NGA 1975 Winter Meeting Notes

Washington, District of Columbia (February 18-20)

Governors Attending

The following Governors participated in plenary discussion.

- **Gov. Richard D. Lamm, CO**
- **Gov. Reubin O'Donovan Askew, FL**
- **Gov. Ricardo Jerome Bordallo, GU**
- **Gov. George Ryoichi Ariyoshi, HI**
- **Gov. Cecil Dale Andrus, ID**
- **Gov. Daniel Walker, IL**
- **Gov. Otis Ray Bowen, IN**
- **Gov. Julian Morton Carroll, KY**
- **Gov. Edwin Washington Edwards, LA**
- **Gov. James Bernard Longley, ME**
- **Gov.Marvin Mandel, MD**
- **Gov. Michael Stanley Dukakis, MA**
- **Gov. William Grawn Milliken, MI**
- **Gov. Wendell Richard Anderson, MN**
- **Gov. William Lowe Waller, MS**
- **Gov. Christopher S. Bond, MO**
- **Gov. Thomas Lee Judge, MT**
- **Gov. John James Exon, NE**
- **Gov. Mike O'Callaghan, NV**
- **Gov. Meldrim Thomson Jr., NH**
- **Gov. Brendan Thomas Byrne, NJ**
- **Gov. James E. Holshouser Jr., NC**
- **Gov. Arthur Albert Link, ND**
- **Gov. Milton Jerrold Shapp, PA**
- **Gov. Philip W. Noel, RI**
- **Gov. Richard Francis Kneip, SD**
- **Gov. Calvin Lewellyn Rampton, UT**
- **Gov. Thomas P. Salmon, VT**
- **Gov. Mills Edwin Godwin Jr., VA**
- **Gov. Daniel Jackson Evans, WA**
- **Gov. Patrick Joseph Lucey, WI**
- **Gov. Edward Herschler, WY**

Plenary Session Guests

- **Hon. Nelson Rockefeller**
  Vice President of the United States
- **Hon. Brock Adams**
  U.S. Representative from Washington and Chairman, House Committee on the Budget
- **Hon. John Brademas**
  U.S. Representative from Indiana and Deputy Whip
- **Hon. Robert C. Byrd**
  U.S. Senator from West Virginia and Senate Majority Whip
- **Hon. Russell B. Long**
  U.S. Senator from Louisiana and Chairman, Senate Committee on Finance
- **Hon. James T. Lynn**
  Director, Office of Management and Budget
- **Hon. John J. McFall**
  U.S. Representative from California and House Majority Whip
- **Hon. Rogers C. B. Morton**
  Secretary, U.S. Department of the Interior
- **Hon. Edmund S. Muskie**
  U.S. Senator from Maine and Chairman, Senate Committee on the Budget
- **Hon. John O. Pastore**
  U.S. Senator from Rhode Island and Chairman, Special Task on the Economy of the Senate Democratic Policy Committee
- **Hon. William Proxmire**
  U.S. Senator from Wisconsin and Chairman, Senate Committee on Banking, Housing, and Urban Affairs
- **Hon. Henry S. Reuss**
  U.S. Representative from Wisconsin and Chairman, House Committee on Banking and Currency
- **Hon. William L. Seidman**
  Assistant to the President for Economic Affairs
- **Hon. William E. Simon**
  Secretary, U.S. Department of the Treasury
- **Hon. Herman E. Talmadge**
  U.S. Senator from Georgia and Chairman, Senate Committee on Agriculture and Forestry
- **Hon. Al Ullman**
  U.S. Representative from Oregon and Chairman, House Committee on Ways and Means
- **Hon. James C. Wright**
  U.S. Representative from Texas and Chairman, Special Task Force on the Economy

Discussion Subjects

Concurrent meetings of standing committees and their advisory task forces were held.

- **Committees included -** Crime Reduction and Public Safety (CRPS), Executive Management and Fiscal Affairs (EM), Human Resources (HR), Natural Resources and Environmental Management (NR), Rural and Urban Development (RUR), and Transportation, Commerce, and Technology (TCT). No information was available on discussion subjects or participants.
- **Plenary Session Discussion Subject -** Priorities for domestic economic adjustment

Points of Interest

In his address to the Governors, Vice President Nelson Rockefeller noted that while entitlement benefits and fixed costs had constituted 36 percent of total government expenditures in 1967, they constituted 59 percent by 1976. And while government spending in 1955 was 25 percent of gross national product, at the current rate of growth that number could be expected to rise to 55 percent by the year 2000, determined largely by mandated programs and payments to individuals.

Administration Perspective

Energy – With regard to the energy crisis and economic recession facing the nation, Rogers Morton, