ever-increasing conceptualization of our gross domestic product, the substitution, in effect, of ideas for physical matter in the creation of economic value.

This afternoon I should like to update and extend the implications of these extraordinary forces which are driving the American economy, and indeed most of the major industrial economies in the world.
The roots of increasing conceptualization of output lie deep in human history. But the pace of such substitution probably picked up in the early stages of the industrial revolution when science and machines created new leverage for human energy.

Nonetheless, even as recently as the middle of this century, the symbols of American economic strength were our output of such products as steel, both for vehicles and heavy machinery, items for which sizeable proportions of production costs reflected the value of raw materials, and the sheer manual labor required to manipulate them.

Since then, trends towards conceptualization have focused today's views of economic leadership increasingly on downsized, smaller, less palpable evidence of output requiring more technologically sophisticated labor input.

Our radios used to be activated by large vacuum tubes. Today we have elegantly designed, pocket-sized transistors to perform the same function, but with the higher quality of sound and
greater reliability that consumers now expect.

Thin fiberoptic cable has replaced huge tonnages of copper wire. Advances in architecture and engineering, as well as the development of lighter but stronger materials now give us the same working space, but in buildings with significantly less concrete, glass, and steel tonnage that was required in an earlier era.

If we actually had the data and effectively weighed our gross national product in tons, we would find that it was rising at an imperceptibly mild rise; whereas the total value added has been rising at a fairly pronounced pace, the difference basically being the substitution of ideas.

The process of conceptualization and output seems to have accelerated in recent decades with the advent of the semiconductor, the microprocessor, the computer, and the satellite. These technologies have become especially significant since my visit with you in 1989.

Under the circumstances, it has puzzled
many of us that the growth of output as customarily measured has not evidenced a corresponding pickup. Of course, output may not be measured correctly. Indeed, the financial markets are suggesting that we increasingly expense items which should be capitalized, and hence underestimate the growth of our GDP and productivity.

But it is also possible that some of the frenetic pace of change is wheel-spinning -- changing production inputs without increasing output -- rather than real advances in productivity.

A number of commentators, particularly Professor David of Stanford University, have suggested that much of the wheel-spinning, if that's what it is, reflects the extended time it typically has taken to translate a major new technology into increased productivity and higher standards of living.

It may be that the big increases in productivity growing out of the introduction of computers and communications equipment still lie ahead. Past innovations such as the advent of
electricity or the invention of the gasoline-powered
to vehicles required considerable infrastructure
before their full potential could be realized.

Electricity, when it substituted for steam
power late last century, was applied to production
processes suited to steam. Gravity was used to move
goods vertically in the steam environment. And that
could not initially change with the advent of
electric power.

It was only when horizontal factories
newly designed for optimal use of electric power
began to dominate our industrial system many years
after electricity's initial introduction that
productivity as we usually measure it clearly
accelerated.

Similarly, it was only when modern
highways and gasoline service stations became
extensive that the lower cost of motor vehicle
transportation became evident. It is possible that
the computer telecommunications revolution is just
too new to as yet fundamentally improve standards of
living overall.
Moreover, to be fully effective, innovations also require a considerable amount of human investment on the part of workers who have to deal with these devices on a day to day basis.

On this score, I sense that we still may not have progressed very far relative to potential, compared to the facility with which the average citizens handles another complex device, the automobile, most workers and consumers still appear to possess only rudimentary skills when it comes to making computers do what is wanted of them.

Mass acceptance and full exploitation of computer technologies, the analog of what was accomplished in making cars that were affordable, standardized, and easily operated, probably still lie ahead.

In the meantime, we have a situation in which there are some serious mismatches between the skills of workers and technologies that have changed considerably, and still are advancing rapidly. And these mismatches are affecting pay differentials between the skilled and the unskilled.
As conceptualization of output has moved apace, the relative economic value of intellectual skill has clearly increased. During the past 15 years, for example, the earnings of college graduates have increased relative to those who are high school graduates. And in turn, high school graduates have continued to open up their advantage over those who are high school dropouts.

In fact, a significant minority of our labor force has experienced real wage decreases, and this development surely is one factor in the unease that is all too prevalent, as well as in the apparent stretching of the distribution of incomes in recent years.

Exaggerating this income dispersing trend is the growing evidence of what is being called a winner take all society in which the best in any activity tends to take an increasingly larger share of a market. The best actors, the best basketball players, the best business innovators earn far more than average.

The reason is that the major advances in
telecommunications technologies have allowed any
skill a far wider market than a generation ago.

    New visual communications allow talents to
offer their services throughout the world. Who wants
second best when the best is available at nearly the
same price? Who buys the records of the fourth or
fifth best tenors in the world singing an aria from
Don Giovanni? The two top performers take most of
the market. A century ago, such performers could not
readily compete outside their localized areas.

    Fortunately, the rapidly changing
technologies have engendered an increased degree of
competitive intensity which may very well cap and
perhaps reverse the trend toward winner take all and
other forces increasing income dispersion.

    Once-proud high tech firms are being
upended by new technologies developed by upstarts.
But even the latter are lately looking over their
shoulders at other upstarts with still newer
technologies. The outsized rewards to high skills
induce others to emulate them, and hence staying at
the top has become ever more precarious.
More generally, entrenched economic advantage is being increasingly challenged by a global competition which shows no signs of abating.

In addition, we must be alert in coming years to the need to improve the skills and earning power of those who appear to be falling behind. In the long run, better child rearing and better schools are essential. But in the shorter run, on the job training is a critical necessity to overcome the educational deficiencies of all too many of our young people, and to renew the skills of workers who have fallen behind the rapidly rising curve of technological change.

It has become quite apparent that many firms have concluded that it makes more sense to invest in such training than to bid up wage scales in a zero-sum competition for the existing limited pool of well qualified workers. As a bottom line, through, workers in many kinds of pursuits probably had better look forward to a lot of hard work acquiring and maintaining the skills needed to cope with a rapidly evolving economy.
The notion that early education could be crafted to support the needs of one's life work is rapidly changing. Education is increasingly becoming a lifetime activity. Over time, as workers acquire new skills, and as computer applications continue to become ever more user friendly, the present income mismatches should diminish.

To be sure, the most visible force of recent change, the continuous downsizing of microprocessors, and hence computer and telecommunications equipment may increasingly encounter physical limits. But almost as surely, new technologies not now visible will emerge.

We can anticipate change to be pervasive, and its competitive forces are allowed free rein, and our fiscal problems resolved. We can expect ever higher living standards for all Americans.

Will Americans adjust to a frenetic pace of change and allow it to happen? While we have in the past, and almost surely will in the future, it is important that we recognize that adjustment is not automatic. We do have episodes in recent human
history where, for example, pressures of change were not easily absorbed. And people chose what appeared to be a greater degree of security rather than competitive challenge.

Competitive forces, especially those driven by technological change, create uncertainty and dislodgement. But they also bring with them an enhanced quality of living and the increased economic abundance so necessary to confront the problems that exist in societies throughout the world.

Thank you very much.

(Applause.)

GOVERNOR THOMPSON: Thank you so very much, Alan, for your being here. Thank you for your wonderful words.

And I'm going to lead off by the first question. I'm sure there will be a lot more that follow.

The National Governors organization has taken a leadership role in urging Congress to use accurate numbers in the CPI. I would like to ask you, what will happen? First off, should Congress do
it? I put you on the spot. Second, what will happen if they do? And what is the cost savings on the different percentages?

MR. GREENSPAN: I think there are two issues here, Governor. One is, what should be done with the so-called Consumer Price Index? And, what should be done with indexing those federal retirement and tax programs? These are actually two different issues.

The Consumer Price Index has indeed -- it is stated within the materials made available by the Bureau of Labor Statistics, is not a measure of the cost of living. It is a measure which endeavors to capture average prices at the retail level.

And that differs from the cost of living because it's a fixed market basket. And people have demonstrated time and time again that, as prices of certain items rise relative to others, consumers switch to the lower-priced goods. And as a consequence the cost of living tends for that reason alone to run significantly under the measured Consumer Price Index.
Similarly, there are a number of technical issues which are involved in calculating the CPI. For example, it is almost impossible for any agency to capture new products prior to them being matured enough in the markets to be recognizable, and have wide particular applications of use.

The result of this is that since most new products in their very early stages have falling prices, and then start to rise thereafter, if you consistently eliminate the first part of this change, namely the decline, and you never go back and revise the data because we have the CPI locked into so many legal contracts, you bias the index higher.

There is very little that the Bureau of Labor Statistics can do to alter a number of these technical problems, which are built into the structure of what that index is. As a consequence of that, it can only correct for what is now a generally agreed to be an over-estimate of the cost of living, partially.

I testified before the joint hearing of both budget committees upon the Hill about a year
ago. And I suggested that there is very potentially
significant savings involved if indeed the purpose of
the Congress to adjust both tax and retirement
programs for the true cost of living indeed did that,
which meant that we would have to subtract some of
the gains from the CPI which, by general acceptance,
as I indicated, over-estimates this.

Now, part of that adjustment is going to
be made by actual changes in the way the BLS adjusts
the CPI, and in so doing, it will effectively remove
some of the bias. And that will of course be in the
published data. And no legislation is required to do
that, other than to fund the BLS properly, for them
to make those estimates.

What I was actually getting at a year ago,
and I will repeat today -- and I think this is
basically what the issue is -- is that we should be
legislating some adjustment which would be beyond
this technical adjustment, and in effect produce a
new index whose sole purpose is to index programs of
the federal government.

It's pretty clear that if we were to do
that, the original intent of the Congress in endeavoring to hold everyone harmless from changes in the cost of living would be accomplished.

But it would require legislation which would essentially say, for want of a better way of coming at this, that the published Consumers Price Index would be used as a means to create this new index. But it would basically be saying, it is the Consumers Price Index minus X. And that X presumably would best be judged by a group of nonpartisan technicians who would endeavor to view what in fact the BLS did with respect to the actual index, and make what further other adjustments were required to capture a true cost of living.

I think basically doing that would have a very major effect, as everyone who has calculated the numbers has found out, on the issue of costs of expenditures in the budget going forward. And I think it’s clearly a very sensitive issue, because numbers of people are concerned, that it is in fact a cut in either Social Security or in various other retirement programs.
I don't think that it is. I think what it tends to do is to remove a bias in the governmental procedure to actually endeavor to capture what Congress in my judgment originally intended.

GOVERNOR THOMPSON: Thank you very much, Alan.

Yes, Governor Whitman.

GOVERNOR WHITMAN: Given the volatility that you talked about, the change in the marketplace, and what you're suggesting on finding true CPI numbers, what about true unemployment? Are the monthly numbers as they are currently compiled by the Department of Labor accurate for trends, for planning? Is there a better way to do it?

What do you feel those numbers reflect as they are reported on a monthly basis, as they are now, or have been? They're going to be changed, I guess.

MR. GREENSPAN: The basic sample, as I recall, is something like 60,000 households a month. And it's a very sophisticated statistical technique which, despite the very small, presumed very small
sample of the general work force, has I think a
fairly good history of being accurate, as best we can
calculate.

It's not very good on a month by month
basis because there's a lot of noise in there. But
its trends seem to capture basically what
unemployment is, if you use the definition which the
BLS uses, which is basically individuals employed or
actively seeking work.

That I think over the years has pretty
much been accepted by all technicians and economists
as probably the best measure of unemployment. That
is not to say that you can't get alternate measures
by taking discouraged workers, for example, who are
not in those data, adding them back, making
adjustments for the fact that part-time workers are
included the same and equally weighted as total
employees.

But having said all of that, I don't think
that those data give us a misreading of what's going
on in the labor markets. And I think they continue
to hone the accuracy of it as they have about a year,
a year and a half ago. And as a consequence of that, I think that's a pretty good statistic.

GOVERNOR THOMPSON: Thank you.

Governor Leavitt, then Governor Graves.

That's the question.

GOVERNOR LEAVITT: Mr. Greenspan, I was captivated by your argument on the mismatch between our technology and the capacity to use it. You've enumerated your arguments. I was struck by how apt your comments were for education, higher education, and public education in particular.

Higher education -- for 2,500 years, people have been going to campuses to get knowledge, and now knowledge comes to them. And I can see a day when the kind of winner take all strategy you've talked about -- not strategy. But the effect could occur in the campuses where you have access to some of the finest and the best on a worldwide basis.

I'd be interested to hear you reflect on that in the context of education, and what you see the implications being for higher education as an institution and public education as well.
MR. GREENSPAN: Well, Governor, I think the most important starting point is to recognize that when you take a look at the average age of the capital stock, that plant and equipment that we have in place in this country, which of course our work force of necessity interfaces with on a day by day basis, as I remarked, that is going down. That average age is going down very considerably and quickly.

Another way of looking at that is that the capital stock is turning over very quickly. And what that means is that any set of skills that any group of people have at any particular point in time, working with this rapidly changing capital stock, are almost surely going to become obsolete, or obsolescent perhaps, within a relatively short period of time.

And were they not to continuously endeavor to hold up skills, upgrade them and change them, job security I think, which is under real stress at this particular stage because of this process, would worsen.
I mean, one need only consider, for example, the possibility of how a skilled typist who has been working for 20 years honing those skills is all of a sudden confronted with somebody changing the structure of the keyboard. You feel as though the world has changed. And indeed, to a lesser extent, that is what is going on.

So, what strikes me as the major issue which is coming up with respect to the question of education generally is the necessity of continuous education. I'm sure, as you know, Governor, there are innumerable high-tech corporations particularly who have separate internal universities in which they require that their work force go to school periodically to continuously hone skills.

And I think what we are in the process of seeing at this stage is an increasing interaction between corporate America or business America generally, and education because what we tend to do in public schools or private universities is increasingly teach abstract questions of how to handle various things, which is very useful.
But it is terribly important for people
who are working on complex technologies not to be
giving wide abstractions, but to have capabilities of
adjusting very explicitly to very specific
technological changes, so that their value added when
associated with this capital stock is at a maximum,
and their incomes are at a maximum.

So what I see the markets tending to do is
to increasingly force a larger and probably
progressively increasing share of our educational
efforts into the business community itself. And I
think that because education per se is an ever-
increasingly important issue because if what we’re
turning out is conceptual as distinct from physical,
either people using computers and being able to deal
with the new technologies -- unless they can do that,
they have the risk of falling behind.

But one thing we do know, veryFortunately
from looking at the way technology changes, is that
every human being has got capabilities which cannot
be replicated by technology. So that there is a
fundamental, deep-seated value added in the way a
human being functions that can create very significant real incomes when interfaced with this complex technology.

And so what is required at all levels of the income scale is an enhancement of educational capabilities. And my own judgment is that what's going to happen in the years ahead is that the universities, the public schools, will interface with a process which inevitably is going to mean that education, rather than being related to a very early stage of our lives, is of necessity going to expand as far out as our life work's occur.

Because to do otherwise would indefinitely relegate a significant part of our population to jobs in which their skills increasingly become less adequate to the task.

GOVERNOR LEAVITT: Can I follow up with that?

GOVERNOR THOMPSON: Sorry, Mike. We haven't got time. Governor Graves has got the last question. I'm sorry, Mike. I would like to help you. But we have Leon Panetta here, and we're on a
very tight schedule, as you know, this afternoon.

Governor Graves.

GOVERNOR GRAVES: I'm sorry, Mike.

Mr. Chairman, we've had a couple of

speakers share with us the pros and cons of the flat
tax. Would you care to enlighten us on what the

proper rate of taxation should be?

(Laughter.)

MR. GREENSPAN: Probably not.

(Laughter.)

GOVERNOR THOMPSON: We've got to get done

this afternoon, too.

MR. GREENSPAN: Let me just say, Governor,
as I very hopefully, sinuously evade that question,
to indicate what I think is terribly important. The

crucial issue on taxation is that, if you have to

finance a very high level of expenditure, virtually

no tax system will be structured in a manner which

will not be undercutting economic efficiencies.

So all I would say, without coming to

grips with flat taxes, marginal rates, and a variety

of other things which I agree with the Chairman would
go on well into the afternoon, is, whenever we think of tax reform, I think we ought to start on the expenditure side, because if we can keep expenditures down, it is very easy to structure any numerous different tax regimes which are effective from issues of equity and efficiency.

If we end up with bloated expenditures, with too high a level of expenditure, vis a vis our tax base, I don’t envisage any particular regime being of necessity so superior that it will eliminate that particular problem.

Thank you very much, ladies and gentlemen.

It’s a pleasure to be here.

(Appause.)

GOVERNOR THOMPSON: The final question, Alan, is, if the Congress and the President agree upon a balanced budget in seven years, what will the interest rates go down, in 2002? One answer.

MR. GREENSPAN: Didn’t you say I just answered the last question?

(Laughter.)

GOVERNOR THOMPSON: Thank you very much,
Mr. Greenspan. You were outstanding. I personally am delighted, and I know all the governors are, that you came down and shared your wonderful thoughts with us. We really appreciate it.

GOVERNOR LEAVITT: Governor Thompson, can we get copies of that available, actually?

GOVERNOR THOMPSON: I've already asked for it, Mr. Leavitt. I knew you'd want one, sir.

Alan, can you leave a copy, as asked?

Okay.

This afternoon we're very pleased once again to have another one of our friends come down and be with us. He's an outstanding public servant, and is totally dedicated to the public good with no thought of personal gain.

He's a friend of mine, and he's a friend of all of the governors. He's one of those guys you can call up, and you know that you will always get a friendly response. It may not be what you always agree upon. But he will always respond, and he will do it in a friendly manner, something I respect in an individual.
I'm delighted, of course, to have Leon Panetta here. But I also found out that he's a graduate of the same school as our Vice Chairman Bob Miller. So I thought it was only fitting to have Bob Miller personally introduce him. Bob has been wanting to do this. And I don't know what's going to happen. So we'll find out shortly.

Bob?

GOVERNOR MILLER: I don't think there's much I can add, other than that he obviously received an outstanding education, which has resulted in his prominence. I on the other hand was obviously at the other end of the curve when we graduated from Santa Clara University at different times.

But Leon Panetta and his experience, both on the Hill and in the White House, have been very positive for this country, and certainly for our association. It is a pleasure to welcome you here today. It is truly a pleasure to work with you on a daily basis.

(Applause.)

MR. PANETTA: Thank you very much, and I
appreciate the opportunity to be here.

Bob Miller, as he mentioned, we are graduates of Santa Clara University, which is a good Jesuit school. And I often remember a priest who -- in those days all of us had to take what was called theology classes.

And I remember having an old Jesuit who was teaching about the old approach, and said essentially that he believed that at the last judgment, we would all gather in a large valley for the last judgment. Everybody would be reunited with their body, and they would gather in this large valley. And he went on and on.

Finally I raised my hand, and I said, "Father," I said, "I just don't think that everybody who ever lived can be reunited with their body, and all gather in one valley anyplace on earth."

And there was this long silence. And he said, "Son, if it's good enough for me, it's good enough for you."

{Laughter.}

MR. PANETTA: I use that in the White
House staff.

(Laughter.)

MR. PANETTA: But basically the message was, don't make waves.

But essentially what governors have to do these days, and the President is trying to do, is to essentially make waves so that we can all work together to try to improve this country and improve the future of our children.

I want to personally express my appreciation to all the governors for the cooperation that you've provided.

Whether it's under a Democratic chairman or a Republican chairman, I have to tell you that in my experience in this town, which extends over 20 years, I have never witnessed either on Capitol Hill or for that matter in the administration the level of cooperation and discussions that we have had with the governors over the last three years.

It has been intense; it has been continuing. And we deeply appreciate the cooperation that you have provided as we try to work through some
very tough issues.

I'm a believer that in all form of
government, we're talking about the need for a
partnership, a partnership between the federal
government and between the states and local
government, working together to try to help working
families in this country, working together to try to
provide a sense of community as we deal with the
issues that face these families, working together to
promote, I think, a common set of values.

What I wanted to do today was to basically
summarize where I believe the discussions are with
regard to the budget, touch a little bit about where
the appropriation situation is. Then I'd be happy to
answer your questions.

Budgets, as all of you know, are not just
about numbers. There's always a tendency in this
business when you're dealing with budgets,
particularly seven-year budgets, basically to kind of
focus on numbers, and say, you know, "Why can't you
just split numbers? Why can't you just do it this
way?"
But numbers in a budget are more than just numbers. They’re about people, and they’re about priorities, and they’re about what this country represents in terms of helping people.

So budgets go beyond just numbers. This is not just a question of, obviously allowing deficits and debts to drive our future. But neither should budgets be about forgetting our obligation to one another.

The goal that we have always had, and that the President has, as we have gone into these negotiations, and to any budget for that matter -- the fundamental goal is that we have to discipline our budget. We have to significantly reduce our deficits. But we also have to protect our responsibilities, be it on Medicare, Medicaid, be it on the key investments on education and training, on science and technology, on the environment.

But we also have to be careful certainly not to raise taxes on working families. That was the thrust of what we felt we put together in a $500 billion deficit reduction package. And in fact, when
we put that in place, as tough as that was, whether
you agree or disagree, the reality is that the
economy has performed better.

We have moved forward. We’ve been able to
make our investments in the key areas we care about,
in growth and inflation; have been on the right
track. Productivity is on the right track. And as
the President points out, we’re producing almost 8
million jobs in our economy.

So there is not a conflict here about
whether or not you can balance the budget, or
discipline your budget, and at the same time provide
the investments that keep our economy moving forward.
We think you can do both. So our goal has
essentially been, let’s focus on balancing the
budget. We can do it in seven years. We can do it
according to the Congressional Budget Office.

But we can also do it in a way that
protects those areas that we care about that affect
people.

That essentially was built into a
bipartisan agreement in a continuing resolution
between the Republicans and the Democrats. In that continuing resolution, we said we're committed to a seven-year budget. We're committed to having it scored by the Congressional Budget Office.

But we are also committed to providing adequate resources to Medicare and to Medicaid, to education, to the environment, to veterans. There were a series of investments that we also committed ourselves on a bipartisan basis to as part of these negotiations. And the negotiations themselves have basically been about, how do we achieve a balanced budget, but at the same time, try to protect these areas?

The 50 hours of negotiations in the Oval Office, as all of you can understand, are unprecedented. I have worked, I think, in the time I have been in this town -- well, I have on every major budget summit that has involved the Congress and the President of the United States. And in that time, I have never seen a President commit as much time to direct negotiations with the leadership in the Congress as this President.
In 1990 when we were working on the budget agreement at that time with President Bush, President Bush appeared for about 20 minutes to kick off the negotiations. I think we saw him a few minutes during the negotiations.

But never was it at any time the kind of time commitment that this President has committed to trying to reach an agreement -- 50 hours of negotiations. There's been a great deal of discussion. As you can understand, there's been a lot of give and take. I think both the President and the leadership understand the positions of both much better than they did.

They've found that there are in fact areas of agreement. They've found obviously that there are also significant areas of disagreement. But it's been a good give and take.

I want to point out that, for those that sometimes say there hasn't been much give here, what you have seen in numbers that we currently have on the table are a movement of almost about $283 billion from the President's original balanced budget.
proposal in June. We’ve essentially moved about $283 billion, a big chunk of that in discretionary spending, but a chunk of that in entitlements as well.

In addition, Republicans have moved about $189 billion from their conference report on reconciliation. So as you can see, both sides have in fact moved off of the numbers that had been originally proposed by both sides.

Let me summarize the last offer that we put on the table, so you can understand where the situation is right now. They passed out, I think, the charts to all of you. I’m going to just run down each of those areas. We’ve got the chart here. You can’t probably see it. But just follow it off of your documents.

The basic areas are the following. This was the last offer that we put on the table. And incidentally, it is the basis on which we are submitting the ’97 budget today. We would basically submit a budget off of these numbers.

On Medicare, it is $124 billion in
savings. Our original number was about $97 billion. Just to make clear, the proposal on Medicare does not involve any increases with regards to beneficiaries.

The area of differences that we have are that there are some differences with regard to Medigap protection. There are differences to what are called medical savings accounts that the Republicans would like to put in place immediately, and there are some differences with regard to how these approaches would be implemented.

The President agrees that there has to be choice provided, that we have to provide greater flexibility in terms of plans. But he wants to ensure that the fundamental protection of the Medicare program is in fact in place.

We did make some progress here in terms of discussing options. There was a discussion about whether we could take some of the ideas presented by the Republicans and put them into demonstrations.

But there nevertheless remains a difference here in the level of savings, and whether or not beneficiaries would contribute to the level of
guarantee of health care under Medicaid.

The $59 billion is basically our people saying to us that, if you want to maintain the level of present care that goes to individuals under the Medicaid program, that’s the number you need.

And I understand there are differences.

We’re now looking at about a difference of $85 billion to $59 billion. But our number was based on our people telling us that, if you want to maintain the guarantee, and the basic benefit programs that you currently require, that’s the number you need over the seven-year period.

On discretionary, the number is $297 billion over seven years. It was originally $138 billion. So you can see that the largest movement has been in the discretionary area. This represents more than a hard freeze. But it also represents what we believe will protect our investments in education and environment and in high tech.

This could represent, however, a reduction in other areas of the budget of anywhere from 10 to 20 percent because, obviously, if you’re going to try
savings.

The principle concern we have on Medicare as it was proposed in the Congress is that it provides incentives for the healthiest and the wealthiest to get off of Medicare into a private program. That then leaves the program short on resources, so that we feel it doesn’t sustain the basic program for most of the elderly in the country.

That’s a fundamental policy difference. I think Republicans would argue that perhaps this could produce greater incentives with regard to choice. But we nevertheless, and the President, made clear that that’s our fundamental concern. We do not want to undercut the basic security of the Medicare program itself.

The differences there came down to about $124 to $168 billion.

On Medicaid, we are at $59 billion in savings. We went from 38 was our original proposal on savings. The fundamental difference there, as all of you know in your negotiations, is the guarantee and whether or not we will protect the fundamental
to focus your discretionary accounts and your
discretionary targeting in education, and the
environment, and high tech, it's going to result in
reductions in other parts of the discretionary
budget.

We did discuss, however -- and I think the
Republicans concur in this -- that if we get a deal
for '96, we will add about $5 billion additional
discretionary funds. And for '97, we will add about
$10 billion in additional discretionary funds above
the levels that the Republicans have proposed.

That will, we believe, protect the
investments that we care about. And we believe the
Republicans would concur in that.

On welfare, we have $41 billion. It's an
increase from $38 billion. And you realize that our
welfare approach here is becoming very similar to the
kind of work that the governors are involved with.

On EITC, the earned income tax credit,
this was an area where we believe we can get about $5
billion as a result of actions to enforce against
fraud and abuse in the EITC program. This began as a
cut in the Republican program of almost somewhere between $25 to $30 billion.

And what we have done is said that that's too much. That increases taxes on working families. And we think we now are moving to an area of potential agreement on EITC, somewhere between $5 to $10 billion in savings.

On other mandataries -- other mandataries basically means other entitlement areas -- we have largely agreed on about $67 billion worth of savings in these areas. This includes user fees, asset sales, savings from continuing some veterans savings, some retiree savings. We're hoping to get some savings out of the agricultural area, although there is some dispute between the administration and the Congress as to what kind of agriculture program is to be agreed to for savings.

So this represents what I would call the other entitlements outside of health care. We have an agreement of about $67 billion in those areas. So when you add those up, plus some additional corporate subsidies -- this BLS, by the way, there's been
discussion about whether or not we should do anything
with regards to the CPI, the Cost of Living Index.

There are some that would recommend that
we in fact go further here. This agreement of $19
billion the CPI represents where we think the Bureau
of Labor Statistics intends to go in terms of
reflecting the level of increase in the economy that
we anticipate seeing over these next few years.

So it is in line with what the Bureau of
Labor Statistics would show, and it does not go
beyond that. But we still pick up about $19 billion
just on that move.

Corporate subsidies, we have $46 billion.

I think the Republicans are at $26 billion. We have
a little on tax compliance. When you add that up
with interest, it's $740 billion in savings that we
have put on the table as our last offer.

We recommended a tax cut of about $130
billion. We have moved from a tax cut that we had
recommended of $116. It basically would provide for
a child tax credit at $500. It would have to
transition in, though, because of the number we're
using.

Education -- it provides for the education deductions that the President has recommended. It provides for a back-loaded IRA. It provides for small business expensing. There is a small reform on a state and gift tax that's included. There is pension simplification, and there are tax incentives to industries on the so-called brown fields, the abandoned industrial sites so that they can be cleaned up.

So that represents then our basic approach that is on the table, and that is included in our budget.

Let me just, to show what the President has been talking about in terms of common savings. There are obviously still some differences here. But there are also some areas of common savings that, if in the end we cannot agree as to every area, we want to at least accept these common savings.

On your sheet, you can see the differences there. If you take the Democrats' last offer or the President's last offer, if you take the Republicans'
latest offer, and if you take the minimum of savings laid down by each side, you have a total of $711 billion.

So if you just take, in Medicare, instead of 168, take 124; in Medicaid, 59; in corporate subsidies, take the 26 that the Republicans have offered -- just go down and take the minimum savings, you come out with $711 billion.

What the President has said is, in the very least, if we can't agree on all of these policy differences, let's accept at least the minimum level of savings that's on the table, because that will get you a balanced budget, and it will be scored by a CBO, and it will provide for a minimum tax cut at the same time.

So let us not lose at least the opportunity to get a balanced budget, if in fact that's our goal. Hopefully, we can resolve our differences. We think we're close. We would like to continue these negotiations in the Oval Office. They are on hold right now, I think largely because I don't think the leadership is quite certain right now
whether, in arriving at an agreement, they can deliver the votes to basically pass a balanced budget.

We hope we can continue to negotiate. We hope we can continue to do that within the Oval Office. But there are some encouraging signs within the Congress itself.

There are bipartisan groups. On the Senate side, Senators Breaux and Chafee have put together a bipartisan group that is working hopefully towards trying to get a plan that is very close to the level of savings here. There is a coalition group on the House side that is doing very much the same thing.

Obviously, if we can build a group from the center out that can agree on a balanced budget, and be able to get that through the Congress, then we would certainly want to work with them and get that done.

The President deeply feels that we have come a long way. And as you can see from these numbers, we have come a long way. We're close to
getting agreement, and we ought to try to get it done
before the end, certainly of this session, and
hopefully within these next few weeks.

Let me just talk very briefly about the
state of appropriations and what we're looking at
there. On appropriations, it is unprecedented that
we would be in a year -- this is fiscal year '96. We
still do not have some of the key appropriations
bills agreed to by the Congress for fiscal year '96,
and we are four months into '96.

The main bills that are still out are the
following: Labor, HHS, VA/HUD and independent
agencies, State Commerce and Justice, Interior are
the key bills that are still out, and that have not
been resolved.

We have a continuing resolution in place
that funds programs through March 15th in these
areas. But as you know, it's about a 75 percent
floor. The problem with that is that it is now
creating severe problems in terms of planning.

School districts are now telling us that
they will have to dismiss school teachers, that they
are going to have to make significant reductions in terms of what they can provide children in education if they do not get some kind of firm appropriations bill soon.

The same kind of thing is true in job training, as was pointed out this morning by one of the governors. In addition to that, we have serious problems in the environment, where we are now seeing inspections in EPA down about 40 percent, and the revolving fund down about 30 percent.

So for that reason, our goal is obviously to try to get a deal. If we get a deal, we can resolve the appropriations bills. If we do not get a deal, I have to tell you that the administration cannot tolerate a short-term CR. We cannot continue to tolerate that for the sake of school districts and for the sake of those that depend on funding in these areas.

So our goal will be essentially, hopefully to resolve these remaining appropriations bills, but in the very least, get a level of CR that takes us through October 1, so that people can plan then for
the future, and not be on a 15 or 30-day hold every
time we pass a short-term CR.

The same thing, I think, has to be said
for the debt ceiling. The debt ceiling has now been
extended through March 15th. We thank the Congress
for having done that. But frankly, our goal is to
not have continuing short-term extensions of the debt
ceiling. That's bad business. It’s bad for the full
faith and credit of this country.

We would want a one-year extension of the
debt ceiling so that we can make clear to the country
and to the world that we do not intend to default;
that we will abide by our full faith and credit, and
that we will keep our word. That needs to be done.
And it needs to be done by the Congress soon.

In conclusion, this has obviously been a
tough year for everyone. There have been some
fundamental differences in direction that we have had
to fight through. We have had, obviously, the battle
over one group staking out some area on ideology, and
another group fighting to try to govern at the same
time.
There is always a time to stake out ideology, but there is also a time to govern. And I think the time to govern is now long overdue. That means frankly that there's got to be some give. There's got to be some compromise in order to be able to do that.

Our responsibilities are to essentially govern this country. There is still time to get a balanced budget. There is still time to resolve the '96 to '97 appropriations. There is time to get a line-item veto. There is time to pass the Kennedy/Kassebaum health care proposal.

I think the governors have basically set an example of bipartisan cooperation. And if you can do it, the Congress can do it.

The work that you're doing now with regard to the proposals on Medicaid, the work that you're doing on welfare reform, is drawing together a bipartisan group to try to work your way through some very tough issues.

I think what you presented the President this morning indicates that you're making significant
progress in trying to arrive at an agreement here.

The President continues to encourage you to move in that direction. We will provide whatever help and guidance we can to try to ensure that ultimately we can get an agreement, not only in those areas, but on the balanced budget.

There's no reason why we cannot have the President and the Congress following your example of bipartisanship and resolve these issues. We owe it to your states. We owe it to the American people. But most importantly, we owe it to our children.

Thank you very much.

(Applause.)

GOVERNOR THOMPSON: Leon has agreed very generously to take a couple of minutes to answer any questions that we might have.

Any questions?

The only question that I would have, Leon, is, on your deficit reduction path, there seems to be an acceleration in the outer years. Is there any reason for that?

MR. PANETTA: Yes. Let me have that. As
you can see from the charts, both the President's proposal, as well as the Republican proposal chart a very similar path with regards to deficit reduction. There is concern -- and I would indicate that it's shared on both sides -- about whether or not, instead of moving to 2000 and then having this kind of drop, that there be a greater transition in terms of getting to 2002.

Some of this is not easy to do, obviously, as you try to reach a set goal of balancing the budget. And I think, frankly, both sides have to do a little bit of work at trying to see if we can get a better transition.

Part of the problem is the tax proposals. And I would tell you that if there's a major difference that we currently have in the negotiation, it is still over the level of the tax cut. We had proposed $130 billion; the Republicans were still trying to push for a tax cut of somewhere over $200 billion.

To do that, obviously, you've got to pay for it. And how do you pay for it? You've got to go
back at these programs in order to pay for that level
of tax cut.

I was encouraged that there are some
members now that are talking about the possibility of
moving the savings approach and then dealing with the
tax cut approach, and having that basically be
debated on a separate track.

There is something to be said for that,
because then we can propose a more modest tax cut,
show how we would pay for it. Those who want a
larger tax cut would show how they would pay for it,
and we could debate that out, and at least get the
savings involved, and a balanced budget in place.

So there is some hope that perhaps that
alternative might be looked at.

GOVERNOR THOMPSON: Mike Lowry, last
question.

GOVERNOR LOWRY: Thank you.

Most of us, probably all of us, are
dealing with legislatures at home trying to plan a
budget, in particularly planning a budget for the
future.
Seeing that the program cuts really come in the out years, one of my calculations with 33 times more in the seventh year than the first year in one of the proposals -- we have legislators at home that are saying that Congress is not going to come to agreement. There's not going to be a balanced budget, so we shouldn't be prepared for that now.

Is there going to be something along the lines of a seven-year balanced budget?

MR. PANETTA: Mike, after 50 hours of negotiation, and a lot more discussion both on the Hill as well as at the White House, it's still hard to tell whether in fact that will happen. I think the President's feeling is, we have come so far from both sides that with a little more work, we can get to an agreement with regard to balancing the budget.

I think it would be a mistake -- I think the Speaker recommended the possibility of basically trying to break up the savings, and doing smaller packages. I would be concerned about that approach because, as you know, having been a member, it's easier to cast one vote on some very tough decisions.
than have to cast 20 votes on 20 tough decisions.

And that it would be far better for us to
pull a large agreement together than to try to
develop 20 smaller agreements in terms of savings.

So I would say this, that I think there
are many members that are still anxious to see if we
can get a balanced budget. The President is anxious
to get this done. I still have hope that we can do
it, if there’s good will and commitment on both
sides.

I just would not give up on that. It’s
not to say it’s going to be easy. But on the other
hand, we have come too far not to give this final
agreement to the American people.

As I said, we have got $711 billion in
common savings here that we ought to embrace. And in
the very least, let’s embrace those savings because
it will give us a balanced budget. CBO will score
it. If there are some fundamental policy differences
that remain, we can fight those out to the election.
But let’s at least agree to this level of savings.

Thanks very much. Thank you, Tommy.
GOVERNOR THOMPSON: Thank you very much, Leon.

(Applause.)

GOVERNOR THOMPSON: Thank you, Leon. And would you thank the President for this morning? We appreciated it.

Now we have a young star in Congress who has graciously agreed to come back from his home state to be with us this afternoon. I would like to call upon Governor George Voinovich of Ohio to introduce our next very special guest.

George?

GOVERNOR VOINOVICH: Thank you, Mr. Chairman.

We're honored to have with us today perhaps this country's most enthusiastic and effective leader in pursuit of our effort to achieve a balanced federal budget.

Since assuming the chairmanship of the House Budget Committee, he has led the fight to produce a full, workable plan to balance the federal budget in seven years. And he's given every ounce of
energy to it. There was no one who could have brought more practical knowledge, experience, and dedication to the budget debate than John Kasich.

John has had a passion for balancing the federal budget since he came to Congress in 1983. As a junior member of the Budget Committee, John wrote his own alternate budget plans in an annual exercise that routinely challenged conventional wisdom, and a lot of cherished cows.

In all candor, his efforts from time to time -- his efforts were cause for a fair amount of discomfort in both political parties. John was talking budget cuts and specific budget cuts long before it was thought to be politically safe to do so.

But slowly and surely, John’s dogged persistence and willingness to forge working partnerships with colleagues in both parties and all across the ideological spectrum began to win, and the respect admiration he deserved was forthcoming from Washington and others, all of which put him in an ideal position one year later to hit the ground,
becoming the Budget Committee Chairman.

John, I think everyone here, each of the governors who make tough calls in balancing our own budgets, appreciates your ground-breaking work to pass the first balanced budget in three decades.

Every one of us recognizes that we cannot continue to saddle future generations with crippling debt. We also know that our country’s future is in mortal danger if we fail.

We applaud your efforts, and we want you to know that we are willing to do everything on our part to help you, including what we’re doing here at this meeting today, hopefully. Because of the effort, Republicans and Democrats working together, we can break the impasse that you now have with Medicare and Medicaid.

Ohio is proud of your leadership.

Ladies and gentlemen, please join me in welcoming my good friend and my Congressman, John Kasich.

(Appause.)

REPRESENTATIVE KASICH: Thank you,
Governor. It’s a pleasure for me to be introduced by a great governor like George Voinovich from my state. And it’s a pleasure for me to be here with so many of my friends.

I didn’t have a chance to hear Mr. Panetta. I figured it would break my rhythm if I was in here. I took the trouble to get down here. But listen.

I want to first of all thank you for letting me have the opportunity to come before you. But I want you all to know that what we are arguing about, and what we’re fighting about, and what budgets are all about is not numbers. I don’t know how many of you are aware of it, but the fight is frankly not about numbers. It’s not about CBO. It’s not about OMB. It’s not about DOS, CPR, GDP, or any of these other terms. You might as well speak Chinese if you’re going to speak in that language.

Oh, it’s partially about numbers, when you get down to simple arithmetic, when you figure out how many people are going to be retired when the baby boomers start retiring, and how many people are going
to be there to be workers in order to support the
retirees. That becomes a case of numbers.

But beyond the simple arithmetic, the
fight over the budget is not about seven years, and
it's not about CBO, and it's not just about numbers.
A budget is never about numbers, or I wouldn't have
much interest in it.

The budget is a fight about values. The
budget is a fight about philosophy. The budget is a
fight about vision and hopes. And at the federal
level, just like at the state level, where you try to
propose what it would be best for the people that
live inside the State of Ohio, the budget of the
United States is an effort by the Congress to figure
out how to make America better, how to make America
more prosperous. That is what the fight about the
budget is all about.

And let me suggest to all the governors
here, and frankly everybody who would watch this
show, that the fight is really about the swinging of
a pendulum. It's really about common sense, isn't
it? You see, because what's happened over the period

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of the last 41 years is that we as Americans have

allowed the pendulum to swing up towards a big
central government.

And we have done it for the right reasons,
and the most noble of reasons. And those reasons
have a foundation of one single thing, to empower the
individual for the individual in America to be able
to live their dreams, for the individual in America
to be able to fly.

That's why, for 41 years, we have made an
effort to send our power and our money and our
influence to the central government so they could do
a number of things to empower individuals, including
education.

You think about what has happened over the
course of the last 40 years in education, where we
had giant gulfs from one state to another; where some
folks in some places just didn't think education was
that important; and frankly, they were denying young
people, the children of our great country, an
opportunity to live their dreams because they weren't
giving them the skills.
And the federal government assumed a larger part of the burden, in an effort to give kids opportunity in America.

Medicare -- what a wonderful, compassionate program Medicare is. It allowed our senior citizens to get quality health care, and was aimed at rescuing them at the end of their lives from poverty -- as noble an idea as man could conceive. And so, we sent some of our power and our money to the central government to create Medicare.

Medicaid -- in a Judeo-Christian society, you are judged on the basis of how you take care of the least of those in your society. And Medicaid was a program that was designed to serve the poor, the disabled, and the poor children of America, and to give them opportunity and to empower them.

And the efforts that we've made over the last 25 years to help the disabled be able to have equal rights in America is wonderful. And we felt the central government needed to provide the leadership.

Maybe the gemstone, the cornerstone, of
all the power and money and influence we sent to the central government can be viewed in the context of the Civil Rights movement, where Americans, because of their color, had to ride in the back of the bus as a best case, and in most cases, in many corners of this country, were treated like animals.

And we said, with great compassion, great hope, that we wanted to use the central government to beat down the barriers of racism and discrimination. And we've gone a long way.

But you know, like any other pendulum, any other pendulum at some point, it's time for the pendulum to swing back. And frankly, what we're fighting about today, the Republicans on Capitol Hill and the Administration, is about philosophy, common sense, and that pendulum.

And what we're arguing is those reasons why we sent money and power and influence to the central government to empower individuals is precisely why we need to bring the pendulum back.

Because frankly, ladies and gentlemen, in your states you know that Americans over about the
last decade have felt as though they’ve sent too much power and too much money and too much influence to the central government. And they believe in their hearts that it’s time to end the frustration that they feel, and the sense of hopelessness throughout our communities, that they can’t stand up to the government, and the government isn’t serving them.

That if in fact we can give the power and the money and the influence back to our citizens in all the towns, in all the villages of this country, they can do better themselves to solve problems where they live, that they can show compassion better, whether it’s in New Jersey or Kentucky or Indiana.

People living in neighborhoods believe they can show better compassion than the federal government. They believe that they can educate their children better, don’t they, George Allen? They believe that in the State of Virginia, they don’t need a federal bureaucrat or the federal government to try to tell them how their children are going to get educated.

In fact, they’re not even real enamored
with the idea of George Allen telling them. They want to do it right in their communities because they believe that they can educate their children better where they live.

They believe they can choose health care better. And they believe they can create jobs for their fellow men and women.

But I want to tell you that they also feel as though big government and powerful bureaucrats who regulate every part of their lives, and each and every part of their business, are beginning to crush their ability to effect change themselves in the areas where they live.

There is a fear that Washington, the central government in Washington, D.C., is out of control; that it's threatening their children's future by driving us towards bankruptcy, and that America's greatest legacy is starting to become at risk.

And that legacy is this -- that your children will have a better tomorrow, that your children will inherit an opportunity in this country.
that is better than what you had inherited from your children. And they're beginning to believe that won't happen.

Look at the polls. Look at the frustration. Look at the hopelessness on the faces of mothers and fathers across this country who are worried, deathly worried about their children's future.

And you know, they know as we know that the 21st Century is not about big taxes and big governments and powerful bureaucrats. It's about the power of the individual.

You think about this. In the 21st Century, the next millennium -- and Martin Luther King talked about the next century in 1963. We're right on the edge of the next century, the next millennium.

A 12-year-old child with a magical instrument called a computer will be more powerful in many respects than his mother and his father. The 21st Century is not the era of bigness and bureaucracy and over-taxation and over-regulation.
And what we are arguing is that, out of the same compassion where we sent power and money and influence to the central government to empower the individual, we want our power, our money, and our influence brought back to our local communities so one more time the individual in America can be empowered. That’s what it’s all about.

And we feel that standing in our way are Washington lawyers, Washington lobbyists, and Washington special interest groups.

And you know, I suppose if you had a beach-front condo in Ocean City, you work three days a week, you ate in the fanciest restaurants in the world, and you played golf at some of the great places, and you had a group of rebels that came down here and said you wanted to transfer power and money and influence out of this city, which makes you less important, you wouldn’t like it either, would you?

You would fight against giving me my power and my money and my influence back. And that’s what this is all about.

But I want to get specific with you. I
I want to talk to you about trust. I want to talk to you about trusting people. You see, that’s what this is about. Who do you trust? Washington bureaucrats, or people that live across this great country of ours?

I want to tell you about Medicare. I don’t know how many of you saw the New York Times front page story today. But Medicare is in worse shape than what the Republicans thought it was. Yeah, the bureaucrats in Washington were wrong again. Medicare heads towards bankruptcy, not in seven years, but in a shorter period of time than that.

And you know what we’ve done? We’ve tried to touch the third rail of American politics, the entitlement programs. And we have said in Medicare that the single most important thing we could do is to keep it solvent.

We must guarantee our senior citizens that they will have a viable quality program to take care of their health needs for as long as they shall live, and for the next generation. And you cannot save Medicare by transferring pieces of it out of the
Medicare trust fund into the general fund, and
heaping even more burden on young working families in
America.

We cannot play shell games with the
precious program called Medicare. But we believe the
way in which you fix it is to give people choice, to
allow them to choose the kind of system they want to
be in, exactly the kind of system that exists in your
states for your employees, and across small
businesses and large businesses all over this country
where we’ve been able to control the costs of our
health care programs for the first time in a
generation, while at the same time being able to
guarantee quality.

And we want to break the iron fist of the
big federal bureaucracy called the Health Care
Financing Agency that couldn’t even get this right.
We want to break the fist, the iron fist, of
Washington bureaucrats so that our senior citizens
can choose that health care plan that will give them
quality, and will result in their program being
sustained and controllable.
But I want to talk to you about young workers. You know the group of people in America who are the most forgotten? They're young working Americans with children. And they're paying more and more and more of the bill. And no one is ever thinking about them.

And if we cannot -- you see, it is not inconsistent to have a quality Medicare program while at the same time being able to have some control of the cost of that program so we don't bankrupt the young people in this country. But you've got to be able to have choice. You've got to be able to stop the politics.

And I hope that today the President has read this article, and understands that Medicare needs to be taken out of the political debate, and put on the table for real solutions, trusting in Americans to make good choices.

I want to talk to you about welfare and Medicaid. But you know what I want you to do? I want you to look around this table, because you know, Medicare in some degree is trusting people. Medicaid
and welfare is the Congress of the United States

trusting you as messengers for your people in each of

your 50 states.

And the thing that I can't understand is

how anybody who is a governor in our 50 states would

allow somebody in Washington to say that you're not
capable, that you don't care, that you're not to be
trusted.

And I want you to think, when all 50
governors get back in here, I want you to look around
the table. And I want you to figure out which guy
and which woman don't you trust? Do you not trust
Christie Whitman? Do you not trust George Bush? Do
you not trust Governor Sundquist or Irvin Bayh?

Maybe you don't, but I do. You see, I do
trust that you will be good stewards and good
messengers for your people. And that's what welfare
is all about.

Let me just show you very quickly the
welfare situation in this country. And I think you
all know it very well. You can see that welfare
spending in this country is going through the roof.
ADC enrollment is going through the roof.

Illegitimacy rate -- the President just formed a commission to try to figure out how to stop illegitimacy -- through the roof.

Violent crime, which really threatens the rights of every American, through the roof with a little leveling off this year. Let's hope it's going to last. And the poverty rate. We're not winning the war on poverty, are we?

Now I would not mean for one second to tell you that the higher rates of welfare have caused any of this. That's not what I'm telling you.

But what I am telling you is, they're a Washington-run program, run by Washington bureaucrats who don't even know what time zone you're in, Governor Bayh. Did you ever call them down here?

Before you get off the phone, they'll say, "Now, what time is it in Indiana?" Governor Voinovich will say, "What time is it in Ohio? Is it the same time in Indiana that it is in Ohio?" They didn't even know what time zone we live in. Governor Schafer, they'd never get you right.
What we are saying is that this Washington one-size-fits-all philosophy hasn’t served us, has it? And so what we’re trying to do with welfare is to trust you to run the program, to trust you to end the one-size-fits-all mentality.

And you know, when you take a look at what you have to do, you come to Washington on hands and knees to beg a bureaucrat whose biggest challenge during the day is to fight their way across the 14th Street Bridge every morning, to allow you to serve more people with compassion.

Governor Engler in Michigan -- he has a program from his servings in welfare that he got from his waiver that allows him to provide a health card to people coming off welfare.

Governor Weld in the State of Massachusetts -- boy, he’s on the leading edge of saying, "We’ve got to take care of people who have mental illness." That’s something nobody has wanted to touch, to fix, to address.

Bill Weld did it out of the savings of his welfare plan. And Tom Carper wanted to do it a
little bit differently, and they’re telling him, "No, no, a thousand times, no. That’s not how we’re going to fix welfare."

I want to tell you that this weekend I was in New Hampshire, big meeting, 300 people. And I said to them, "We want to send welfare back to the states. Frankly, we don’t even want to send it to the states. We want to give it to the local communities so that Mr. Smith, doesn’t want to go to work, we pick him up and put him in the back of our pickup truck, and we take him to work," don’t we, Governor Bush?

And if Mrs. Jones is sick with two children, we take care of her. That’s compassion.

He wants faith-based welfare. He shouldn’t have to come here and get on his hands and knees and beg a Democrat, or a Republican for that matter -- it doesn’t matter which party bureaucrat to tell him how he’s going to take care of his people.

Well, we had a vote in New Hampshire. And I said, "Look, ladies and gentlemen in the room," 300 people. I said, "I’m going to let you give 10
percent of your income to help poor people. I want
to know how many in here would send it to a
government-run welfare agency, and how many of you
would give it to a charitable group to deliver health
to the poor?"

I got one vote for the government agency,
and everybody else was going to send their money to a
local-based welfare operation that was charitable.

Frankly, when it all gets down is, the
three legs of the stool, community, family --
community is a critical part of all of this. Family
is another absolutely vital part of this. And faith.
You put the three legs of the stool, and you begin to
deal with welfare.

I trust you. I want you to run it.

Medicaid -- you know, my governor told me
that if we don't control Medicaid, Medicaid is
becoming a giant entitlement program wrapped around
his neck. And what it's beginning to do is to erode
into the programs of education, taking care of the
environment in the State of Ohio, being able to do a
whole host of things because he's being strangled by
a federal program that was designed to treat those
people who don’t have power and money and influence
and who are disabled.

And he says he has a better way to do it.

But let’s talk about Governor Sundquist.

Governor Sundquist has a program in Tennessee that is
giving the most amount of care to people in this
country -- health care in this country, than any
other state in this country, including Hawaii which
has an employee mandate.

He didn’t create the program. A Democrat
created the program. But he’s been a good steward of
it, and he’s making it better.

And what is Medicaid all about? Medicaid
is allowing you to end the one-size-fits-all
philosophy, and to allow you to serve people in your
states the way you think is best. And I believe that
if we can cut down on the bureaucracy, the red tape,
the rule-making directed out of Washington, you will
show more compassion to your fellow man. You will
treat more children and more poor and more disabled
than you do at the current time.
And who stands in your way? Bureaucrats that have your power and your money.

And for those that don’t trust a whole lot in here, we’ve got a new program that says, "Well, only trust you halfway. We don’t trust that you can show real compassion, but we’ll require the states to cover these populations -- pregnant women, young children, and poor children, and the disabled folks and the elderly, and make sure that they get a benefits guarantee package."

Surely the governors in this country can agree that this is a far better way to run Medicaid than the current system of being blocked and frustrated in your ability to show real compassion.

So with both welfare and Medicaid, we want you to be stewards for your people. We want you to be the messenger. We want you to show real compassion to the people we’ve tried to serve. And all we’re asking for is common sense that swings the pendulum back out of Washington into your hands, and better than that, into the hands of the people who elected you.
I want to talk about tax relief quickly. The economy is going south. We need to get the economy moving in this country.

Now, we've got the highest tax on risk-taking that I can think of in any major industrialized nation in the world. And you know what capital gains is all about? First of all, you know, if you're an older couple and you lived on a farm, and you want to sell your farm, I don't think the government ought to take the whole value of your farm. You ought to get a capital gains break. And if you're a senior citizen, you want to sell your home, you ought to get a capital gains break.

And if you're just a guy that delivers mail like my dad did, and you happen to have some kind of an investment in the stock market, and you make a gain, you ought to get a capital gains rate. But you know, capital gains, to some extent, is about rich people taking risks. You see, I like it when rich people take risks because when they take risks, I get a job in the plant they create. And then I get a job there, and then I go

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and I take the money, and I get an education.

And then I get like real smart. And then
I go out, and I buy them out in a leveraged buy-out,
and then that rich guy ends up working for me.

You see, in a society like ours, in good
times, the rich get richer. In bad times, the rich
get richer. The only time the poor get rich are when
things are good. That gives them the greatest
opportunity to elevate themselves, and for them to
become rich.

Frankly, what it's about is opportunity.

The second piece of the tax cut is the
child credit. You know, one brilliant -- I think it
was a Democrat politician said, "The best Department
of Health, Education, and Welfare is the American
family." If there is any institution that must be
rebuilt into the 21st Century, it is the American
family.

And as we downsize government, we ought to
give them a piece of their money back. The children
of this country ought to be held the highest, and
they deserve some of their money back. And frankly,
they’ll spend the money better than anybody in Washington can dream up.

That’s why the family tax credit has got to be a part of any solution.

To the Democrat governors here -- we need you to help us fashion a bipartisan solution.

Governor Lowry, we need you.

I know that your concern about the Republican plan is not political. But I ask you to search your heart, as I do every day when I go to do this job, to make sure it’s not political. And I ask you to think about it, because frankly this is the last chance that you have to really design this program of Medicaid and welfare, to save your own budgets, to allow you to set your own priorities.

I’m just asking you to take a chance, to work with our Republican governors to design a program on a bipartisan basis that both sides have to give a little bit. But at the end of the day, we can reach an agreement.

Now, I know that’s tough sometimes.

Sometimes if you have to take a little heat from your
own people like I did from the last administration,
it wasn’t fun to go out and try to kill a B2 bomber
with Dick Cheney as the Secretary of Defense; but
that’s life.

You know, John Kennedy said that sometimes
we do things, not because they’re easy, but we do
them because they’re hard.

This isn’t a political appeal. I sat with
Governor Romer and Congressman Condon, Leader of the
Blue Dogs, and asked them to get together with the
Republican Governors, Engler and Leavitt here, just a
couple of months ago. And I said, "You can give us
the breakthrough that we need."

Look, to all of us, we’re on the edge of
the 21st Century. If we don’t get a change, we’re
going to drown in debt. And the one number I’ll tell
you is, for a child born today -- a child born today
with the status quo in effect, that child throughout
his lifetime will give 84 cents out of every dollar
he or she earns to the government.

They won’t work for 84 cents out of every
dollar to be paid to somebody that they don’t know
and they don’t see, and frankly they think is wasting their money.

This is our chance. We are stewards at the end of the 20th Century. We have an obligation to do some of the heavy lifting so that the children of the next millennium are going to be able to have their hopes and their dreams. That’s what this is all about. We do it for the children.

And if we can reach agreement on saving the Medicare system, which rolls towards bankruptcy, and we can give people choice; and if we can trust you and you can trust one another, and you can trust your people to be smarter than people here, then we can reach agreement.

You see, it’s not about numbers. It’s about policies. It’s about philosophy. Who do you trust? And if we blow this opportunity, and we continue at 100 miles an hour towards bankruptcy, the 21st Century will mean being choked by red tape and bureaucracy, driven out of the central government. It will mean bankruptcy for our young people. It will mean a slash in benefits for our baby boomers,
and tax rates that are just unconscionable.

But on the flip side, Ronald Reagan talked about the shining city on a hill. You know, it's a shining city on a hill that's shining because we're generous. As Americans, we're loving. We're peaceful. We're kind. We seek justice. We're righteous without being self-righteous.

And the greatest thing about America is why people came here the whole time we've existed. It's because people see this as the land of opportunity, and a chance for them to live their dreams.

Now, look. We've done some wonderful things over the last 40 years by empowering the city. But if we're going to empower people again, if we're going to give them a sense of hope rather than hopelessness, then we need to take the power and the money and the influence and put it back in their hands, reinstitute the Judeo-Christian principles that this country was founded on, and Ronald Reagan's shining city on a hill will not be tarnished.

And you know what's important? The rest
of the world, it sees the beacon. Its hope is
America. Its model is America. And if we can plug
together as Republicans and Democrats and trust the
people who run this country, we're going to be able
to have a beautiful, wonderful shining city on the
hill into the 21st Century that our children and our
grandchildren can inhabit.

Thank you for letting me be here today.

(Applause.)

GOVERNOR THOMPSON: Are there any
questions for Congressman Kasich? Yes, Governor
Graves.

GOVERNOR GRAVES: Congressman, I want to
follow up on a comment Governor Lowry made to Leon
Panetta. You know, my legislature is in session.
I know each governor has got a different
sort of dynamic back at home they have to deal with.
But I've got people back in my home state who want to
be part of shaping the new look to our state that's
going to be the result of whatever changes occur
here. And they're all actually getting kind of
frustrated.
They want to wrap up a section, go back, and run their own election campaigns and so forth. And I have a great fear that this whole thing is going to drag on and on into the late spring or the summer, and not get resolved at all.

Have you got any good advice for those of us that are trying to figure out where this is going to end up, so that we can make plans with any certainty?

REPRESENTATIVE KASICH: George Pataki has already budgeted for an enormous amount of change occurring. And I can't imagine the fiscal train wreck that he's going to experience if we don't get something worked out here. And many of you are in the same position.

So it's not just the fact that many of you have planned for these changes. But at the same time, if you were to, for example, get a capped block grant program, that's an unfunded mandate on you. How can we give you a few dollars and no flexibility? And it is not just a matter of degree. We know what the threshold is. We know what the
threshold of success is. And you can all work it out. That’s why I would urge you to have everybody sit down.

But I’ve got to tell you something. I’m not going to cave into some half-baked deal that’s based on some goofy numbers written by CBO and OMB. This is philosophical, you see, because if all we do is add up numbers, you know, I’m going to go on a diet. I’m going to lose 50 pounds this year. The first 51 weeks, I’m going to lose one pound, but in that last week I’m going to lose 49.

I mean, I’m not going to sign off myself personally on another rotten Washington deal. This has to be done right. And it’s not just numbers, it’s philosophical.

All I can tell you is, that if we cave in now, we’re going to come back in five years, and it’s going to be worse. It’s going to be immensely more difficult.

Now, look. I’ve got a sense that there is starting to be a lot of pressure being put on a lot of people, memos flying all over the place, pulls
from one party to the other about -- you know. Maybe at the end of the day, we can convince the Administration that, you know, basically this is about shifting power.

That's why I asked a couple of Democrats to do it because, look. A number of you are aware of the midnight mandates from Washington on Medicaid. You wake up the next day, you go, "What the heck did they do down there?"

We're giving you a chance to design your program, to fit your people. You've got to seize the opportunity, and you're going to. I'm going to make a prediction you're going to.

Because there is no way that we can keep moving along with unsustainable rates of Medicaid, unsustainable rates of Medicare, and unsustainable rates of welfare. It just can't happen. We're too smart for that, and we're not ready to put the white flag up. Talk to your governors, get down on your hands and knees, pray first, and then beg some of the Democrats to work with you.

I know with this chart on Medicaid -- get
that chart back up there one more time. I can't
figure out who isn't cared for under this chart.

We’re going to guarantee all of these benefits. This
is not some pure block grant. This has got everybody
lined up who we’re concerned about being able to
help.

This is good. This is a compromise. The
Republicans went from $270 billion in Medicare
savings down to $168 in the spirit of compromise. I
will tell you this, that by doing that, we've
shortened the life expectancy of that program. Now,
we think we've moved to shore it up till the edge of
the baby boomer generation. But I've got to tell
you, every dollar less we save, and the faster that
program grows, it's going to run out of money.

So I would say, Governor, you can slide
over there next to my friend Lowry there and whisper
in his ear, and let's get an agreement between all of
you on Medicare and Medicaid before you leave here
this week.

GOVERNOR THOMPSON: I would just like to
remind the governors that we have a very busy
afternoon, and the more questions you ask, the less
opportunity we have to go in there and whisper in
Mike Lowry's ear.

(Laughter.)

REPRESENTATIVE KASICH: Tommy, they may
ask me one I can't answer. That would be the
scariest one.

(Laughter.)

GOVERNOR THOMPSON: Governor Lowry, for a
very short question.

GOVERNOR LOWRY: John, you and I have been
friends for a long time. I appreciate your courage
and your leadership for a balanced budget.

Two items. We last year in the State of
Washington took 10,200 people off welfare onto the
job rolls, saved $34 million, using waivers and using
the things that we can do to do that, a high success
story. I think it ranks with any state, if not the
best in the country.

We did that because we weren't constricted
by things like teenage mothers, whether they can be
covered on AFDC, family caps, things we didn't want
to do. We were able to do so.

So will we have from Congress support of welfare reform that won’t have any type of restrictions on states so that we can do our jobs?

Second question -- I’ll give you two.

Second, as you know well, health care inflation is actually higher than Medicaid inflation. And our biggest problems in the states is the fact that we can’t get around the ERISA mandate on the states or the federal government.

If we can get rid of the ERISA mandate on the states by the federal government, we can do much more in Medicaid. So will you commit to help us get rid of that federal control of states accomplishing real savings in health care?

REPRESENTATIVE KASICH: Let me suggest to you that Harris Fewell is our expert on ERISA. I will call him tomorrow and make sure he calls you to get your views on how that program needs to be reformed.

Everybody knows it needs reform, and I hope we will get on that immediately. And I will
talk to him.

In regard to the welfare, first of all, I don’t want you to have to have a waiver. I want you to be able to go out and design your own program. And as you know, inside the Congress, we had some debates on some minimums.

I personally would rather have either no minimums, or very few minimums, because I trust you to design the program the way you want to. And then we can look at each state’s experience and come out with a result.

I don’t think that Tom Carper should have been denied the reforms. Maybe you’ve now since gotten them through. But he had some unique ideas in terms of how to control the problem of illegitimacy in this country.

There ought to be the minimum. But as you know, Governor, you’ve got to pass the bill. And it will be tough. If we ever get to the point where we think we’ve reached some agreement, I’ve got a sense that I’m going to be right in front having all kinds of things thrown at me by my colleagues. But that’s
part of leadership.

I can promise you that Speaker Gingrich wants there to be fundamental changes, and he'll fight. And if we have to make a few compromises in terms of taking some people on, and feel strongly about this mandate, we will do it.

I thank you for your program, and also tell you that there's no place better than the Hoh Rain Forest.

GOVERNOR THOMPSON: Does anybody really need, or feel compelled, to ask any more questions?

GOVERNOR CARPER: I sure do. I'll make it real quick.

John, it's great to see you, my friend.

We asked the Clinton Administration for two waivers for us to go to a managed care medical system January 1st of this year. We got that. We're up and running.

The second one was to implement our welfare reform plan, a better chance, which we implemented last October 1st. The piece that has not yet been approved -- it's not been denied; they just
have deferred a decision -- is the piece we want to
implement in 1996.

They've actually been pretty responsive.

REPRESENTATIVE KASICH: My only concern
is, if Governor Voinovich puts your waiver in -- I
don't know how long in fact he's had this waiver
in -- on trying to be able to make reforms in our
program in order to serve more of his population, he
should never have to jump through all these hoops.

It's ridiculous.

I trust you folks will do it the best.

And I want different laboratories going out inside
this country, because we learn, and one governor
learns from another. And people learn from others.

So let's get this worked out, Mr. Carper,

if we can before you get out of here.

GOVERNOR THOMPSON: Governor Voinovich has
an emergency question in less than five words.

See that it is, George.

GOVERNOR VOINOVICH: John, if we can cut a
deal here, will you buy it?

(Laughter.)
(Applause.)

REPRESENTATIVE KASICH: Yes.

(Applause.)

GOVERNOR THOMPSON: Motion to adjourn is in order. Please quickly get to the Governors Only meeting. We've got a very, very busy agenda.

VOICES: So moved.

(Whereupon, at 3:25 p.m., the meeting was recessed, to reconvene at 9:15 a.m. Tuesday, February 6, 1996.)
NATIONAL GOVERNORS' ASSOCIATION

* * *

WINTER MEETING

PLENARY SESSION

J.W. Marriott Hotel
1331 Pennsylvania Avenue, N.W.
Grand Ballroom
Washington, D. C.

Tuesday, February 6, 1996
9:15 a.m.
GOVERNOR THOMPSON: Ladies and gentlemen, we have an extremely busy morning, and I want to get started right on time. We have about two minutes.

I would just like to encourage the governors to come in because we’re going to hear from Lou Gerstner. Then we would like to get the education awards out. And then we want to go to Senator Dole. And then we want to try to get all the policies done between Senator Dole’s speech and the President’s speech.

So I’m going to try and keep us all on time and task, so that we can complete our work. We’ve got a lot to do, and we’ve got some exciting things to take place this morning.

As I’ve indicated, this is an historic meeting for the NGA because of the kind of agreements we have tentatively reached. And of course, we have not and will not reach those agreements fully until after the plenary session, and we’ve all voted on them.

So if people can come in quickly, I would
certainly appreciate it. And I would appreciate it if the governors would take their chairs, and that the staff would leave the governors the opportunity to take their chairs.

Good morning, ladies and gentlemen. I would appreciate it if you would please listen up. We have a very busy morning.

We have all of the policies that we have tentatively agreed on to get through. But as I mentioned in the opening press conference, this could be a very historic meeting for our association.

And I believe it has been, considering the kind of work that has gone into it, work done by several governors and the completion of a compromise on Medicaid, on welfare, employment and training, the Farm Bill, the National Guard, plus all of the hard work done by the committee chairs and the members, and the policies that they have promulgated and approved.

So this morning, let me just say, welcome to the closing plenary of the 1996 National Governors Association Winter Meeting. And, as throughout this
meeting, we have a very busy agenda this morning. So
I would like to get started.

I would like to now call this session to
order. The winter meeting traditionally is devoted
to developing policy and a broad consensus on issues
before Congress that impacts on us as governors in
our respective states.

This year of course is no exception. We
have covered everything from a sustained national
economy, a balanced federal budget, tax reform, and
best of all, the best state practices.

As I've mentioned, I would ask you to get
your best state practices into the NGA office by the
end of next week.

We are preparing books on seven subjects.
And we need to have the cooperation of governors to
present their best practices in those seven subject
areas. We will then be able to present those books
to you at our summer meeting in Puerto Rico, which is
going to be an exciting conference.

And Governor Rossello, thank you for your
reception, and thank you for your assistance in
helping to put on, I think, a very historic and
exciting convention this summer.

Our Governors Only sessions have given
each of us some great new ideas to work on. We had a
great opportunity at this meeting to hear
perspectives from the President and from
Congressional leaders of both parties. And finally,
to get them to listen to what we have to say, which
has been a unique situation and is something that
hopefully will be an ongoing thing.

Most of us think this is a crucial year
for major changes in the way our governments work,
state and federal. We believe the people are
speaking loud and clear, the status quo just will not
do.

Both parties are proposing major changes
in government to meet the challenges before us. It
is my strong conviction from several years of making
tough choices in my state, and you have in yours,
that Washington finally also has got to make some
choices, and sooner rather than later.

A little later this morning, we will hear
about the tough choices being proposed by Senator Dole and President Clinton. But now I'd like to introduce our first guest. And after Lou Gerstner gets done speaking, which is going to be an exciting speech on education and our summit, I would like them to get into the education awards quickly, before Senator Dole comes.

And then, after Senator Dole gets done with his speech and questioning, I would like to get to the policies, and I would like to try and complete the policies after Bob Dole gets done, before the President comes.

So after President Clinton gets done with his speech, we can adjourn.

There has been a great deal of discussion about the upcoming National Education Summit. And I can sense that you are as excited as I am about this event. With all of your help, it will truly be a success. We already have 37 governors that are committed to come to Palisades, New York, on March 26th and 27th. They have designated 30 CEOs that will accompany them.
And I would encourage each and every
governor to make every effort possible to come on
March 26th and 27th.

Lou Gerstner, of course, is the Chairman
and Chief Executive Officer of IBM, and my co-chair
for the summit. We had the chance to hear his
thoughts on education in our last meeting in
Burlington, Vermont.

I invited him here today to talk about the
summit from the perspective of the CEOs who are
working with us. I would also like to take this
opportunity to publicly recognize him for his
leadership on education issues, specifically in the
area of academic standards, assessments, and
accountability, as well of course as his leadership
in education technology.

Mr. Gerstner, thank you so very much for
coming. We appreciate it, and we hope to have the
educational summit the most successful one ever in
the country.

(Applause.)

MR. GERSTNER: Thank you, Governor
Thompson, and thank all of you for having me here again. And I know your final session is devoted to issues of great importance. So I’m enormously pleased that you regard the upcoming educational summit as one of these issues.

I’m pleased, but I’m not surprised. Just six months ago, we agreed to have this summit. And since then, the news on the education front continues to be grim.

A report from the National Goals Panel, which met here yesterday, says that reading levels among our high school graduates are lower today than they were in 1992. We’ve made modest progress in some areas, like math. But in many subjects, we have stagnated, and in some, we have actually declined.

In fact, our national goal of being first in the world in math and science appears to be well beyond our current reach. Our current math performance now ranks us second -- second from the bottom, behind such countries as Slovenia, Korea, and Taiwar.

By contrast, the news is encouraging when
it comes to the country's determination to face up to
the education crisis. The vast majority of Americans
think our standards are too low. In fact, over 80
percent favor the idea of holding schools to much
higher academic standards.

In addition, a recent survey by Gallup, CNN, and USA Today finds that two-thirds of our
citizens now list education as the number one
concern, ahead of crime, welfare, health care, and
jobs.

Let me repeat this, please. Two-thirds of
Americans rank education as the country's number one
problem, above jobs, health, welfare, and crime.

That is the kind of public support that
political leaders need to overcome inertia and self-
interest and to achieve real educational reform.

State governors have already begun to
speak to the public's concern. This year, more than
half of the governors's state of the state addresses
put education among the most pressing public needs.
Along with this welcome talk, there has been some
action.
For instance, by the year 2000, every high school student in Wisconsin will have to pass a rigorous new statewide academic test in order to receive a high school diploma. States like Colorado, New Jersey, Delaware and Virginia, just to name a few, have begun to set new, tougher standards.

In Charlotte, North Carolina, after clear grade-by-grade standards were put in place, test scores jumped, particularly among minority students.

The goal of the education summit is to take this public sentiment and turn it into political muscle, to take the stream of state reforms and turn them into a river. The aim of the summit is to give you, the nation's governors, tools you need to work for the changes we need to boost student performance.

As Governor Thompson said, the summit will take place on March 26th and 27th in New York. We are very fortunate that the bipartisan group of governors on the planning committee is headed by Governor Tommy Thompson of Wisconsin. His leadership has been essential in turning the idea of an educational summit into reality.
The committee has invested a lot of time to ensure that the summit produces concrete, politically feasible goals, and practical means of reaching them.

Let me assure you, this will not be your run-of-the-mill education conference. It will include, not just public officials and educators, but the cream of America's business leadership. Every governor will be accompanied by a CEO from his or her state, as a full partner at the summit.

For example, Paul O'Neal, the CEO of Alcoa, will attend with Governor Ridge of Pennsylvania. Governor Whitman of New Jersey, will bring Art Ryan, the CEO of Prudential. Governor Carnahan of Missouri will attend with Sanford McDonald of McDonald Douglas. And Governor Caperton of West Virginia will bring John Hall, the CEO of Ashland Oil. And Governor Edgar of Illinois will bring Dick Notabart, the CEO of AmeriTech.

And as I think you know, the steering committee includes Bob Allen, the CEO of AT&T; John Clendennan, the CEO of Bell South; George Fisher, the
CEO of Eastman Kodak; John Pepper, the CEO of Proctor & Gamble Company; and Frank Schontz, the CEO of the Boeing Corporation.

When I met with you governors in July in Vermont, you gave me a very clear message. You said you needed business support to bring about the changes we need to make in state education. Well, we all got the message. And the business community will be there in March.

We know there is a crisis. We know we must act. We know that time is running out. And we know that, while there are many things we can and should do to improve our schools, none will matter unless we first hold schools accountable to a set of high academic standards.

We have no hope of succeeding unless we can agree on the difference between success and failure. And we cannot agree on this difference unless we accept common standards for measuring our performance.

At the summit, we will examine the clear, overwhelming evidence that high standards increase
student performance. And we will see the direct
relationship between high academic standards and the
skills required in today's work force.

We will be able to see just what a
standard looks like by examining standards that have
been successful. And we will look at standards, not
just from different U.S. school districts and states,
but from dozens of different countries, so that we
will recognize what a world-class standard is, and
know what kind of competition we are up against.

The summit will be different in other ways
as well. First of all, this summit will not be a
debate. WE will not argue about whether a problem
really exists, or how serious is the crisis. We will
examine the depth of the public's support for
standards, using poll data and focus groups. We will
look at the practical and political barriers to
building and creating standards, and we will identify
strategies to overcome those barriers.

Finally, we will see demonstrations by
more than a dozen companies of various ways that
technology can restructure schools to improve their
performance, to make them more accountable, and to achieve higher standards.

We will not promote technology as an end in itself. We will not present technology as a substitute for good teaching, or student initiative. Instead, we will see how technology can multiply a teacher’s power, speed the education process, and draw an increasing number of students into learning activities; and also, how technology can restructure and expand the school day and year.

In the past six months, a very, very curious debate has arisen among some educational writers over whether America’s schools are really as bad as we think they are. These revisionists say that our schools are now more inclusive than ever, and a drop in achievements is a natural result.

These critics say that, although there was a significant decline in school performance in the ‘70s, we have recovered from it, and today our schools are no worse than they were 30 years ago.

So as we try and reform our schools, we must not only cope with entrenched bureaucracy and
blatant self-interest, but we must answer this additional defense of the status quo.

Yet it is not a hard question to answer. It is in fact bizarre to argue that this country should be satisfied with the performance levels of 30 years ago. In 1994, among 29 Olympic gold medals we received, the U.S. set a world record in the women’s 100-meter free-style swimming relay, and an Olympic record in the shot-put.

In the 1992 games, 28 years later, we set a world record again in the swimming event. But our swimming time was 25 percent faster. We won another goal in the shot-put, but exceeded the old record by five feet.

If we had stuck with our old performance levels, we wouldn’t even have finished in the top three in either event. In fact, our 1964 performance levels would have won us only two medals overall, reversing our standing in the Olympics from near the top to near the bottom.

That’s what you get if you face the challenges of today with performance levels of the
In 1960, my own company’s best-selling item was the IBM Selectric typewriter. Today an organization of any size that tries to base its operations on a typewriter alone will soon disappear.

Thirty years ago, doctors performed tens of thousands of surgeries and other invasive procedures to produce diagnoses that we make today with CAT scans and MRIs. To return to the medical practices of 30 years ago would strike us all as barbaric.

There are always people who would like the world and the country to stand still. But America cannot allow those people to carry the day, in this era of all eras. We know standing still doesn’t work. We know we must educate our children for a changing world economy, and an ever more complicated set of political choices.

World-class education standards are the only way that we know whether we’re doing that job successfully. And the most encouraging sign I have seen is that the nation’s governors and the nation’s
business leaders have taken up this responsibility
for safeguarding the country's long-term future.

Let me conclude with a final observation.
As the budget battle of last fall becomes the budget
battle of this winter, and perhaps this spring and
summer, the rhetoric is steamy with the hot air of
politics, and the fiery passion of principle.

But one chilling fact stares all of us in
the face. If we do not revolutionize America's
public schools, any budget balancing act will be an
irrelevant exercise in futility, because without a
revolution in our schools, the vitality of our
economic well-being will atrophy and die. And the
great experience in democracy we call the United
States will come to an end.

I look forward to seeing you all at the
summit in March, and to getting on with the task at
hand.

Thank you.

(Applause.)

GOVERNOR THOMPSON: Thank you so very
much, Lou. We appreciate your dedication, your
vision, your hard work. And I personally -- and I
talked to several governors -- am looking forward to
our summit. I know it's going to be tremendously
successful.

I just would like to point out that Roy
Romer and John Engler -- John Engler is the chairman
of the national education goals. Roy Romer has been
with me in ECS, and he's starting to put together
work on the goals and the standards and the
assessments, and is just doing a wonderful job.

Bob Miller -- Governors Miller and Hunt,
as well, and Governor Voinovich and Governor
Branstad -- all of those governors -- have just put
in a great deal of time and effort to make this
summit successful, and I'm confident we will.

And for all of the rest of the governors
who have not committed to come, I urge all of you,
each and every one of you, to nominate your CEO that
will accompany you, and make a reservation right now
to be with us on March 26th and 27th. I can assure
you it will capture the national media, and I will
assure you that it will also be a summit that you
will say, "I am very happy to have attended. And I think we've accomplished a great deal."

I now would like to take a moment to focus on the school-to-work round table. First I would like to commend Governor Edgar of Illinois, and Governor Hunt of North Carolina for their outstanding leadership of the NGA School-to-Work Round Table.

The round table which they co-chaired and of which a lot of us were members, was comprised of governors, CEOs representing leading businesses within their states, and two nationally renowned educators.

Over the past two years in the four NGA meetings, the round table promoted the public/private cooperation needed to build state school-to-work transition systems for all youth, and prepare the work force for the challenges of the future.

The conclusion of the school-to-work round table's work is marked by the publication of the Employer Connection, state strategies for building school-to-work partnerships, which you will all find in front of you.
The Employer Connection describes examples of strategies that all of us as governors and others are using to promote the employer involvement in school-to-work partnerships.

For example, targeting key employers and industries and linking school-to-work programs with state economic development priorities, reducing barriers to employer participating, including working compensation and liability concerns, and finally what we as governors can do to foster the public-private partnerships to meet work force needs.

I thank you, Governor Edgar and Governor Hunt.

Jim, did you want to expand on the work that you did, quickly? Governor Edgar, Governor Hunt?

(No response.)

GOVERNOR THOMPSON: We now go to that part of the program where we make special presentations to some winning governors for the states for the states for what they’ve done.
Summit in Charlottesville, President Bush and the nation's governors agreed to a set of six national education goals to be achieved by the year 2000, and created a national education goals panel to produce a national report on progress towards achieving those goals.

Governor John Engler is the current chair of the goals panel, and I would like to personally commend him for the leadership that he has provided that panel.

In addition to a national progress report, the President and the governors agreed that each state should produce its own individual report to show progress made by the state towards achieving the goals.

Each year, our association recognizes four states for outstanding state progress reports. I wish to thank the staff of the National Education Goals Panel for serving as the review committee that selected the outstanding reports this year.

I would now like to present the 1996 NGA awards for outstanding state progress reports. I ask...
that Governor Paris Glendening join me at the podium
to be recognized for the Maryland report. It's
titled Maryland Reaches for the Goals.

Governor Glendening, congratulations, and
thank you for your progress.

(Applause.

GOVERNOR GLENDENING: Thank you very much.

Let me just say how pleased how I am to
receive this, and especially coming from the
governors association that has taken the leadership
in education.

I would also note, though, that it's easy
to stand up here as governor, but it's all the people
that work so hard. I would make a personal
observation, if I might, and why for me and so many
others education means so much.

I came from a very poor family. We
literally did not even have indoor plumbing and
electricity until I was about five or six years old.
But my father used to say over and over that it was
education and hard work that would make a difference.

"It's education and hard work." And I can
still hear him saying that. And he was absolutely right. And I stand here as a college professor and as governor because of the emphasis on education. And now we face a challenge like we have never seen before in this country. It is not good enough to stand still. It is not good enough to make a little bit of progress. If we are going to prepare our children for cyberspace, and not for space in an unemployment line, we’re going to have to be competitive. And competitive makes really, really tough changes. We’re in the process of doing that, and I’m pleased with our accountability and assessment process that we have in place. In our last round of scores, we saw improvement in scores at every grade level, and we’re pushing even harder. We are holding our schools accountable, and we’re seeing results. As a result of that, we were able in the last budget, notwithstanding the fact that it increased by only one-tenth of one percent, today a huge amount of additional resources to education,
because people understand that that's our future.

Thank you so very much for honoring Maryland this way.

(Applause.)

GOVERNOR THOMPSON: I am now very pleased to call to the podium the Governor of New Jersey, Christie Whitman, to be recognized for the New Jersey report, entitled Progress Towards the National Education Goals.

Governor Whitman.

(Applause.)

GOVERNOR WHITMAN: Thank you very much.

As a member of the National Goals Panel, I am delighted to receive this on behalf of my Commissioner of Education in the state.

We are demanding the three Es of education -- excellence, equity, and efficiency.

We're seeking excellence as we define core curriculum standards in eight core areas, and devising a system of accountability. We'll hold us publicly accountable for what we achieve, or don't.

Equity -- as we revamp our funding system
for the state, so that we ensure that every child, no
matter where they go to school, gets the access to
the highest possible standards in efficiency. And
this should ring a bell with some governors.

We have over 600 school districts. We’re
trying to encourage them to share services by
rewarding those that spend their money in the
classroom, and penalize those that spend it on waste
in administration and overhead.

So I am delighted to receive this, and I
will pass it on immediately to my Commissioner of
Education, who has done all the work.

Thank you.

(Applause.)

GOVERNOR THOMPSON: I now call to the
podium the Governor Indiana, Evan Bayh, to be
recognized for his state’s report, Meeting the
Challenges in 1995: Educational Progress in Indiana.

Governor Bayh.

(Applause.)

GOVERNOR BAYH: Thank you very much, Mr.

Chairman.
As one of the governors who was in attendance in Charlottesville when President Bush called us all together to focus on this important topic, I'm reminded of something that Thomas Jefferson once said. He said that, "A society that expects to be both ignorant and free is expecting something that never has been, and never shall be."

Jefferson's words are as true today as they were when he first spoke them. And on behalf of the people of Indiana, I want to express our appreciation for this award. We have set higher academic standards in our state, to be not only nationally but internationally competitive.

We have put into place a new generation of assessments to more accurately determine how our students are doing. And this year an additional 120,000 schoolchildren in the State of Indiana will receive remedial instruction, who in the years before received none.

So I want to thank everyone in our state who has helped make this possible. I want to thank this organization for your support and for your
recognition here today.

I'd also like to say, Mr. Chairman, that one of the things that characterizes governors, in addition to our bipartisan cooperation, is hopefully an additional sense of humility and humbleness that we bring to the tasks that we tackle.

And in that spirit, I'm delighted to tell you that our chairman today is also the recipient of one of these awards, but he was much too self-effacing to present it to himself. So I am happy today, on behalf of all of us, to ask our chairman, Governor Thompson to step forward.

I think all of you know that Tom has been a leader in education reform throughout his terms as governor. He was there in Charlottesville, and he's been there every step of the way setting higher standards, better systems for remediation.

And I'd also like to say, Tommy, I have personally heard from businessmen who do business both in Indiana and Wisconsin how impressed they are with your work force development efforts in the State of Wisconsin. You have truly been a national leader.
in that regard.

So please join me in welcoming and congratulating our chairman, Tommy Thompson, who has also been a pacesetter in education reform.

(Applause.)

GOVERNOR THOMPSON: Thank you very much for your kind words, Evan. I am pleased, of course, to receive the award on behalf of all of the students, the teachers, administrators and people that made education such a quality issue in the State of Wisconsin.

I'm joined by my lovely wife Sue Ann who is a school teacher. She leaned over to me before she knew I was going to get the award, and she says, "Is there a chance that I could get a bell like that for my classroom back in Kendall, Wisconsin, where we come from?"

So, Sue Ann, on behalf of your husband, here is a bell for your classroom. Sue Ann is an active schoolteacher. Thank you.

(Applause.)

GOVERNOR THOMPSON: While Senator Dole is
coming -- I believe he’s here -- Governor Graves, I
would appreciate it if you would come up and make an
introduction. But we have so much to cover.

I would like to, while we’re finding out
if Senator Dole -- yes, he is, okay -- right on time.

So, Governor Graves, if you would come up.

As Senator Dole is making his way into the
room, we will have Governor Graves from the great
State of Kansas introduce his great Senator.

GOVERNOR GRAVES: Good morning, everyone.

I imagine Kansas, like each and every one
of your states, has as its source of state pride many
of its native sons and daughters. Perhaps our most
famous native son in Kansas, Dwight Eisenhower, liked
to refer to himself as being from the heart of
America.

Just 70 miles west of Eisenhower’s home,
Abilene, is Russell, Bob Dole’s hometown. I suppose
you could accurately call it the center of the heart
of America.

Bob Dole of course has served the people
of Kansas, Russell, America, in a variety of
capacities, as a county attorney, as a state legislator, as a member of Congress, both in the House and the Senate, currently as majority leader. But of course, first and perhaps foremost he served this country as a soldier.

Senator Jack Kemp stopped by to see us the other day to tell us about some tax ideas. And I discovered that we have something in common. And no, it's not that I wasn't a quarterback. But his father was also a trucker, like my father. The only difference was that in our family, anything that was 'flat was usually bad, and that was a tire.

Trucking, as you know, is sort of a blue-collar sort of business. And I will tell you that my father was never very enamored with people in politics and public service. And it's taken him a little bit of getting used to, a son in this position.

But he's a person who always admired and supported Bob Dole, and he did that because of Bob Dole's values, because of his work ethic, because of his leadership, because of his vision, perhaps most...
importantly, though, because he has a very commonsense approach to the relationship that government ought to have with encouraging businesses in this country.

I know that Kansans have benefitted, and I believe that all Americans have benefitted, from Bob Dole’s public service. And so it is a great honor for me, and with great pride, that I introduce to you my Senator from Kansas, and my friend, Bob Dole.

(Application.)

SENATOR DOLE: Thank you very much.

I’m very honored to be here. And Bill, I appreciate that very much.

I know you’ve had a couple of days of meetings and speeches, so I thought I might liven things up by giving my state of the union response again.

(Laughter.)

SENATOR DOLE: Actually, I had a memo the day after the speech from the President’s political consultant, Dick Morris.

(Laughter.)

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SENATOR DOLE: He assured me his polls said people loved my speech, and just keep right on giving it.

(Laughter.)

SENATOR DOLE: We try to accommodate where we can.

I know I speak for all governors today in saying that our best wishes today are with President Reagan as he celebrates what he would call the 46th anniversary of his 39th birthday. It’s going to be a great day for President Reagan. In fact, I’m tempted this morning to limit my remarks to just one line that President Reagan spoke to this gathering nine years ago.

He said, and I quote, "The best thing the federal government can do for the states is to get out of your pockets and out of your way." That was nine years ago. It was good advice then.

(Applause.)

SENATOR DOLE: It was good advice then; it was good advice now. It was what many of us, both Republicans and Democrats -- certainly I promised you...
this Congress would try to do when we met in Vermont, and even before that, when we met at Williamsburg.

And I'm proud to say that day after day, and in measure after measure, we have worked to keep that promise.

I'm also proud to say, and I think it's factual because I've been coming to governors meetings for a long, long time, and we've got a great group of governors, Republican and Democratic governors. And we've never had a time in my memory where the Congress and the governors have worked so closely together.

And I think that's remarkable. That's the way it ought to be. And I thank each of you for your willingness to listen to us and hear us out. And by working together, by replacing paternalism with partnership, I think we've made great progress for America.

We buried the unfunded mandates. That was the first thing we did that sort of started us off in good faith. We trusted one another. And working together, we have changed the entire debate here in
Washington, and around the country.

The debate used to be whether the federal government or state governments were best able to meet the needs of Americans. That's what it used to be. Now there's almost unanimous acceptance that our forefathers knew what they were talking about, and that the Tenth Amendment was a pretty good idea. In fact, I carry around a copy of it. I wouldn't want to miss a meeting without it.

I said it's only 28 words in length. It's part of the Bill of Rights. It's a declaratory statement, and it says, in effect, as all of you know, that the powers not delegated to the United States by the Constitution or prohibited by the Constitution to the states -- in other words, they can't have the power -- then the powers are reserved to the states effectively, or to the people.

And I think we would all agree, regardless of party, for the past 30 or 40 years, there's been too much shift in the direction of Washington.

And our government does a lot of good things. Don't misunderstand me. I've never been one
to go out there and say, "Unload the federal
government." It does a lot of good things.

But I really believe our forefathers knew
what they were talking about, and that the Tenth
Amendment was a pretty good idea then. It didn't
come from the Republican National Committee or the
Democratic National Committee. Our forefathers had a
lot of wisdom. And I think it's good to dust it off
and take a look at it today.

And the debate today is not whether powers
should be shifted out of Washington. It's how fast
we should do it. That's how much change we've had in
just the past few years.

The debate used to be whether or not the
federal government should do as our states do, and as
our American families do. And that is to balance the
budget. And now again, there's almost unanimous
acceptance, what I've been saying for a long, long
time, and that's the fact that we need to leave our
children the American dream, and not the American
debt.

And again, the question is not whether the
budget should be balanced now, it's how it should be balanced.

The debate used to be whether or not our welfare system was working. Now there's near unanimous acceptance of the sad fact that our welfare system has betrayed the taxpayers who fund it and those Americans who depend on it.

The question is not whether our welfare system works; it's what needs to be done to truly end welfare as we know it.

And these are the questions you've been discussing for the past few days, I know, with the President at the White House and with each other, Democrats and Republicans sitting down together. And they're the ones that will face Congress and the President in the months ahead.

On the way down, I called Speaker Gingrich who's in Georgia. And I think he had a conference call with some of the governors this morning. And we're prepared -- if you want to be the honest brokers, we're prepared to act. And we believe the President will be prepared to act, too.
(Applause.)

SENATOR DOE: Now, we might have to make a few little changes when it gets up there, because we have to get the votes. And I know you've been through that from time to time. But you give us the basic outlines. You give it a good faith, bipartisan or nonpartisan -- call it what you will -- effort.

And one thing I know for certain, that as much as we've cooperated in the past months, we're going to have to do even more if we're going to get this done, if we're going to give the answers the American people are asking for and looking for.

And I've been traveling around the country. I'm not certain of the purpose of it, but I've been out there a lot.

(Laughter.)

SENATOR DOE: And I can tell you, the people of the United States, whether they're Democrats or Republicans or independents, want us to do the right thing. If it's a matter of principle, okay, we say no. But if it's a matter of coming together, if you're a Republican or a Democrat, you
President Clinton went to New Hampshire last week. But let me just first talk first of all about welfare reform. You’ve had Governor Thompson and Governor Carper and Governor Engler and others who have been working on this on a daily basis for the past three months.

After we passed the historic welfare reform legislation, 87 to 12 in the Senate -- it would have been 88 to 12, but Senator Hatfield was necessarily absent. Was the legislation perfect?
No. Was it better than our present system?

Certainly. Was it based on the concepts of work, family, and personal responsibility? Yes. And I can underscore the Yes. Did it return power to the states? It certainly did.

Should we give up because President Clinton vetoed it? Obviously not. And that's where you come in. We've come too far and worked too hard to simply throw up our hands and allow the President's system to trap a new generation of Americans in despair.

And I know, when you talk about welfare reform, you talk about maybe saving $60 billion, or Medicaid saving $85 billion over seven years. The first reaction is, "Well, there they go again, going after the poor people in America."

And that's not the case. As every governor knows, I remember Governor Thompson giving a little lecture, some Republicans, one day, saying, "Who do you think I am? I get elected by the same people you do. Do you think somebody's going to go without medical treatment in Wisconsin or go without..."
food in Wisconsin?"

And so I'm certain that every governor around this room is just as sensitive and just as caring as anybody in Washington, D.C., and probably more so. And your state legislature is probably just as caring and just as sensitive. And people know where to find your state legislatures. They know where they shop and where they take their cleaning.

Closer to the people, Tenth Amendment, what our founding fathers had in mind at the outset.

But our goals, speaking of myself, and I think the Speaker because we just had a conversation should be a system that makes sense to you. If it doesn't make sense to you, if you can't implement it, it's not going to work. We're not going to save any money, we're not going to make anybody's lives any better.

And I say, having said that, it's also got to obviously be an agreement that must sort of hold true to the principles contained in the legislation that we passed. Maybe more money for day care, okay. If you want people to work, maybe we can find that.
And I know you're looking at all the different options.

Obviously, how much money we save is important. But that's not the bottom line. This is a policy. This is not a course in arithmetic. Who can add up XXX billion dollars?

Fundamental policy changes, that's the important direction we must take. And I'm certain that's what you have in mind.

If we're going to have real reform in this entitlement program, it's going to be critical that we have policy changes to make this program work. The work requirements must be real. Personal responsibility is critical, and the preservation of families and the protection of children must be at its core, just as every governor here believes.

And I understand you've made great progress. And I look forward to a report. And I hope the President -- the President will be here briefly. And I'm certain he must have the same feeling, because I know he's talked to his governors and our governors. I think you all feel pretty much
the same.

Let me also try to get you into the balanced budget area. Lawton Chiles is an expert on this, having been Chairman of the Budget Committee. And we'd like to have your suggestions on how we reach a balanced budget.

If you give us welfare reform and Medicaid, you've gone a long way to getting this agreement back together, getting the President back together with the leaders in Congress, because these are two of the main problems we've had. The other two are Medicare and the earned income tax credit.

If we can resolve those four issues, my view is that agreement's out there to be made.

Now, the biggest parlor game in Washington, besides trying to figure out who wrote Primary Colors, is trying to decide whether or not President Clinton wants a real balanced budget agreement.

I think he does. Maybe I'm wrong, but I'm willing to take his word. We spent 50 hours together in different meetings, the most time I've ever spent...
at the White House. I hope to be there longer later.

(Laughter.)

SENATOR DOLE: And they take good care of us.

We didn’t reach an agreement -- came close, but didn’t quite reach it. But I’m willing to take the President at his word, even though I read the 20-page document that was submitted yesterday. But I understand a later document in March sometime, in about six weeks, will sort of lay out the budget.

We are willing to be flexible. I’m speaking now on behalf of Republicans. We’ve also left no doubt that there are some things we can’t compromise. And there are some the President says he can’t compromise. We believe in real spending restraint and real entitlement reform, and tax relief for American working families. And I don’t think anybody here disagrees with that.

So it’s just a question of, how do we get together? How do we go this last half-mile, if we’ve gone a half-mile now?

Much of the opposition to our balanced...
budget effort, the President indicated, because of our proposed reforms in Medicaid. Now maybe that's history. Maybe you've got it all worked out.

He said one time -- in fact, I think he said it maybe at the last governors conference -- if we did what we were doing at the time, it would sort of be a race to the bottom, which state would reach the bottom first. And I disagreed with that premise then, and I disagree with it now.

This is not a debate about compassion, and who cares the most about the vulnerable in our society. It's a debate about who can care best for them. And as it was in the case of welfare, we've turned to you again to be the honest brokers, and to help us design a solution that bridges our differences without compromising our principles.

And I continue to believe that our trust is well-placed in our states, and in each of you, our nation's governors. So we're very proud, as I said earlier, to be working with you.

We've had six governors working on Medicaid. And you all know who the six are --
Leavitt, Thompson, Engler, Chiles, Miller, Romer, and many others have also been involved. You’ve committed weeks and months in your discussions. And I want to congratulate each of you for not giving up.

And I’m delighted that what appears to be -- and I don’t know the facts; I know there was a briefing earlier I couldn’t attend -- that protects women, children, the elderly, and the disabled while giving you the flexibility you need and deserve.

You dropped some of the words we used to talk about. You talked about guarantees now. That’s fine, if that’s what we’re concerned about. I think we’ll get it done. We want to save money in a responsible way, and we want to design a program that will truly serve the citizens of your state.

If we left the governors out, we couldn’t design a program. That’s happened in the past. You’re not consulted; you’re informed. If you don’t cooperate, we tell you what it is.

So I think again you’ve done tremendous work. And I really hope that if we can get welfare and Medicaid, we may be on the way.
Let me just touch on Medicare. If we have a little extra time, maybe you can solve that for us. (Laughter.

SENATOR DOLE: Though, again, we’re not that far apart.

I think the report yesterday in the New York Times, that maybe it’s going to happen a little sooner than we think, as far as spending more than we take in, maybe that will bring us closer together.

We know we need a solution. Simple tinkering is not enough. It wasn’t enough for welfare; it’s not going to be enough for Medicaid.

And I hope all of us, the Administration and Congress, takes yesterday’s report as an opportunity to move beyond the rhetoric of the past months, and work together to preserve and strengthen Medicare for generations to come.

Many of you may remember back in 1983, when Social Security was about to go belly-up. Ronald Reagan was in the White House. Tip O’Neill was the Speaker; Howard Baker was leader of the Senate.
They decided after a lot of wrangling to take that out of politics -- take it out of politics. Don't frighten senior citizens. And we did that. And we established a commission. And we rescued Social Security in 1983.

And I was proud to be on that commission with some of my colleagues, and people like Claude Pepper from Florida, the champion of senior citizens. And we all worked together for months and months and months.

And we ought to do the same with Medicare -- ought to take it out of politics, ought to stop scaring American seniors. And I think we can do it just as well in 1996 with Medicare as we did with Social Security.

Now I need your help on one issue. We're going to take it up today. It's called agriculture. Now, I know there are some farm state governors. I'm looking at one right over there in North Dakota, and there are others here, a lot of them.

There's not a single person in your state who does not benefit from the miracle of American
agriculture. We have the best food bargain in the world. We spend less of our disposable income on food in America than any other industrialized country in the world.

But we need a farm bill in Illinois, in Kansas. We've already planted our wheat in Kansas, winter wheat. We never know what a farm bill is after five years, or what the program is. So we go out and plant. They also plant in Colorado.

We need a farm bill. I've got a little filibuster blocking the bill. And I happen to believe if we're going to have survival in rural America, we're going to have to address this very quickly.

What are we trying to do? We're saying to farmers, "We're not going to pay you any longer not to plant," and they like it. They like it. We let farmers produce for the marketplace instead of for the government. And these are the principles of the Freedom to Farm legislation we're trying to pass in the Senate today.

We have a vote about 1:00 o'clock, and if
you have a minute of free time to discuss it with
your Senator, we'd appreciate it very much.

Finally, let me close by saying, you know,
when I go home at night, I turn on CSPAN. There are
no commercials. And I watched a lot of state of the
state speeches. In fact, I've watched a lot of those
preparing for my state of the union response.

(Laughter.)

SENATOR DOLE: Took a lot of notes. I
thought you were brilliant.

(Laughter.)

SENATOR DOLE: But I've enjoyed watching
many of you, probably eight or ten, Democrats and
Republicans. I try to keep everything balanced.

They're really not about politics, but
they leave no doubt in my mind that America's
governors are about energy, they're about change, and
they're about leadership, and they're about
innovation.

I heard that in Governor Whitman's speech
when she talked about welfare reform in her proposal
in New Jersey. I heard it in Governor Thompson's
call for an education system based on choice and
academic achievement and technology.

And I wish you well in your summit coming
up with Mr. Gerstner, and I hope we can follow up
what we might do. And I saw your leadership in the
no-nonsense way that many of you addressed the coming
juvenile crime storm.

I imagine everybody -- I know four or five
by name -- and in your speeches, many of you also
went beyond legislative issues and spoke about the
values which have made this country great, and which
we must pass on to our children.

I just happened to be watching one night
when Governor Romer was on. It was a great
opportunity to talk about values. He shared a story
that night about his father, the journal your father
kept, and he held it right up there. And it made a
deep impression on me. I don’t know if it made an
impression on you.

In this journal, his father detailed how
much young Roy earned, what he spent. And each day
he had a notation, like January 4, 1935: “Singing
well at the church program, 25 cents." Then October
1, 1938, for things he did not do, minus 25 cents.

But the important thing was, is what young
Roy was learning. And the challenge he made to the
legislators in Colorado based on his father’s
example. He said as we conduct our business we set
an example for future generations, like the one his
father set for him.

And I would just conclude by saying, I
think that’s good advice. It was certainly good
advice that helped Governor Romer, and I think we all
have fathers or mothers who may have done something
like that to instill in us basic values of honesty,
decency, and self-reliance and responsibility, things
we talk about and try to instill in our children and
our grandchildren.

But I think, as we reach decisions on the
issues of the day, we should imagine a young child
who is standing at your side saying, "What kind of a
world are you creating for me?"

And I believe -- and I’ve always been very
optimistic about America and about what we can do --
can't do it all with legislation. But what we can
do, if we keep working together, if the federal
government gets out of your pockets and out of your
way, I'm confident we're going to succeed in creating
a future and creating an America of which we and our
children can be very proud.

And so I would say to this distinguished
group, that I appreciate very much, again having the
opportunity to sort of report as the Majority Leader
on how we view current events, and how we appreciate
so much the help you've given us over the past few
months and the past few years.

Thank you very much.

(Applause.)

GOVERNOR THOMPSON: Senator Dole has
generously agreed to take a couple of questions
before he has to leave.

I first want to thank you, Senator Dole,

once again for coming, and for your speech. My
question to you is, that as you know, we have been
working extremely hard to reach a bipartisan solution
to Medicaid and welfare. And I know you talked to
Speaker Gingrich this morning.

If you could just share with us, if you would, a little bit about, if we're able to get this policy agreed to later this morning -- we're hopeful that we can, and we're hopeful for 100 percent -- where does it go from there, and what does it look like in the Congress?

SENATOR DOLE: I think, very frankly, this puts a lot of pressure on the leadership in Congress and the President of the United States, a good kind of pressure.

The fact that you've come together ought to be an inspiration to us. I've asked the Speaker this morning, and I think he agrees, we want to get this done. As I said earlier, these are two of the big blocks, the whole budget negotiation. Welfare and Medicaid, they've been big stumbling blocks.

And if you can resolve those, then I think we're going to get there. It may not happen in a week or two weeks, but it's going to happen. And I believe the American people, regardless of their party, will be grateful to all of us. Everybody can
get some credit, if credit is what people want.

But I think what we really want is to do
the right thing. And you're setting an example that
I think we would follow.

GOVERNOR THOMPSON: Senator Dole, the
second question would be by Governor Carper. But
before I call upon Governor Carper, we have a
resolution that I think will also pass unanimously
that we will get up to you on the 1996 Farm Bill,
which I know is very near and dear to you, and is
offered by Governor Branstad. We'll pass it
unanimously for you.

GOVERNOR CARPER: Senator Dole, thank you
again for being with us, and thank you for retaining
that wonderful sense of humor that you're famous for.

A number of us have worked real hard --
everybody around the table has worked hard to try to
forge a consensus in some areas that have been very
difficult to have that consensus. Among those are
Medicaid and welfare reform.

John Engler, the Governor of Michigan, has
been the lead governor on welfare reform. And then
as the lead governor have had ample opportunities in
the past to come to the Hill and testify before the
Senate Finance Committee and the House Ways and Means
Committee, and other venues to talk about what we
thought might go into the welfare reform bill.

I'm wondering if you would give some
consideration to a series of hearings, maybe in the
House and the Senate, so we could again come, those
who negotiated the Medicaid agreement, and those who
worked on welfare, just to spell out clearly what our
differences were, and where we found common ground,
and how you would suggest that we move forward.

SENATOR DOLE: I think, Governor, that
would be very helpful. If you just sent it up to us
without hearings, then the American public is not
going to know, and some of our colleagues aren't
going to be fully informed.

So I'd be happy, and I know Senator Roth
from Delaware, would be happy to respond, and I'm
certain Bill Archer would on the House side -- go
back and take a look at where we were, and where we
are now, and what the differences are, and how that
impacts on your state and the people you serve.

I think it's something we should do.

GOVERNOR THOMPSON: Governor Branstad from Iowa.

GOVERNOR BRANSTAD: Senator Dole, we appreciate your efforts on agriculture. A related issue in ethanol, you've been a strong proponent of.

I would like to ask your vision of the future for ethanol, and why is retaining the tax credit for ethanol very important?

SENATOR DOLE: Senator Grassley, and I think other Senators, had the Government Accounting Office take a look at the ethanol program. And many in this room have an interest in it. We were trying to determine if the subsidy was something we ought to look at, phase out, as somebody suggested out there the last few days -- I can't remember who it was.

But I think ethanol has demonstrated that it is a plus, and we're told in the same study, if we eliminate the program, it may increase the cost of farm programs by $2.8 billion.

Just keep in mind that ethanol is clean,
it’s environmentally sound. You don’t have to go to
war over it. It’s renewable every year. It reduces
the cost of farm programs. It creates 12,000 jobs,
for example, in Iowa. And don’t know how many in
Minnesota, but a good number. It creates a lot of
jobs out there.

And my view is, it’s a program that’s been
tested. And it’s not a risky idea, and it ought to
continue.

GOVERNOR THOMPSON: Governor Voinovich.

And then, unless somebody really is compelled to ask
another question.

Governor Voinovich.

GOVERNOR VOINOVICH: Senator Dole,
yesterday we all met with the President of the United
States. I must say I was encouraged by what he had
to say about the possibility of working out some
compromises.

Later on we heard from Leon Panetta who
ran the numbers for us. I wasn’t as optimistic about
things after hearing from Mr. Panetta.

The one thing he left us with was that, if
you run the numbers, we all agree on $711 billion
worth of cuts.

The question is, are you just going to be
satisfied with that bottom line of $711 billion? Or
will you insist on paradigm changes in the way we do
these programs?

SENATOR DOLE: My view is that we can all
add up the numbers. If we don’t make the changes,
then I’m not certain we’re going to achieve this
balanced budget that everybody wants, Democrats and
Republicans alike, particularly around this table.

And that’s where we’ve had some of our
differences. If we don’t deal with entitlement
programs, if we postpone it, say, until the next
century, then my view is, we’re in real trouble. Not
just the government, but the people who rely on those
programs are in real trouble.

And Leon Panetta does a good job, and he’s
good with numbers. But this is more than numbers.
This is policy. And if we don’t change some policy,
I’m not certain the numbers will stand up. And we’ve
had the same discussion on our side. So it’s not
Republican versus Democrats. We’ve had the same discussion in our groups.

If we don’t change policy, we may get there on paper. But we’ll never really get there. It’s not going to happen.

So it just seems to me, I would hope -- and I know the President and I have a good relationship and work closely together. As I said, we’ve spent a lot of time together. We’re prepared to renew that discussion. And we’re also working -- and I might tell the governors on the Democratic side, with the Democratic legislators in both the Senate and the House, we’ve had similar views trying to put together a bipartisan group.

And I’ve got to believe, I’ll tell you again, that what you’ve done on Medicaid and welfare, you’ve come together. That will be a big, big plus in our efforts to get a bipartisan agreement.

Thank you very much.

(Applause.)

GOVERNOR THOMPSON: Thanks again, Senator Dole. We always appreciate the fine Senator coming
in front of us.

As he's making his way out of the room, I would also like to just deviate for a second and introduce a former governor who as the Chairman of this organization was my mentor, and many others, the wonderful Governor of South Carolina, Carroll Campbell, who has joined us here.

(Applause.)

GOVERNOR THOMPSON: Ladies and gentlemen,

we now begin the adoption of the proposed policy positions. We're going to do it alphabetically by committee, with the executive committee being last.

The policies, as you all know, were originally sent to the governors on January 19th to comply with the 15-day waiting rule. This packet reflects those policies with the amendments which were made by the executive committee, as well as the standing committees at your meetings. They require a two-thirds vote of those present and voting.

To expedite matters, I will call upon the committee chair. And if the committee chair would quickly explain the policies, the amendments, and
then move for the adoption of all of your committee policies en bloc. So you understand -- move all of your committee policies en bloc at one time.

The first chairman I'm going to call upon is Governor Zell Miller, who is the fine chairman of the committee on economic development and commerce.

Governor Zell Miller.

GOVERNOR MILLER: Thank you, Mr. Chairman.

The committee on economic development and commerce adopted amendments to three policies: the military base closure and reuse; air transportation; surface transportation.

There was one change to the air transportation policy. The committee decided not to extend the sunset date so that we could revisit the issue in Puerto Rico this summer.

Mr. Chairman, this amendment and all of the policies were adopted unanimously in committee, and I move their adoption en bloc.

GOVERNOR THOMPSON: Thank you very much, Chairman Zell Miller. Thank you for doing a wonderful job.
Is there a second?

GOVERNOR TAYETANO: Second.

GOVERNOR THOMPSON: Please, let's pay attention. We've got a lot to do.

Second by the Governor of Hawaii.

Any discussion?

(No response.)

GOVERNOR THOMPSON: All those in favor of the policies of the committee, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

(No response.)

GOVERNOR THOMPSON: The ayes have it; they're all passed in toto. Thank you very much.

We now go to the great Governor of Minnesota, Governor Carlson, the chairman of the committee on human resources.

GOVERNOR CARLSON: Mr. Chairman, I move for the suspension of the rules so we can adopt the committee report.

GOVERNOR THOMPSON: There was a move to
suspend the rules, and there was a second.

Any further discussion on suspending the rules for Governor Carlson?

(No response.)

GOVERNOR THOMPSON: All those in favor of suspending the rules, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

(No response.)

GOVERNOR THOMPSON: The ayes have it; the motion is granted.

Governor Carlson.

GOVERNOR CARLSON: Mr. Chairman, thank you very much.

The committee on human resources had a very lively discussion on education. But I would refer you, if I may, to the green sheet. I'd like to at this time turn the microphone over to Governor Dean of Vermont to make some comments on that part of the report that relates to low income home energy assistance.
GOVERNOR THOMPSON: Governor Dean.

GOVERNOR DEAN: I want to thank Governor Carlson and Governor Carper, the leaders of this committee, for including the Governor’s support of the low income heating energy assistance program.

Today or a couple of days ago, it was 60 degrees below zero in Tower, Minnesota. Chicago, Wisconsin, even Washington, D.C. have set new records in cold. This is a program which has undergone a little surgery. It’s probably surgery for the better. But we do need to continue the program, and I’m very appreciative to Governor Carlson and his leadership, and Governor Carper, for including this in the resolution.

Thank you.

GOVERNOR THOMPSON: Thank you, Governor Dean, except I would make an exception. Wisconsin never gets cold. I would just like to make that as an edition to your report, sir.

GOVERNOR CARLSON: Well, Mr. Chairman, I will acknowledge that the orange crop in Minnesota was damaged by the recent frost.
(Laughter.)

GOVERNOR CARLSON: If I may, Mr. Chairman,
I'd like to ask Governor Carper to make a few
comments on that part that refers to the
consolidation of federal employment programs.

GOVERNOR THOMPSON: Governor Carper.

GOVERNOR CARPER: I'll be
uncharacteristically brief.

All of us agreed.

GOVERNOR THOMPSON: Thanks.

GOVERNOR CARPER: That concludes my
remarks.

I think all of us would agree that the
150-plus federal programs that deal with the work
force development and preparedness can more easily be
consolidated to enable us, with a lot of flexibility
-- maybe a few less dollars, but a lot more
flexibility -- to better ensure that the employers of
our states get the kind of employees they need to
help them to be competitive and successful.

We're real pleased. I think of all the
issues we worked with, the major issue is welfare.
reform, Medicaid, and work force development. This
has probably been the least controversial. I'm
certain that we're going to get a responsive,
positive response from the White House and from the
Congress to move forward with this.

GOVERNOR THOMPSON: Thank you very much,
Governor Carper.

GOVERNOR CARLSON: Mr. Chairman, I move
adoption of the committee report.

GOVERNOR THOMPSON: Governor Carlson has
moved the adoption of the report; seconded by
Governor Carper.

Any discussion?

(No response.)

GOVERNOR THOMPSON: Hearing none, all
those in favor of the motion to adopt the report of
the chairman of the committee on human resources,
signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by
saying nay.

(No response.)
GOVERNOR THOMPSON: The ayes have it; the motion is granted. Thank you very much, Governors Carlson, Dean, and Carper.

The next report, we go to Governor Symington. Governor Symington is the chairman of the committee on natural resources, and is doing a wonderful job.

Governor Symington.

GOVERNOR SYMINGTON: Mr. Chairman, we move adoption of NR-6, which is the environmental priorities and unfunded mandates, where we dealt with one new policy position, and an amendment to one existing policy position; and NR-17, management of federal lands, en bloc.

If you would like me to describe them to you more fully, I'd be prepared to. But if there's no objection, I would move them en bloc.

GOVERNOR THOMPSON: There is a motion to move the policies en bloc by Governor Symington.

Is there a second?

GOVERNOR NELSON: Second.

GOVERNOR THOMPSON: Seconded by Governor

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Any discussion? Governor Nelson, do you want to make a statement?

GOVERNOR NELSON: No. I think that, though, Governor Symington will have an amendment shortly. But there's no comment at this point.

GOVERNOR THOMPSON: Any further discussion?

(No response.)

GOVERNOR THOMPSON: Hearing none, all those in favor of the motion to approve the resolutions of the committee on natural resources by Governor Symington, seconded by Governor Nelson, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

(No response.)

GOVERNOR THOMPSON: The ayes have it; the motion is granted.

Governor Symington.

GOVERNOR SYMINGTON: Mr. Chairman, the
amendment we have to NR-6 relates to state tribal
environmental relations. It’s a method by which the
governors are hopeful that Congress and the
Administration will recognize that the management of
natural resources, both within the states and on
tribal lands, has a joint impact.

And that we would like the Congress and
the Administration to enact or promulgate specific
processes, standards, and criteria that respect state
authority, equitably address such impacts, and
promote cooperation when decisions affect areas
beyond tribal boundaries.

It’s an amendment, the spirit behind which
is to foster better relationships between the state
and the sovereign Indian nations, with the help of
the United States Government.

And we would move that that amendment be
added onto NR-6. It would be paragraph 6.3.

GOVERNOR THOMPSON: It will be an
amendment to NR-6, so it does not require suspension
of rules because it is an amendment.

The motion was made by Governor Symington.
Is there a second?

GOVERNOR NELSON: Second.

GOVERNOR THOMPSON: Governor Racicot seconded along with Governor Nelson.

Any discussion of this new policy on the state and Indian affairs proposal? Any discussion?

(No response.)

GOVERNOR THOMPSON: Hearing none, all those in favor of the motion, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

(Chorus of nays.)

GOVERNOR THOMPSON: One nay; it passes unanimously except for one nay.

I'd like to thank Governor Symington and Governor Nelson for your leadership and your hard work. Thank you very much.

All right. We go now to the executive committee. I wish people would be quiet. We've got a lot of very important votes that are going to take place, hopefully in the next half an hour. So I'd
appreciate it if the audience would be as quiet as possible.

I now call upon the vice-chairman, Governor Bob Miller, to make the report on the executive committee.

GOVERNOR MILLER: Mr. Chairman, there are three areas of suggested from the executive committee. The first two are proposed changes in policy. The first is principle for state-federal relations, and is reflective of three recent court decisions that are listed in the material that was provided to all the governors.

The second is Consumer Price Index, which is an affirmation by the full body of governors of the executive committee action on November 28th, urging the Congress and President to adopt the Consumer Price Index. That's what we discussed in our Governors Only session the day before yesterday.

The last is a reaffirmation of existing policy on health care for undocumented immigrants. I move the adoption of all three.

GOVERNOR THOMPSON: A motion by Governor
Bob Miller to move that. Governor Voinovich, would you second that?

GOVERNOR VOINOVICH: Second.

GOVERNOR THOMPSON: Seconded by Governor Voinovich.

Any discussion?

(No response.)

GOVERNOR THOMPSON: Hearing none, all of those in favor of the motion on the policies submitted by the executive committee, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

(No response.)

GOVERNOR THOMPSON: The ayes have it; the motion is granted.

Next we move on to the vote on suspensions. This requires a three-quarters vote. I want to remind the governors that the proposals that are being considered under suspension of the rules are five, dealing with the National Guard, the farm
policy, employment and work, Medicaid and welfare. They will require a three-fourths vote for suspension, and then after that a three-fourths vote for passage.

Without objection, may I have a motion to suspend the rules for all the suspensions to be considered? We will then vote individually on each one of the policies. But I would like just a motion for suspension of the rules so we can get to all five policies.

GOVERNOR BRANSTAD: I so move.

GOVERNOR THOMPSON: Motion to suspend by Governor Branstad, seconded by Governor Romer.

Any discussion?

(No response.)

GOVERNOR THOMPSON: Hearing none, all those in favor of suspending the rules, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay?

(No response.)
GOVERNOR THOMPSON: The ayes have it. The rules are suspended so that we can take up five policies by this national governors organization meeting.

I would like to first call on Terry Branstad to move the resolution of the 1996 Farm Bill, and hopefully Governor Nelson to second it.

GOVERNOR BRANSTAD: As you've already heard from Senator Dole this morning, we do not have a new farm bill. The 1990 Farm Bill has expired. Farmers are left in the lurch, and have to make important decisions.

And this resolution, basically the governors call on the Congress and the Administration to enhance the position of U.S. agricultural producers by passing a farm bill that increases flexibility for farm programs, allows farmers to take advantage of the international market opportunities, and fosters an efficient farm-based agriculture, and contributes to natural resource conservation goals.

This is something that I think we can all
agree upon. There was an amendment that was also incorporated in committee on this, dealing with the issue of regional arrangements with regard to dairy prices. This is important. It's critical that we have a farm bill soon, and I would ask for your support, and yield to Governor Nelson.

GOVERNOR THOMPSON: Thank you very much, Governor Branstad, for your leadership on this issue. Governor Nelson.

GOVERNOR NELSON: Thank you, Mr. Chairman.

GOVERNOR THOMPSON: Did you move, Governor Branstad?

GOVERNOR BRANSTAD: I move the resolution, and offer it under suspension, the 1996 Farm Bill.

GOVERNOR THOMPSON: Governor Nelson?

GOVERNOR NELSON: I second that motion, to move the resolution.

I think it’s almost unheard of for agriculture to be in a position where the winter wheat has been planted, and planting is about to occur as soon as the snow melts across the Midwest, and we don’t have any idea of where we’re going in
agriculture.

I think it's critical that we send the signal to agriculture that's positive that the country cares about our most important commodity, agricultural products, and that we must in fact come to a resolution of this on a bipartisan basis, as soon as possible.

So I support, and I hope that we can get the unanimous support of this body for this 1996 Farm Bill resolution.

GOVERNOR THOMPSON: Thank you so very much, Governors Nelson and Branstad.

Any discussion of that motion under suspension?

Yes, Governor Carlson.

GOVERNOR CARLSON: Mr. Chairman, I'd just like to raise one question. Let me draw you, if I may, to the last two sentences of the resolution regarding multi-state marketing agreements, and then going on to say, "Such authority should not or would not be intended to permit states to erect trade barriers."
Could there be some clarification of that?

GOVERNOR BRANSTAD: This was an amendment offered by Governor Dean, and I would yield to Governor Dean to respond to that question.

GOVERNOR DEAN: Thank you.

That, Governor Carlson, is NGA policy, which I took from existing NGA policy. And the reason is that, in the Farm Bill, there's a lot of discussion about what might and might not be included. The New England states are applying for such a marketing compact. The policy language that I took was adopted by this organization, I believe, in July.

And it is a balanced organization, balancing the fears of those who may oppose the compact -- this is why the section about trade restriction is in there -- with the desire of the states of New England to control their own future in terms of dairy pricing.

The NGA adopted this because on balance, the NGA felt that in principle, states might be able to handle agricultural pricing on a group basis.
better than the federal government could.

But I asked for both those sentences to be
inserted so as not to offend those who were fearful
that it might cause a restraint in trade. But that
is simply existing NGA policy restated in this
resolution.

GOVERNOR THOMPSON: Governor Carlson?

GOVERNOR CARLSON: Mr. Chairman, Governor
Dean, can you tell me the exact impact that you
intend relative to milk pricing?

GOVERNOR DEAN: The impact that we intend
in New England is, the six New England states under
the compact, should it be ratified by Congress, would
be able to set their own milk price subject to the
veto of any one of the states, and thus adjust the
balance between what farmers are getting paid, and
what consumers are paying for milk. We believe that
farmers will get paid more for milk.

GOVERNOR CARLSON: Mr. Chairman, how can
you do that, and then say you’re not creating trade
barriers?

GOVERNOR THOMPSON: Governor Dean.
GOVERNOR DEAN: It is the assumption of this body that the Congress will not allow trade barriers which would be a violation of the Interstate Commerce Clause in the Constitution to be created. Again, Governor Carlson, when this was adopted six months ago by the NGA as NGA policy, that sentence was put in as a balance for those like yourself who have concerns about what might happen if the New England states were allowed to do this.

GOVERNOR CARLSON: Well, Mr. Chairman, I think we should draw attention to it, and I think we'll make our feelings known to Congress. Thank you.

GOVERNOR THOMPSON: Any further discussions?

GOVERNOR PATAKI: Mr. Chairman, would Governor Dean yield?

GOVERNOR THOMPSON: Governor Dean, I'm sure, will yield.

GOVERNOR PATAKI: Governor Dean, will that language that Governor Carlson has referred to have any impact on the ability of New York State dairy...
farmers to market their products in New England?

GOVERNOR DEAN: No, Governor Pataki. The New York State dairy farmers will still be able to market their products in any of the New England states.

GOVERNOR THOMPSON: But maybe not at the same price.

GOVERNOR DEAN: At a higher price, and they’ll get more money for them.

GOVERNOR THOMPSON: Any further discussion?

Yes, Governor Branstad.

GOVERNOR BRANSTAD: I think it’s critical that action be taken. This is something that farmers have been waiting for for a long time. And I would urge the governors to support this resolution, in hopes that it can assist in getting the cloture vote approved, and a farm bill passed in the next few weeks.

GOVERNOR THOMPSON: I would, just for my own position on that -- not as chairman of this organization, talking strictly as the Governor of
Wisconsin.

I think the policy by Governor Dean is absolutely horrendous. And a stronger statement will follow in the future. But showing my bipartisanship and my cooperation, we need to get the farm bill policy through.

But I want to everybody to know in this room, and whoever's watching, that that portion of the farm policy, I'm going to do everything I can, Governor Dean, on Capitol Hill to defeat it. So just so you know, with a great deal of enthusiasm, we will carry our debate to Capitol Hill.

So I approve of everything you've done except for the last two lines, Governor Branstad. Congratulations on the job you've done.

GOVERNOR DEAN: Move the policy, Mr. Chairman.

GOVERNOR THOMPSON: All those in favor of 90 percent good policy, and 10 percent bad policy --

(Laughter.)

GOVERNOR THOMPSON: -- signify by saying aye.
(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

(No response.)

GOVERNOR THOMPSON: Boy, that was a tough one. I want you to know I only voted for this because I'm the chairman, Mr. Dean, and because you're my friend.

I now call on Governor Miller. But first, I would like to quickly point out -- I've asked the executive committee to put forth a policy on the National Guard. The Department of Defense is reviewing all of our force structure, and there is a policy that's circulated.

It's not the policy of the Pentagon as of yet. But it's being discussed as one of many items. And that is that we're downgrading our National Guards, and that it's some, upward to 20 states, would have their National Guards either consolidated, reduced, or even not have a National Guard.

It's not the policy, so don't get alarmed. It's just being discussed. And I thought, just to
make sure that everybody in the Department of Defense knows that we’re watching them, it would be nice to put out a policy, because for me the National Guard plays a very important role in each and every one of our states.

So with that, I’ve asked Governor Bob Miller, the Vice Chairman, to move the policy on the National Guard, which just alerts the Department of Defense and the Pentagon that we truly support our own National Guards, and want to maintain their force structure of 410,000 individuals in the country.

Governor Miller.

GOVERNOR MILLER: So moved.

GOVERNOR NELSON: Second.

GOVERNOR THOMPSON: Second by Governor Nelson.

Any discussion?

(No response.)

GOVERNOR THOMPSON: Hearing none, all those in favor of that policy, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by
saying nay.

(No response.)

GOVERNOR THOMPSON: The ayes have it; the motion if granted.

Governor Carlson, I'd like to have you move the policy on the consolidation of federal employment and training programs, and hopefully Governor Caperton will second that.

GOVERNOR CARLSON: Mr. Chairman, thank you very much.

On Sunday, the human resources committee approved a statement that you have before you, and in the Governors Only session yesterday, there was an agreement for some additional changes.

If I may, I'd like to call upon Governor Caperton, if he would. Governor?

GOVERNOR THOMPSON: Governor Caperton?

GOVERNOR CAPERTON: I urge the support of this work force policy as offered by Governor Carlson. The policy calls for the consolidation of these programs into a block grant, in an effort to provide the states with the maximum flexibility to
leverage state and federal dollars in a comprehensive
work force system, and should not be -- let me
emphasize -- and should not be a primary means of
deficit reduction.

I urge the support of the policy.

GOVERNOR THOMPSON: Governor Carlson, you've moved?

GOVERNOR CARLSON: Mr. Chairman, I move adoption.

Governor Engler has some questions that he wants to raise.

GOVERNOR THOMPSON: First, before I go to Governor Engler, you made the motion. Governor Caperton, you seconded?

GOVERNOR CAPERTON: So moved.

GOVERNOR THOMPSON: I call upon Governor Engler.

GOVERNOR ENGLER: I strongly support the resolution and its adoption. The amendments were purely technical at the staff level. They're incorporating those, and they're very minor.

GOVERNOR THOMPSON: How many amendments
are there, John?

GOVERNOR ENGLER: There were two.

GOVERNOR THOMPSON: Two amendments that

were worked out by the staff, technical in nature.

Does anybody want John --

GOVERNOR ENGLER: Let me explain them real

quickly. I don't want anybody to think that they are

less than technical.

The top of paragraph three, we had

discussed yesterday in the session. It just didn’t

get into the draft here. We’d urged Congress to

conclude the conference within the next few months.

As we discussed yesterday, there’s no reason this

can’t be done in the next 30 days. And we had

governors all over the country waiting for this.

This is overdue. So we don’t want them to take their

sweet old time.

Then secondly, there was an amendment

added addressing a concern that Governor Tucker

raised yesterday. It’s the one on the effective date

on the bottom.

And the way it got transcribed here was
that the law should take effect no earlier than July 1. That's fine. In other words, we would have an effective date of July 1.

But we also have always maintained, in both this policy and the next two, in welfare, Medicaid, that the state's option, you could tag back to the beginning of the federal fiscal year. So this will be a fiscal year reform. But the state in effect would elect to do that.

I wanted to clarify those two points, Mr. Chairman, and strongly support the resolution.

GOVERNOR THOMPSON: Thank you, Governor Engler.

GOVERNOR CARLSON: Mr. Chairman, that was agreed upon in yesterday's session.

GOVERNOR THOMPSON: Everybody realizes how important this resolution is. It is very important for us to pass it, and then after we pass it, contact everybody on Capitol Hill that we know to start getting the conferees to work.

So remember, Governors, this is the first
step. The second step is to move up to Capitol Hill and accentuate the need to pass this policy.

All those in favor of the motion by Governor Carlson, and seconded by Governor Caperton -- all those in favor of this, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

(No response.)

GOVERNOR THOMPSON: Ayes have it; motion carries.

I would like to go to Medicaid next. And I call upon Governor Leavitt, then Governor Romer.

Governor Leavitt.

GOVERNOR LEAVITT: Mr. Chairman, caring for the needy in our states is among our most important objectives. Medicaid, the program through which we accomplish that in large measure, is strangling state budgets. It is it's ill-serving those that it was intended to benefit, and it stands as a monument to good intentions gone astray. It
This policy is a result of approaching 100 hours of face to face negotiations and discussions by Governors Romer, Chiles and Miller, and Governors Engler, Thompson and Leavitt. It's also a product of literally months of discussion by other governors, and work by their staff.

It accomplishes four basic goals. The first is that the basic health care needs of the nation's most vulnerable populations need to be guaranteed. This policy would do that. The growth of health care expenditures need to be brought under control in the states. This moves us forward in that objective.

Third, states have to have the maximum flexibility in design and implementation of cost effective systems of care. We believe this policy represents such a program.

And fourth, it will protect states from unanticipated program growth resulting from economic fluctuations in the business cycle, or changing demographics, or natural disasters.
Mr. Chairman, this represents a solid and appropriate expression of leadership by this association and our role as leaders of the state. I move its adoption.

GOVERNOR THOMPSON: Thank you so very much, Governor Leavitt. Thank you for your tremendous leadership on this issue. Everybody in this organization is in your debt, and in that of Governor Romer.

GOVERNOR ROMER: I'd like to second the motion. I don't think it demands a lot of discussion. We had a very thorough discussion of this in our Governors Only session. But it has the right kind of guarantees to the right kind of population here. It has the right kind of funding base. It has the right kind of flexibility.

And I would just urge all of our colleagues to adopt this without amendment other than a technical amendment, and let's get on with business.

GOVERNOR THOMPSON: Thank you very much,
Governor Carlson.

GOVERNOR CARLSON: Mr. Chairman, I think this resolution represents the National Governors Association at its very, very best. The origin of trying to come to agreement on Medicaid is about a year old. And obviously it's had both its hills and its valleys. I for one, toward the tail end became very skeptical of our capacity to be able to put together any kind of an agreement, because this is an election year. And frankly, politics is dominating.

But this is a clear case where politics finally was pushed aside, and a resolution came about, and prayerfully, it will lead both Congress and the President to adopt it or adopt something extremely close to it.

I do want very much to thank first of all Governor Thompson for optimistically driving this process. That's an extraordinary example of leadership. And it's one that I sincerely applaud.

I want to thank Governor Romer, who stuck with it all the way, and he had a very difficult role...
because he's trying to bring together some very
diverse interests. He did it. He kept them really
in tow, and it worked out extraordinarily well.

I want to thank Governor Miller for his leadership, Governor Leavitt again for optimistically sticking with it through thick and thin as far back as I can remember, Governor Engler, and Governor Chiles. Clearly the six did an outstanding job.

But I also want to thank some of the early ones who were involved in this process commencing a year ago, driven by Governor Edgar of Illinois, extraordinary leadership, very patient in fleshing out the details which ultimately, I would argue, built the foundation of this agreement.

Governor Carper and Governor Dean, tremendous work. It's been a very tedious battle, and I think it worked out extraordinarily well.

I do hope all of us will take some time and thank our staffs. The truth of the matter is, when the meetings are over, and when the lights are turned out, it's the staff that has to drive such a large part of this process and be sensitive, if you
will, to the needs of all 50 states.

I particularly want to pay attention to
John Petraborg of my staff, who did an extraordinary
job. And I hope that all of you will take some time
and thank them.

But I think this does represent the very
best in terms of the National Governors Association.
I trust that it will ultimately be adopted by all,
and then allow us all to go back and begin to
remember that, when we work together, we can come
with agreement, and frankly we can have influence on
the national scene.

Mr. Chairman, well done. Thank you so
much.

GOVERNOR THOMPSON: Thank you, Governor
Carlson.

Let me return the gratitude and
congratulations to you because you’re the chairman of
the committee. You and your staff did a lot of the
work and we’re indebted to you as well.

Congratulations and thank you. Thank you for your
kind words.
GOVERNOR CHILES: Mr. Chairman, this is a clarifying amendment on behalf of myself and Governor Leavitt. Primarily, this would be on page 3 in the section of Private Right of Action. I think everybody has a copy of this. Following the first sentence, we would add this language: "All of these features will be designed to prevent states from having to defend against an individual suit on benefits in federal court."

That's what the six of us intended all the way through. We did not impinge on the Secretary's right to bring action. But we did work clearly intending to impinge against the individual's right. It's kind of said by implication, this does -- just a clarifying amendment.

GOVERNOR THOMPSON: There's a motion by Governor Chiles for a clarifying amendment, which I think is outstanding.

GOVERNOR WILSON: Second.

GOVERNOR THOMPSON: The second by Governor
Wilson. Discussion, Governor Wilson?

GOVERNOR WILSON: Just a question to Governor Chiles. I take it that this would also express our intent that we not be required to defend against a class action by anyone other than the Secretary?

GOVERNOR CHILES: That's right. Only the Secretary would be authorized to bring a class action.

GOVERNOR THOMPSON: Governor Gutierrez.

GOVERNOR GUTIERREZ: Thank you, Mr. Chairman.

I'd like to thank you, Governor Thompson, Governor Miller, and particularly Governor Leavitt, for the provision of Guam in Medicaid and welfare. Guam of course, Mr. Chairman, is receiving approximately 20 percent of the sharing with the federal government, coupled with the very liberal immigration policy imposed on Guam by the federal government.

The provision in here asking the Congress to have a more equitable sharing relationship with
Medicaid and welfare is welcome news, and hopefully
the Congress would be able to take a closer look at
Guam, not only its welfare and Medicaid policies, but
its own immigration policy, unlike other states.

GOVERNOR THOMPSON: Thank you very much,
Governor Gutierrez.

Let's vote on the amendment if we could
before we have any further speeches on this.

All those in favor of the clarifying
amendment by Governor Chiles and Governor Leavitt,
all those in favor of that excellent amendment,
signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by
saying nay.

(No response.)

GOVERNOR THOMPSON: The ayes have it; the
motion is granted.

Governor Tucker.

GOVERNOR TUCKER: I fully support what I
hope we're about to do here, Mr. Chairman, and thank
everyone for their work on it.
I do want the record to reflect the discussion we had yesterday that states at least with June 30 fiscal year ends will not be forced to retroactively adjust their budgets in this fiscal year. I want to be certain staff understands that as they do their work on the Hill.

GOVERNOR THOMPSON: Thank you very much, Governor Tucker. I want you to be assured that, not only Arkansas but Wisconsin, and I would say the vast majority of the states, have a July 1st fiscal year in our states. And we will certainly -- as long as I'm there, we're certainly going to be cognizant of the starting date so that we will not adversely affect it.

But thank you for bringing it up, and the staff is aware of that.

Any other discussion on the motion?

Yes, Governor Miller.

GOVERNOR MILLER: I just don't want to miss the opportunity to compliment yourself, Mr. Chairman, for providing a forum of bipartisanship in which this agreement could be reached.
Obviously there is a vast difference in
the percentages of Republicans versus Democrats in
this association. And yet you’ve reached out to make
sure that this is a motion and a result that
encompasses all governors. And I want to express
that appreciation to you, Governor Leavitt, Governor
Engler, and Governors Chiles and Romer, for working
so hard.

I think -- one of the reporters asked me
earlier to describe the process, I think from the LA
Times. And I said, "There was no 80-yard pass play.
This was kind of more of a four yards forward on the
ground, two yards backwards, four yards forward, two
yards backward. Somehow it netted out to the goal
line."

And that’s due to your diligence as team
captain. Thank you.

GOVERNOR THOMPSON: It’s also as yours
too, because I want to make everybody aware that, out
of the six negotiating members, five of us lost our
temper and walked away at one time or another. There
is only one steadfast member that did not, and always
had a smile on his face. And that’s the gentleman that’s the Vice Chairman, Bob Miller. And I thank you very much, Bob.

   Governor Lowry than Governor Allen.

   GOVERNOR LOWRY: Mr. Chairman, I also want to join in that thank-you to yourself and the other negotiators on this. It was one of the more outstanding jobs I’ve ever seen. I would like to also make a clarifying comment relative to our discussions yesterday for the staff as they work the Hill.

   That is, that the optional services are also guaranteed if states are now providing the optional services. That is part of the guarantee.

   GOVERNOR THOMPSON: Thank you, Governor Lowry.

   Governor Allen?

   GOVERNOR ALLEN: Mr. Chairman, fellow governors, I don’t mean to say anything to ruin this lovefest that is going on with accolades, and I certainly also want to give my commendations to all the six negotiating governors on both sides of
the aisle as they struggled with this very difficult issue.

As one of the Republicans trying to figure out how we thought as Republicans this ought to be put together, it was quite a task. And it certainly it not a partisan issue. It's an issue that affects all of our states. And certainly the system needs to be reformed.

This position paper here is good in many regards, although there are some aspects of it which I have grave reservations about. For example, there isn't any defined formula in this, or what would be the factors in this formula.

We wrestled with this yesterday. We wrestled with this issue for months and months. I do think that the formula growth factors, while they're not defined in here, should certainly be based on the disabled and the elderly populations in our states, because that is the population that clearly is costing us the most as far as the Medicaid programs.

The umbrella concept, the insurance umbrella concept, is one of interest. I think it has
some value. But it should be limited, I think, to $8 billion. Otherwise, that’s going to harm the ability of the Congress to get towards the balanced budget, if they make the umbrella so much. And in fact, if they make it much more than that, what they’ll have to do is start eating into the base appropriations to each state.

Finally, the bill has the Secretary, or this proposal has the Secretary of HHS making a decision as to whether to accept the plans. And then we have within here this concept of guarantees, which I understand that there are certain words that need to be used in the midst of this diplomacy, in figuring this out.

I do have concerns about giving all this discretion with guarantees to the Secretary of Health and Human Services. I think there should be a presumptive approval. And if they do not act, the Secretary, whether it’s this Secretary or in the future, within 60 days the plan is deemed approved, as opposed to just letting them drag it on and on and on without getting approval.
So I say that because the concept of guarantees, being at the discretion of a federal secretary, may turn this into a Trojan horse in five years from now. The state’s governors will be back with the same old Medicaid program, but this time, with capped entitlements and unfunded mandates on the states.

So I think that this issue is clearly a very important issue to the states, as is welfare. It’s one that everyone agrees right now is a disaster. It’s eating up more and more of our budgets, taking away money from priorities, whether that’s in law enforcement, or in education, or other matters. It clearly needs to be reformed.

I will be supporting this resolution with reservations. The reason I am supporting it is because I believe it is going to prod Congress into action. I think they need the calcium that this will give them in their backbone as they go forward with this. And I think it also will prod the Administration, the President and his Administration, also to move forward on this issue, where they have
just bogged down with vetoes and so forth.

So like Governor Thompson, listening to Governor Dean on concerns about interstate milk compacts, voting for things with reservations, that I will certainly work for the principles and ideas for the Commonwealth of Virginia, as this battle goes on to Capitol Hill.

I commend you all. There are some reservations in this. But I think what we need to do is all 50 governors, as well as the governors of the territories, go forward united so that the Congress and the President will act in the best interest of the people of all our states.

GOVERNOR THOMPSON: Thank you very much, George.

We asked God to come into our negotiating committee, but he wouldn’t even touch this one. So it’s not perfect. But we tried very hard.

Governor Miller.

GOVERNOR MILLER: I appreciate Governor Allen’s sentiment. And as you indicated, a lot of changes and modifications occurred. Certainly we
discussed, and I think got an agreement with
limitations on times from the Secretary’s approval of
the plans, that when it comes to putting a financial
limitation of $8 billion or any other figure, that’s
what moved us from the 20 yard line to the goal line.
And if we try and put a limit on there,
then we’re not going to score the touchdown. In
fact, that’s a basic principle. That’s not tinkering
with the hood ornament. That’s tinkering with the
engine.

GOVERNOR THOMPSON: Governor Romer, then

GOVERNOR ROMER: It’s obvious that there
is a lot of difference. We’re moving from policy to
legislative language. And we need to keep this
bipartisan approach as we go into the legislative
drafting.

I would suggest, Mr. Chairman, that the
six who crafted this over a period of weeks need to
stay in communication as we communicate to Congress
in both parties, because there are obviously places
that we are going to have to interpret the framework
of this policy to specific language.

And I tell you, this group of six has a
pretty good understanding of how this body feels now
through a lot of discussion. And I think if we stay
together, in terms of our communication to both
parties in Congress, we will avoid this thing getting
off-center.

It's a fragile kind of compromise, and
we've got to understand that. It's kind of like
helping a baby learn to walk.

GOVERNOR THOMPSON: Governor Romer, you
were out of the room yesterday when I volunteered you
to continue on with the six. So your message and
comments are very well taken. We are going to stay
involved. And the NGA is going to put out a working
paper that will be distributed to each and every
governor very quickly, and we will want your comments
back.

But we will continue in the process, and
hopefully see it to a successful conclusion. I'm
very optimistic. Thank you, Roy.

Governor Wilson; Governor Glendening.
We have to vote soon, ladies and gentlemen.

GOVERNOR WILSON: Thank you, Mr. Chairman.

A clarification, under the section headed Private Right of Action on page 3. As a matter of, I think, proper parlance and proper appellate procedure, I think the word "appeal" there really should be "petition." I would suggest that perhaps through the Chair we seek unanimous consent.

GOVERNOR THOMPSON: It's a legal term.

You're absolutely correct. It means the same. But Governor Wilson is correct. So substitute the word "petition" for "appeal to the U.S. Supreme Court."

Without any objection, we'll unanimously change that. Is that okay?

Governor Wilson.

GOVERNOR WILSON: On page 2, in the same fashion, under the heading Eligibility, at the point just above the last two bullet points in that section, there is a statement "consistent with the statute adequacy of the state plan will be determined by the Secretary of HHS."
I take it that what that means is that adequacy of the state plan in meeting requirements that are explicit in federal law?

GOVERNOR THOMPSON: I think it goes without saying.

GOVERNOR WILSON: Let's make a little legislative history in case guidance is required because I don't think -- I think we've all had problems with HCFA deciding that state plans were not adequate. And I think they ought to be held to a fairly strict standard.

So I take it that the phrase "consistent with statute" means "in meeting the explicit requirements of federal law of the statute"?

GOVERNOR THOMPSON: I believe that's our intention. But I will refer to any other member of the six, Governor Leavitt?

GOVERNOR LEAVITT: Mr. Chairman, that was the intent. The intent was to assure that the Secretary would be limited to determining if the plan met the requirements of law.

GOVERNOR WILSON: Mr. Chairman, I thank ...
the governors.

GOVERNOR ROMER: Mr. Chairman, there is a very carefully crafted compromise in here which we worked through in terms of who defines the definition of "disabled," "disability." We compromised that by saying that we would allow each individual state to define "disability" subject to the approval of the plan by the Secretary of HHS. That was a clear trade-off.

It was one of the deals that we made. I just want to be very explicit on the legislative history. We gave up a position that's strongly held by many on the side that I represent, or we represent, that there ought to be a uniform definition of "disabled" as there is in current law.

That's a major move. But that move was made by the fact that each individual state can define it, but that the Secretary of HHS has final approval of the plan.

And let me tell you, I think this is more rhetoric than reality, because all of us have lived with this problem in our own states about defining
disabled.

GOVERNOR THOMPSON: As Chair of the organization, unless you move, Governor Wilson, I'm not going to accept that as an inclusion.

GOVERNOR WILSON: Mr. Chairman, if Governor Leavitt's comments represent the legislative history --

GOVERNOR THOMPSON: They do.

GOVERNOR WILSON: That's fine. I'm satisfied with that.

Let me just make this comment. I will in the interest of time associate myself with the general spirit of the reservations expressed by the Governor of Virginia.

We join in commending you and the five others who have negotiated this.

I think it needs saying, though, I assume everybody understands it very well. As you have negotiated, and as the side that wanted greater flexibility has yielded to those that wanted national uniformity, what we have done by accepting an increase in the federal requirements for eligibility
and for program benefits has diminished the
flexibility that we sought.

And it has therefore reduced the
capability of governors, Democrats and Republicans,
to not only be more effective and more efficient, but
more equitable.

The existing system is one that ironically
provides for low-income families, but not all of
them. It leaves out a great many of the deserving
poor, the working poor. And in our state and in many
of our states, we have had as a result, to design
state-only programs to try to remedy that.

In my state, it is for prenatal care, for
pediatric care. That's the kind of thing that we
have all been hoping to achieve the ability to do
without state-only programs, by greater flexibility.
And frankly, we have given up a considerable amount
of that in this compromise.

And I think we need to recognize that.

This is in some sense a departure from the spirit of
the greatest flexibility possible that we have
consistently sought through adopted NGA policies.
GOVERNOR THOMPSON: Thank you, Governor Wilson.

Governor Glendening, and then I hope that we would be able to call the question.

Governor Glendening.

GOVERNOR GLENDENING: Let me just also add my appreciation, obviously, to everyone who worked on this, and our colleagues who put so much time in. I would emphasize to everyone, however, that this is obviously just a starting point in terms of what happens now with the next step.

And the reason I say that, as the President said in the work session we had with him yesterday, the devil is obviously in the details.

I was going through some lists with our staff here, as well. And the interesting thing is, we still don’t have this, and there’s no reason why we would expect that it would have been, but it hasn’t been costed out yet. So our range in terms of national is still between $59 billion to $85 billion. And what that means to individual states is still very unclear.
When I look at the Administration's proposals right now, it would cost us in terms of reduction about $580 million over the next seven years, whereas the conference committee report would have been $1.6 billion.

But quite candidly, it's difficult still to figure out where this is.

The other thing that I would say, there are a couple of key issues. The six individuals and representatives from the NGA continue to work with Congress. I think it's extremely important. One obviously and a couple of governors mentioned this, but this is almost a do-or-die in terms of the current fiscal situation for many states.

And that is the effective date, whether this is going to be rolled back at some point, or what that would do to both the '96 and '97 budgets, and then also what the base year would be in a lot of the calculations.

We haven't really been able to work that out. I would emphasize lastly, if I might, that while we say on page 5 that the insurance umbrella
portion is not subject to annual appropriations,

obviously for this to work, and to be a guarantee of

the nature that I think just about everyone in this

room clearly wants, the process itself is not subject
to the annual appropriations.

And it does give us a full package there,
because otherwise we'd be going through this battle
every single year. And I hope those points, as we go
into deliberations with Congress, are really carried
through, because I thought it was interesting for the
majority leader, responding to the last question, and
his comment was that obviously we have to do away
with entitlements and so on to make this work.

We have abandoned that word. But we are
still clearly talking about guarantees. And so
there's a lot of work yet to go.

As a progressive Democrat, I happen to
believe that guarantees are important, and am pleased
to see that we were able to work out that particular
wording. But I think we have a long way yet to go
with Congress.

GOVERNOR THOMPSON: Governor Glendening,
just for your own edification, and for the
edification of all the members, your six are going to
be on Capitol Hill at 3:00 o'clock this afternoon,
meeting already with a bipartisan group of leaders.
So we'll take that, and we'll take all of the
comments. And we will keep in touch. And hopefully,
we'll be able to resolve and develop the perfect bill
that George Allen will end up saying, "It's perfect."

All those in favor of this motion, signify
by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by
saying nay.

(No response.)

GOVERNOR THOMPSON: Unanimously.

(Applause.)

GOVERNOR THOMPSON: I would just like to
say that I've never been prouder to be a member of
this organization than I am today. It was bipartisan
from day one, and Roy Romer, Bob Miller, and Lawton
Chiles, who I considered a perfect gentleman, and
learned more little quirks about Florida than I hope
I'll ever have to use.

(Laughter.)

GOVERNOR THOMPSON: But I learned a lot of stock material for my speeches from you, Lawton. So I thank you.

Mike Leavitt, John Engler, and Arnie Carlson, and Jim Edgar -- all of you just did a wonderful job. And on behalf of the association, let me just say thank you to each and every one of you, but especially to those individuals who worked so hard. Thank you very much.

(Applause.)

GOVERNOR THOMPSON: The remaining policy is welfare, but the President is here. And I'd call upon Governor Branstad to chair the rest of the meeting.

Terry.

(Pause.)

GOVERNOR BRANSTAD: While we're waiting for the President to arrive, I'd ask Governor Rossello from Puerto Rico to come forward to tell us about the plans that you are making for the 1996
I want to thank you for the outstanding reception that you held the other night, and for the hospitality that we’re all anticipating when we come to Puerto Rico.

Governor Rossello.

(Applause.)

GOVERNOR ROSSELLO: Thank you, Governor Branstad. My thanks and my commendations to the National Governors Association for selecting Puerto Rico for the 1996 annual meeting, which will be going back to Puerto Rico after 25 years.

I can tell you that at Fajardo, Puerto Rico, and the magnificently equipped El Conquistador, it will be our privilege to welcome the nation’s governors, their staffs, and their families. You will assemble in the United States Inter-American Bridge, the crossroads of the Caribbean, and you will be well-attended.

I can anticipate that under Chairman Thompson’s leadership, we will tackle a very heavy and very substantive agenda, preamble to the...
subsequent national conventions of both the
Democratic and the Republican parties.

Two months ago in Puerto Rico, we were the
venue for the annual meeting of the Council of State
Governments. Several of our governor colleagues were
there, and participated very actively. That was the
first time that the Council of State Governments met
in Puerto Rico. And I must say, it was the largest
and most successful meeting that that organization’s
history has ever had.

We expect no less for NGA 1996 in Puerto
Rico. And I hope to have the privilege of welcoming
each and every one of you there in Fajardo, Puerto
Rico, and be able to personally say to each one of
you, "Bienvenidos a Puerto Rico" -- the Island of
Enchantment of the United States.

Thank you very much.

(Appplause.)

ANNOUNCER: Ladies and Gentlemen, the
President of the United States, accompanied by the
President of the National Governors Association of
the United States, Tommy Thompson, and the Vice
Chairman, Governor Bob Miller.

(Applause.)

GOVERNOR THOMPSON: Mr. President, it's always good to see you at an NGA meeting. And after so many years together, it just seems natural for you to be here.

You have a long record of partnership, as I mentioned the other evening at the White House. I had the privilege to meet you for the first time at Little Rock. It was my first and one of my best NGA meetings, except for this morning.

(Laughter.)

GOVERNOR THOMPSON: You, Governor Castle and Governor Sununu were there in 1988 to turn our WIN waivers into national welfare reform. We're here again today to move those reforms forward.

You led the efforts in NGA for one of the block grants around, the child care block grant. You also joined with me, or I joined with you, in trying to repeal the Boren Amendment. I want you to know we made a giant step forward today to repeal the Boren Amendment, and many others.
There are six of us still who are here who were there for the education summit in 1989. We are calling another education summit in March of this year, on March 26 and 27th, and we've invited you to be our speaker, Mr. President. We look forward to working with you for what we consider desperately needed education reforms that meet the tests of today's world.

We can point proudly to the accomplishment of our strong partnership, ISTEA, the largest block grant for a better transportation system, an expedited waiver process, and the promise even to abolish the waiver process, which every governor around here hopes we will be able to succeed on.

Finally, Mr. President, a full agreement on a bipartisan basis, and a strong bipartisan basis, to eliminate the Boren Amendment.

Thank you, Mr. President, for mandate relief, regulatory reform, and paperwork reduction.

Mr. President, the power of our partnership has proven very effective in support of the people of the United States. We've come far, but
we must go further. We are ready to move this partnership forward in welfare, health, education, and the environment.

This morning as you were listening to the debate, we moved a great deal towards Medicaid relief.

Mr. President, thank you for coming, and welcome back to the governors organization which you once led.

(Appause.)

PRESIDENT CLINTON: Thank you very much.

Thank you, Governor Thompson, Governor Miller, fellow governors, and friends.

It is always good to be back here. And I very much appreciate that what you said, Governor Thompson -- I must say, I also enjoyed standing outside in the hall and listening to the last three or four speakers discuss the last resolution. It made me homesick, and proud that I once was a member of this body.

Let me begin, Governor, by congratulating you on the work that you have done on Medicaid, on
welfare, and on a number of other issues. And let me also thank the lead Republican and Democratic governors who worked on the Medicaid issue.

I see you around this table. You were good enough to work with us in the White House, to keep us up with what you were doing, to enter into intense discussions with us. I’ll have a little more to say about it in a minute.

But this is in any case a very impressive accomplishment, and all of you have voted for a new framework that will preserve the guarantee of health care coverage to the people who need it, and give the states the flexibility they need to operate the program.

Let me also say in general, this governors conference has, I think, been in the best tradition of the National Governors Association, as people have worked together in good faith across party lines to find real solutions to real problems.

I’d also like to express my appreciation to Senator Dole for what he said earlier here today, and the genuine spirit of cooperation that he
evidenced in his remarks. I must say it was also
evidenced in the more than 50 hours we have spent
together in discussing the budget. Like him, I
believe we will get a budget deal.

I didn’t like everything he said about
wanting to spend some more time around the White
House next year.

(Laughter.)

PRESIDENT CLINTON: But then again, I was
a little concerned the other night when Gary Morris
was singing at the White House, and I discovered that
Governor Thompson and Governor Engler and Governor
Voinovich were checking out Al Gore’s office.

(Laughter.)

PRESIDENT CLINTON: But it’s good for
American, this kind of competition.

I also want to say, Governor Branstad, I
was encouraged to hear Senator Dole say he thought
we’d get a farm bill pretty soon. We’ve got a 15-
year high in wheat prices, and about an 18-year high
in bean prices, and corn’s about 3.60. If we need a
farm bill, then we need to strike while the iron’s
hot so we can keep this going.

This has been a good meeting for you, and it's been a good day for me. And yesterday and the day before, when you were at the White House, were good days, because I always enjoy working with the governors.

As I said at the dinner, I think the framers would be pleased by this great debate in which we are engaged in Washington, and in which you are also engaged. It goes beyond very important questions of what government should do in our society and what we should not do, to the questions of, which level of government should do certain things, and how they should be done.

This movement is part of the sweeping changes now going on in our society. We see that the changes in how we work and live together in a world that is dominated by information technologies and the markets of the global village are changing the way everybody does business.

And I'd like for you to take just a minute, before we get back into the substance of the
issues that you've been working on, to step back and look at the context in which this debate is taking place.

We are living in a world that includes dramatic changes in the nature of work, principally defined by work becoming more and more identified by the content of ideas and information, and less with physical labor.

We have changes in the nature of work organizations. They're more flexible. They’re less bureaucratic, and often they’re smaller.

It’s interesting that in all the new businesses that have been created, the new jobs that have been created in our country, for the last 15 years the Fortune 500 companies have reduced their aggregate employment in each of those years. In the last three years, however, small businesses owned by women alone have created more new jobs than the Fortune 500 has laid off. Changes in the nature of work organizations.

Finally, there are dramatic changes in the nature of markets, both financial markets and markets
for goods and services. They are more instantaneous in their movement, and more worldwide in their scope.

Now, these changes have given our country, with a strong and diverse economy, what I called in the state of the union a great new age of possibility. I believe that. I believe that more of our people will be able to live out their own dreams than ever before.

But, these changes have also done what fundamental changes always do. They have led to a great uprooting in the patterns of life and work in America. And there are new challenges to us to preserve the American dream for all citizens who are willing to work for it to maintain our cherished values and our leadership for peace and freedom.

This is the context in which this debate should be viewed. Look at the economic picture. America in the last three years has almost 8 million new jobs, the lowest combined rates of unemployment and inflation in 27 years, a 15-year high in home ownership, an all-time high in exports, which has in large measure led to those high prices for foreign
products that I mentioned.

The auto industry leads the world again.

We've had 700,000 new jobs in construction. We're number one in the manufacture of telecommunication satellites. And each of the last three years, our people have set successive records for the formation of new businesses and for the creation of new self-made millionaires, not people who are given their money, but people who made it with the opportunities that were there for them in this country.

This is a remarkable thing. But it is also remarkable that, for the first time in our history, all this occurred while more than half of the American people didn't get a raise, and felt increasing insecurity about job loss, or the loss of health care or pension benefits, or the ability to educate their children.

Yesterday, I had a conversation with an old friend of mine from a western state, who is a marvelously successful person now in his own right. And by pure accident of history, 40 years ago and more, he and his brother and I attended the same
little brick grade school in my hometown in Arkansas.

He's a terrific success; he's had a great life. His brother made a great success of his life.

But at the age of 49, he has already been laid off twice from two different companies, simply because the companies were bought by other companies, not because he was unproductive, not because there was something wrong with him, not because he didn't do what he was supposed to do in life.

The other day I got a letter from a friend of mine that I keep in touch with, a man I went to grade school with who came from a very poor family. He was the first person in his family to graduate from college.

And he told me that after nine and a half months of looking, he had finally gotten another job. He was an engineer with a Fortune 500 company who, at the age of 49, along with two other 49-year-old engineers, was laid off. They had children to educate, things to do.

This is also a factor of this great churning economy. So we have to see this economy in
terms of all of its possibilities and its continuing challenges, which presents a paradox.

You can imagine what the ordinary person feels going home at night after work, and turning on the television, and hearing how great the economy is, and then filtering it through their own personal experience. It just depends upon whether their experience conforms to the statistics whether they really buy it.

Our challenge is to figure out how to set and keep in motion all these wonderful changes, and shape them in a way that makes the American dream available to everybody again. It’s a great challenge, but we can do it.

If you look at the world, you see the same thing. America has been very fortunate, not only in the trade numbers I mentioned, but to play a role in leading the world toward peace, freedom, and greater security, not only in the obvious places like Northern Ireland and the Middle East and Bosnia and in Haiti, where tomorrow, for the first time in the history of the country, they will have a peaceful
democratic transfer of power.

But in reducing the threat of nuclear weapons, extending the nonproliferation treaty, passing START II, trying to get a comprehensive test ban treaty this year.

But at the same time, we know and we have seen in our own country that there are new threats to our security that are a function of the age of possibility, where people can move around in a hurry, where people can get information on the Internet about how to build bombs, where anybody can be a neighborhood terrorist because of the high-tech information you can get, as long as you’ve got a computer, where someone in Tokyo can break open a little vial of poison gas and kill hundreds of people.

So we have new challenges even as we become more secure. And we see it in terms of what’s happened to our ability to maintain our basic values.

I am profoundly encouraged that the crime rate, the welfare and food stamp rolls, the poverty rate, and the teen pregnancy rate, and even the...
divorce rate are down in the last couple of years. I think that is a very good thing for America. But let’s face it. We all know they’re still too high. And we all know that we pay a price together because they are.

So I say to you that, as we debate this great transformation of government, the question we really ought to keep in our mind is, are the changes we’re making going to contribute to making the American dream available to all our people? Are we going to accelerate all the wonderful things that have brought us this age of possibility, and meet the challenge?

Are they going to help people to solve their own problems? Are they going to help families to solve their own problems? Are they going to help communities to work together to solve their own problems? That, it seems to me, is the great question of this age.

Government should change, just like all other big organizations are changing, because the demands are changing, the objectives are changing.
We are doing what the framers intended us to do. And in the exercise you have performed here in the last three days, by getting together and working hard and dealing with these tough issues, and always trying to consider what the human impact of the changes was going to be, you have done what the framers knew we would have to do from time to time, if our great country was going to endure.

In the state of the union, I tried to outline what I think our major challenges are, and let me just briefly recount them here.

I think as a people, not the government’s challenges, our people’s challenge is to build stronger families and better childhoods for all of our children, to open educational opportunity for every single citizen, for children and for adults, for a lifetime.

To develop a new economic security for all families that are willing to work for it in a way that supports the dynamism of this economy and doesn’t undermine it. To make our streets safer and take them back from gangs and drugs. To make crime
the exception rather than the rule in America again.

To provide a cleaner and healthier environment for today and tomorrow in a way that grows and doesn’t shrink the economy. To maintain our leadership for freedom and peace in the world, and especially for us, to reinvent, to change our government so that it works better and inspires more trust.

I believe that a central lesson I have learned here in the last three years is that the genuine debate in America is not between big government and small government. We already have the smallest government we’ve had since 1965. It’s 205,000 people smaller than it was the day I took the oath of office. We’re getting rid of 16,000 of 86,000 pages of federal regulations; we may get rid of more.

It’s not between government and markets. WE know there has to be a mix. We know the market can’t solve all problems. And we know when the government tries to solve them, that only makes it worse.
The central lesson I have drawn from the experiences of the last three years, and from observing what is happening in our country and throughout the world is that what works in the world is what works around this table. That while we can't go forward with the idea that the government can solve all our problems, we must not go back to an era where people were left to fend for themselves.

We cannot solve the complex problems of the modern world unless we work together in a genuine spirit of community, where everybody does his or her part, and where we sharply define what the role of government is, and what the role of the federal, state, and local governments are, what the role of the private sector is, what the role of people in their family life is, where we all try to work together to enable people to make the most of their own lives, and grass roots communities to rise up.

That is the central lesson that I draw from every experience I have had as President. And that is the perspective I bring to the work that you have done. We know that one-size-fits-all government
doesn't work. We know that the American people are not about to get rid of all government, and they shouldn't. And we do know, I believe, that we can't go back to a fend-for-yourself, winner-take-all society.

Our national government shouldn't try to do everything. There are some things that we should do, that we do directly. National defense is the best and clearest example. And our military does it better than anybody else in the world, and better than they ever have.

We do have, it seems to me, when we have national challenges, a responsibility to articulate a clear national vision, set goals, challenge people from every walk of life to meet the goals, and then do what we can to empower them to succeed.

In other words, sometimes what we have to do is define the "what" and let others, as much as possible, determine the "how."

That's what the Crime Bill does. It was clear to me when I became President that there was something terribly wrong when the violent crime rate
had tripled in the last 30 years, and the size of our police force had only gone up by 10 percent.

It was obvious if you went to communities all over the country that there were places where the crime rate was going down. And the one thing they all had in common was a clear, disciplined operating community policing strategy.

So we passed a Crime Bill that said, we’re going to have a goal of putting 100,000 police on the streets. You apply for the money, and you get it. But we’re not telling you who to hire, or how to train them, how to deploy them, what kind of community groups they have to work with. You decide.

So the Governor of Kentucky and I were in Louisville the other day looking at one of the community policing operations there. It’s driving the crime rate down.

I was in Manchester, New Hampshire looking at one of the community policing operations. It’s driving the crime rate down. Every state here has communities where the crime rate is going down.

One of our major newsmagazines had a cover
story with the Commissioner of Police in New York City talking about the crime rate going down, and said, "Have we found a way to turn the corner on crime?"

That is the kind of partnership we ought to have. I believe Goals 2000 sets that mode.

The federal government's education programs are far less proscriptive now than they were in the years when I served as a governor before I came here as President. Goals 2000 is consistent with the work done by Governor Romer. It says that we should have national standards. States should agree to meet them.

But the states and school districts should decide the hows, and we should give people resources and help to let them decide how, not the federal government.

We have also tried to work with you in particular, as Governor Thompson said, with the unfunded mandates law, with the dozens of waivers and with the common efforts we're now making, not only to get rid of the Boren Amendment, but to get rid of a
lot of other federal requirements that cripple your
ability to spend your time and your money helping
your people to deal with their challenges.

We have tried to run this smaller federal
government better, stepping up the fight against
illegal immigration at the border and in the work
place, collecting record amounts of child support,
cutting the student loan default rate almost in half,
doubling the loan volume at SBA while we cut the
budget by 40 percent, adopting customer service
standards for every federal agency.

And I’m really proud of the fact that one
of the major business magazines just last year which
gives awards every year to the top corporations in
America that serve the public the best, in the
category for best service over the telephone,
competing with L.L. Bean, Federal Express, and a lot
of other things, the winner last year was the Social
Security Administration. I’m proud of that.

We’re trying to give the American people a
government that is smaller, that costs less, that
works better, and that works with you.
The first thing we need to do now is to finish the work of balancing the budget. We all know there's plenty of blame to go around for what happened in the years before we started working on this three years ago.

I am proud that the deficit has been cut in half in the last three years. It is obvious that we need to finish the job. It is also obvious that this is a job that will never be finished, at least not in our lifetime, because when baby boomers, people my age and younger, begin to move toward their retirement years, the demographic changes in America will impose great new challenges on the budget. And this work of keeping our budget under control will have to be done year in and year out for a long time to come.

But, we do know that, based on the work we have already done, there are savings common to both the Republicans' plan and the plan that I have put forward that amount to about $700 billion, more than enough to balance the budget, and enough to meet my criteria of protecting the Medicare and Medicaid.
programs, our investments in education and the
environment, and providing a modest tax cut.

We know there are a lot of policy areas
where we do agree, as well as some where we don’t. I
wish on the whole that the American people could have
watched Senator Dole and Speaker Gingrich and Mr.
Armey and Senator Daschle and Mr. Gephardt and the
Vice President, Mr. Panetta and I over these last 50
hours of discussions we’ve had, because we tried to
do things the way you try to do them here.

We were able to identify significant areas
of agreement. Whichever Medicare program is passed,
for example, it will be a program that estimates that
we can slow medical inflation in the Medicare program
below the projected rate of medical inflation in the
private sector by aggressive incentives to seniors to
move to managed care. With all the other differences
of opinion, that is still there.

However the final Medicaid program comes
out -- and I think you have gone a long way toward
influencing that today in a positive and constructive
way -- we are going to slow the inflation rate in
Medicaid well below the projected rate of health inflation in the private sector, because of giving you greater flexibility to move toward managed care, and to do other things as well.

This is encouraging. And so, I believe the first thing we have to do is to finish this job. We cannot in good conscience, even though this is an election year, have a work stoppage between now and November. We have to go on and finish the work of balancing this budget.

(Applause.)

PRESIDENT CLINTON: Let me say again, I was very encouraged by what Senator Dole said today. That is exactly my impression of where things are, and I believe we will get an agreement. I look forward to continuing our efforts there.

I also believe we can get an agreement on Medicaid. You have done a lot of work which will help us immensely in that regard. You have always said that you could run this program better if you didn’t have your hands tied, and you didn’t have to ask Washington permission every time you wanted to do
something.

We have known for a long time that the initial good impulse of supporting the Boren Amendment was a mistake. We have known for a long time that you shouldn’t have to ask the federal government every time you want to change your payment schedule to providers, and every time you want to put in a new managed care program, or make some other change.

You have come up with a proposal that enables you to have that kind of flexibility, and still preserves the nation’s ability to guarantee medical care for poor children, for pregnant women, for people with disabilities, and older Americans. This is a huge step in the right direction.

As you know from our discussion yesterday, I still have some concerns. As you have acknowledged, we have to get any proposals scored by the Congressional Budget Office. We have to clarify -- at least I need some clarification on some issues which we discussed yesterday in terms of the definitions of disability, and making sure that there
will be someplace where a clearly enforceable right
is held for people with regard to the benefits to
which they’re entitled.

And there are some other issues that we
just didn’t discuss because we didn’t have enough
time, like how the people who are now getting
Medicaid help to pay their Medicare premiums will be
able to continue that so they don’t lose their
Medicare coverage.

But I am convinced that we can work these
out, and I am very encouraged by the work that you
have done. Let me also say that I think there’s one
other thing that we ought to do health care. And I’d
like to ask for your help on that, even though it’s
something that has to be done here in Washington.

If we cannot follow the other advanced
economies of the world and ensure that everybody has
health insurance, at least we ought to be able to
ensure that everybody has access to health insurance.

There is a bill in the Senate now,
sponsored by Senator Kassebaum of Kansas and Senator
Kennedy of Massachusetts, which would simply say that
insurance companies cannot deny coverage for people because somebody in their family has a preexisting condition. And people can keep their insurance if they move from job to job. They can't be cut off.

The bill would also provide incentives for pooling operations to be set up so that more small businesses can buy insurance. I know that California and Florida in particular have had some very good results with efforts in this area already.

It is a good bill. It has 43 co-sponsors, Republican and Democrat. It was voted out of the committee unanimously, and it has not been brought to a vote yet, because of pressures against it.

I think it is quite important that that bill be brought to a vote. It is one thing we can do, a simple bipartisan act we could take that would increase the sense of security for millions of people in working families who are doing everything they can to do the right thing in this country.

And finally, let me say I applaud the work that you have done, again in a bipartisan fashion on welfare reform. I don't think you voted on that.
policy yet. But we discussed it some yesterday.

I’ve seen some of the changes you’ve made. I heard what Senator Dole said about child care, agreeing with you and me on that. That’s a very good sign.

Let me just be as simple as I can about this. I think the objective of welfare reform should be to break the cycle of dependency in a way that promotes responsibility, work, and parenthood. I believe that our objective for all Americans should be to make sure that every family can succeed at home and at work, not to make people choose.

If a family has an adult that succeeds at work by sacrificing on the home front, our country is weaker, because our first and most important job, every one of us that has children, is to be good parents. If a family can only work at home when they failed at work, then our economy will be hurt, and all of our efforts to promote independence will be undermined.

So everything I have done in this welfare debate has been designed with that in mind. How can we design a system that will be tough on
responsibility, tough on work requirements,
disciplined, but that will reward family and child
rearing, as well as movement into the work place?

I think if we all keep that in mind, that
we want a country where people succeed at work and
succeed at home, then we’ll come to answers in
common, like the child care answer that the governors
recommended. We will do that.

In terms of the details of running the
program, and your not having to come to us every time
you want a waiver, I could not agree more with that.
I think a lot of the good ideas that have come out of
this in the last three years -- every one of them as
far as I know has come from the states.

Let me just mention one that I have
promoted relentlessly, since Oregon and a number of
other states started trying it.

But in the areas where there are not
enough jobs today, how are we going to get jobs for
people on welfare? In the areas where the markets
are tight, how will we give employers an incentive to
hire people on welfare?
One of the things that you can do now, but every one of you will be able to do it if we pass meaningful welfare reform, is to make your own decision to cash out the welfare and food stamp benefits and give it in the form of a job supplement to an employer to hire someone to go to work, instead of to stay out and draw that same amount of money.

There are lots of things like this that can be done. You can do it. And I believe we’re going to pass welfare reform legislation. And I think when you take a stand here today, saying that the Senate bill was a good bill, I thought, and I thought far superior on most points to the one that came out of the conference that I vetoed.

But it had some problems. And the biggest one for most states was the child care problem. You have addressed that here. And you have said, "Okay, be tough on people. Make them go to work. But don’t ask them to hurt their children." That’s all any American could ever ask.

And I think when you do that, you’re going to give us a real chance to pass welfare reform. And
I thank you for that.

So I would say again, I think you've had a pretty good meeting here. I think you have contributed to the climate that will help us to balance the budget. You have contributed immeasurably to helping us resolve the impasse over Medicaid. You have contributed to the impulse to move to genuine welfare reform.

We can do all these things if we do them together.

Let me say again, every time this country works together, every time we reach across the lines that divide us, we never fail. We dissipate cynicism, we dissipate mistrust, we dissipate anxiety, we dissipate anger every time we do that.

Abraham Lincoln said this a long time ago. We can succeed only by concert. It is not, Can any of us imagine better? -- but, Can we all do better?

The governors always attempt to answer that question with a resounding, Yes.

Thank you very much.

(Applause.)
(Pause.)

GOVERNOR BRANSTAD: May I have your attention, please? We're going to go back on the welfare reform resolution. I would like to ask the governors please to be seated so we can try to wrap up the meeting here as quickly as possible.

The Chair recognizes Governor Carper for the resolution on welfare reform.

GOVERNOR CARPER: Thank you very much, Mr. Chairman.

Again, if we could ask those who are here with us here today to hold your voices down as you leave.

GOVERNOR BRANSTAD: Please pay attention to the speaker. We ought to be able to wrap this up in very short order if everybody cooperates.

Governor Carper.

GOVERNOR CARPER: Thank you very much, Governor.

As the President leaves us today, I am reminded, my fellow governors, that we have arrived at a time in this city where people are looking for a
way out of a jam, out of a mess, out of some
gridlock. I think the high expectations were for us.
We certainly had high expectations for us as well.
I believe we have risen to the occasion.
And as others have said, I am just enormously proud
to be a part of this organization.
We leave behind us a road map on Medicaid,
and I think we now have an opportunity to leave
behind us a road map out of this gridlock on welfare
reform.
The proposal that Governor Engler and I
present to you today is one that rewards work, is one
that encourages personal responsibility, is one that
fosters family self-sufficiency.
We agreed to time limit benefits through
our cash assistance programs. We also provide for
the ability to enable people to prepare for work, to
find work, and maybe most importantly of all, with
the extension of child care assistance, for people to
continue working.
We maintain a federal safety net and
safeguards for people that are most vulnerable among
our population, particularly the young. And
important to this governor, and I know to Governor
Engler and every one of us who are around this table,
we provide more flexibility for our states than we’ve
ever had before with respect to these family self-
sufficiency programs.

We truly say that our states are going to
be laboratories of democracy, and we can learn from
one another what works and what does not work.

With that having been said, let me yield
to Governor Engler. Then I’m going to ask for a
unanimous consent request with him.

GOVERNOR THOMPSON: Before we recognize
Governor Engler, the governors have got to hear --
and I know the press wants to get out, but this is
our meeting -- I’d like to have everybody pay
attention to the speaker. It’s a very important
resolution, and I’d like to have everybody pay
attention to John Engler on this matter.

Governor Engler.

GOVERNOR ENGLER: Thank you, Mr. Chairman.

I think Governor Carper touched on some of
the highlights. This policy represents a dramatic change in American welfare policy. It is a statement of reform. It’s a statement that lays out, as Governor Carper indicated, a blueprint, literally. And as you follow through the documents that we’ve distributed, both yesterday and today’s policy statement, you will be able to see literally the design of a new welfare system that says to the states, "We trust you. And we are going to give you the policy making authority to design systems that do move people off dependency into a lifetime of work."

It’s a program that has such innovations as performance incentives for states that perform, that exceed some of the employment-related performance targets. It has reforms allowing the states, for example, to have a family cap which today is only possible through waivers. In the future, a state can simply put out a family cap if they wish to do so.

It allows for new restrictions on teens who become pregnant without having to get waivers. States are free to adopt policies requiring that teen
to live at home, or live in an adult-supervised
setting, without having to ask the federal
government, "May I do this?"

It cleans up literally hundreds of
problems that the states have been confronted with in
different ways, and it is a policy that we've worked
hard on.

I strongly support it. I believe that
there will be those -- and we'll hear them outside
this chamber. There will be some who say it isn't
tough enough. It should be tougher. It should be
less flexible, because, you know, we think that some
of these states ought to be tied down.

Then there will be others who say, Well,
it ought to be more tied down because some state --
somewhere some state legislature might put somebody
at risk.

I think, given the environment, given the
difficulty that we've had on this issue, this is a
middle ground that has been found that meets both the
needs that the President addressed, the needs that
the governors have discussed in the past, the needs
of those proponents of change and reform on Capitol Hill.

It truly is, as is the Medicaid, a win-win-win situation. And I urge its adoption. And I'm delighted and grateful for the opportunity to work with Governor Carper on this issue as well.

Governor Carper's staff, the staff from Michigan, and the many staffs of governors here that have contributed to this debate have been enormously helpful. And the NGA staff also has played a key role. So, Mr. Chairman, I'm delighted to move the adoption of the policy. And then Governor Carper has an amendment by unanimous consent.

GOVERNOR THOMPSON: Governor Engler has made the motion.

Governor Carper, will you second it?

GOVERNOR CARPER: I do.

GOVERNOR THOMPSON: Discussion?

Governor Carper.

GOVERNOR CARPER: Before I ask for unanimous consent, on a friendly change that's been worked on with the governors of several states who
have expressed concerns over alien provisions, I
would be remiss if I didn’t say to Governor Engler
and to Jerry Miller, his Secretary of Health and
Social Services, our thanks for working with us.

To Carmen Desiria, my Secretary of Health
and Social Services, and to Susan Galunka,
particularly here at NGA for your help and the
cooperation of every one of your staffs to enable us
to get to this point today.

If you’ll take a moment and look at the
pile of papers that are before you, you’ll find that
one of the documents is a four-page document that
deals -- it says Suspension at the top, and it says
Welfare Reform.

This represents the policy position
offered by the work that Governor Engler and I have
led. In the second paragraph of this document on
page 1, you’ll find the second paragraph, the last
two sentences. And we have a unanimous consent
request that we worked on with Governor Engler and
with Governors Wilson, Chiles and others.

The last two sentences, we make a minor
change as follows: It reads, "The National Governors Association would support the H.R. conference agreement with the changes listed below." We strike the words, "with the exception of the alien provisions." We strike the words "with the exception of the alien provisions."

The document continues to read, "the absence of recommendations on the restriction of benefit for aliens should not be interpreted as support for or opposition to the provisions of H.R. 4 conference agreement."

You may recall in our Governors Only discussion yesterday on alien provisions, we did not include anything. What we essentially said here, with this unanimous consent request, is that we take a position neither for nor against those recommendations that are part of the H.R. 4 conference agreement.

I would ask unanimous consent along with Governor Engler that that change be adopted.

GOVERNOR THOMPSON: Why don’t you move it?

GOVERNOR CARPER: I so move.
GOVERNOR THOMPSON: Governor Carper has moved --

GOVERNOR ENGLER: Second.

GOVERNOR THOMPSON: And a second by Governor Engler. Governor Engler, will you second it?

GOVERNOR ENGLER: Yes.

GOVERNOR THOMPSON: Yes, Governor Chiles.

GOVERNOR CHILES: Mr. Chairman, I'm certainly going to support this, and I support very strongly the work that Governor Carper and Governor Engler have done in regard to this. This language has the effect of sort of saying that this report is neutral on the question.

But I do just want to point out for the record that we in Florida are very concerned, and want to ensure that our Cuban and Haitian entrants are given the same kind of time limited exemptions as other refugees.

Congress in the 1980s passed a special status for both Cubans that were fleeing from dictatorships and Haitians that were fleeing from
dictatorship. And that status is sort of disturbed, and was changed in the existing H.R. 4.

This means we want to make sure they are distinguished from illegal immigrants, because they’re not illegal. They were afforded a parole status to come into the country by the government. And so we are concerned, as the report goes forward, as the reform goes forward.

GOVERNOR THOMPSON: Thank you, Governor Chiles.

Governor Weld.

GOVERNOR WELD: Mr. Chairman, I’m strongly in opposition to the alien provisions of H.R. 4, and I’m supporting the unanimous consent only on the understanding, which I have from Governor Carper, that governors are of course free to express their own views on the merits of these provisions, despite this vote.

GOVERNOR THOMPSON: Thank you, Governor Weld.

Governor Dean.

GOVERNOR DEAN: I just want to take a
moment to thank Governor Carper and Governor Engler in crafting this. I think it’s been a long,
difficult process. And I particularly want to thank Governor Engler for helping to accommodate my views
on the school lunch program.

I appreciate what you’ve done, John, and I thank you very much.

GOVERNOR THOMPSON: Thank you very much,
Governor Dean.

GOVERNOR LOWRY: Certainly put down a
ditto for Governor Weld from me. I’m certainly not in opposition to what Governor Chiles said. But I’m in strong opposition to the way H.R. 4 addresses legal immigrants in this country. Our report’s not addressing it, but I just agree with Governor Weld.

GOVERNOR THOMPSON: Something is really wrong when Governor Lowry and Governor Weld are teamed up together. Maybe we should reconsider this.

GOVERNOR LOWRY: It’s the Statue of Liberty and the Constitution.

GOVERNOR THOMPSON: Thank you.
GOVERNOR WILSON: Mr. Chairman, apart from your observation that one of the other of the governors is in trouble, let me just say I was going to offer an amendment. I will withdraw it because of the change that has been made.

I think we should be endorsing one of the provisions of the conference report that prohibited any absence of affirmative state action to the contrary those provisions that do in fact provide benefits to illegal immigrants, and serve as what Henry Cisneros, among others, has described as a magnetic lure.

But I think that will find its way into the legislation as it did into the conference report. I will be seeking that, but I will not take the time of the body at this point.

GOVERNOR THOMPSON: Thank you very much, Governor Wilson.

Anybody else want to speak?

Yes, Governor Fordice.

GOVERNOR FORDICE: Mr. Chairman, as
recently as yesterday when we were discussing food
stamps, I was under the impression that either the
Senate bill or the conference committee report still
retained the ability to block grant food stamps if
you had statewide EBT.

And this first bullet here, I'm just
wondering if that still incorporates that option.

GOVERNOR THOMPSON: Thank you.

Governor Carper, then Governor Engler.

GOVERNOR CARPER: The provisions of this
agreement enable states to opt for a block grant
approach on food stamps. There are a couple of tests
that must be met. One of those is statewide
electronic benefit transfer, as you mentioned.
Secondarily, to meet error rate requirements, low
error rates. I think six percent is the target.

To the extent that states can meet those
tests, they may do so. Having said it, while states
will be free then to choose either the block grant or
the individual entitlement option, for the Congress
itself, what we're suggesting as the Senate did, is
that the food stamp program, funding for the entire
food stamp program by the Congress be reauthorized in its present uncapped form.

So that we're not going to run out of money on the block grant approach, that we might take in your state, and the approach we might take in Delaware.

GOVERNOR THOMPSON: Governor Engler, then Governor Fordice. Governor Fordice?

GOVERNOR FORDICE: I just want to be assured that that option is still in there. Is that what you're saying, Tom?

GOVERNOR ENGLER: Yes, it is, Governor. I'll address that. It's there.

I think some states will qualify for it. The other thing that this bill does -- if we get rid of regulation E, which has been a big problem in terms of moving to the electronic benefits system, so we overcome that difficulty, that's a significant hassle that's out of the way for all the states.

GOVERNOR THOMPSON: Any further discussion?

(No response.)
GOVERNOR THOMPSON: Hearing none, I call for the question that has been made.

GOVERNOR LOWRY: This is on unanimous consent, or on the bill?

GOVERNOR CARPER: The unanimous consent first.

GOVERNOR THOMPSON: Is there any objection to unanimous consent? I should have put that first. Any objections to the unanimous consent?

(No response.)

GOVERNOR THOMPSON: Hearing none, it's so ordered.

Now we go on to the regular motion. All those in favor of the resolution which is co-authored by Governors Carper and Engler.

Governor Lowry?

GOVERNOR LOWRY: Mr. Chairman, I'm troubled about this vote. I'm troubled because of the great job done on Medicaid and also the very hard work put in by our lead governors on this.

I myself do not agree with much of what is said to be welfare reform, which I do not believe is
welfare reform.

Having said that, I would like to ask the question again in the way we work this on the Hill. I would hope that we would be arguing for maximum flexibility for the states in all cases, and that's one thing I see in this. So that if we don't happen to agree with some of the provisions that have been talked about like teenage mothers, things like that, that's a state question.

GOVERNOR THOMPSON: That is our position. We're going to be arguing for that on Capitol Hill this afternoon, and for as long as we can.

GOVERNOR LOWRY: Thank you.

Then if I could ask one follow-up question on that. Referring to time limits, if this is supporting of H.R. 4, except where designated differently, then it is supportive of time limits, and that is not flexibility. And I'm asking that question. That's not flexibility.

GOVERNOR THOMPSON: Governor Carper, then Governor Engler.

GOVERNOR CARPER: With respect first of
all to mandates, we have literally rejected what this
document mandates from the right, just as we should
have rejected mandates from the left. We don't say
in this document that states have to deny benefits to
teenage parents. They may choose to do so. They
have that flexibility. But we must not mandate that.

We don't mandate that states have to have
a family cap. If that's something you want to do in
Washington or Delaware, then we're free to do that.

With respect to time limits, we provide
five years, up to five years of federal support in
cash assistance, after which time federal support for
cash assistance will in most cases -- again, not all
cases -- will provide for about a 20-percent
exemption for people that are unable to work,
physically, psychologically, mentally unable to work.
So there's that exception.

But after five years, states are free to
continue with their own cash assistance with their
own money. So you do have that flexibility.

GOVERNOR THOMPSON: Governor Engler.

GOVERNOR ENGLER: Mr. Chairman, the
flexibility, you can continue under this if you wish
to run a program that will look very similar to the
current program. If you think the system is working,
you could run that program. But there’s a lot of
flexibility to change it.

And the time limit that was talked about
up on Capitol Hill, I think that had support in both
parties. But it’s also got the support of the
President. He even referred to it again today. So
you know the time limit, at least I think, is one
that has finally won acceptance.

As Governor Carper explained, there is a
hardship exclusion for a percentage of people,
perhaps, and we’ll just have to see.

GOVERNOR LOWRY: Mr. Chairman, I won’t
continue this much longer.

GOVERNOR THOMPSON: Please don’t, Mr.
Lowry.

GOVERNOR LOWRY: Well, I’d prefer to be
able to vote for this, Mr. Chairman.

GOVERNOR THOMPSON: Yes, I know you would.

GOVERNOR LOWRY: And this does not have
the degree of discussion that Medicaid had. That’s nobody’s fault. We’ve only had four days here. There are some very important provisions in what is called welfare reform.

And so a question that I was going to ask beyond that, although I will say, with exactly the existing system, we took 10,200 people off of welfare into the job force last year in the State of Washington by applying child care and the things that are real welfare reform, and with no time limits.

But I’d just like to ask one last thing.

GOVERNOR THOMPSON: Sure, Governor Lowry.

GOVERNOR LOWRY: When we have to do things like time limit tracking and other trackings like alien tracking, that is very expensive -- computer setup tracking.

And I hope that we as states are also arguing on what the costs are going to be for the requirements on tracking, like on legal aliens and time limits over a person’s lifetime, and what those costs are going to be to us, and how we try to work with that with the federal government.
GOVERNOR THOMPSON: I'm sure we are.

But, Governor Carper, did you listen to
the last question with Governor Lowry?

GOVERNOR CARPER: Could you just very
succinctly restate the essence?

GOVERNOR THOMPSON: The answer is yes,
Governor Lowry.

Okay. Any other questions?

(No response.)

GOVERNOR THOMPSON: Thank you, Governor
Lowry.

Hearing none, all those in favor of the
resolution on welfare, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by
saying nay.

(No response.)

GOVERNOR THOMPSON: The ayes have it
unanimously. Thank you, Governor Lowry.

(Applause.)

GOVERNOR THOMPSON: Once again, I'd like
to thank Governors Carper and Engler for an
outstanding job. We made a lot of progress.

Before the governors leave, there was one
item in one of the Governors Only meetings. There
was discussion of using more computer technology in
the consolidations of CSG and NGA.

I’ve consulted with the Vice Chairman Bob
Miller, and we’re going to make the co-chairmen
Governor Leavitt of Utah, and Governor Knowles of
Alaska to take a look at the consolidation in ways
that we can streamline the agencies.

We have a couple of more items, so if we
pay attention, we can get done quickly, in five
minutes.

Governors, we’re not really done yet.

Governor Romer.

GOVERNOR ROMER: Mr. Chairman, we
recognized a lot of governors. But this thing didn’t
happen without staff. There was some really strong
staff input.

GOVERNOR THOMPSON: Wonderful staff.

GOVERNOR ROMER: I just want to list some
names: Coral Volpe of NGA, Allen Wilde of Colorado,
Joan Newman of Governor Leavitt’s staff, Charlie Salem of Florida, Leanne Riddick of Governor Engler’s staff, Kip Piper, Mary Sheehy and Mary Kay Mentor from your staff, and from Governor Miller’s staff, Nicole Limbole and plus a whole lot of others.

We really need to recognize that we didn’t get this done without really good staff work.

(Applause.)

GOVERNOR THOMPSON: Governor Romer, I agree with everyone. But I didn’t hear anyone applaud Allen. I’m still holding out judgment on that one. But you’re absolutely correct. The NGA staff has been wonderful -- Ray Scheppach, Jim Martin, and Coral, Susan, all of you.

And the people who have been working out in the booths and doing the heavy lifting, the heavy work out there, I personally as Chairman want to thank all of them for their hard work -- and our own individual staffs.

Now I’d like to turn it over to Governor Bob Miller, the Vice Chairman, to talk about the New Governors Seminar this fall.
Bob Miller.

GOVERNOR MILLER: The New Governors Seminar, which many of you will be called upon to be faculty for the newly-elected governors, will be on its traditional timeframe in November, the second weekend of November. And it will be in Atlanta, Georgia, through the gracious hospitality of Governor Zell Miller.

We will be getting back with all of you on details of it, but essentially it will follow the outline of previous New Governors Conferences.

Thank you.

What's the actual dates? It's the weekend before your conference, John. It's the 14th to the 16th, or something of that nature. So that there's a separation. We'd gone back to your staff to make sure that wasn't a problem. I hope that it isn't. We can always adjust it if it is.

Thank you.

GOVERNOR THOMPSON: Thank you very much, Bob Miller. Bob Miller has just done an outstanding job to help create this bipartisan atmosphere. And
his leadership has been outstanding, and I want to personally and publicly thank Bob.

I want to thank all the governors for a wonderful meeting. I think we set out to accomplish certain goals. We’ve accomplished them, and the only way we’re able to accomplish them is by continuing to reach out to each other on a bipartisan basis. And I would like to just say thank you to all of you, and to the staff of the governors, the staff of NGA, and Ray Scheppach, who worked extremely hard.

And I don’t say thank you to Ray Scheppach hardly at all, and I’d like to say thank you to Ray Scheppach and the people at NGA, and all the other individuals.

Is there anything else to come before the NGA Winter Meeting?

(No response.)

GOVERNOR THOMPSON: If not, a motion to adjourn is in order.

GOVERNOR CAPERTON: So moved.

GOVERNOR THOMPSON: Seconded by Governor Schafer, Governor Romer, and everybody wants to
second it.

All those in favor of adjourning the plenary session in the February meeting, signify by saying aye.

(Chorus of ayes.)

GOVERNOR THOMPSON: Opposed, signify by saying nay.

(No response.)

GOVERNOR THOMPSON: We are adjourned.

Thank you all very much.

(Whereupon, at 12:20 p.m., the meeting was adjourned.)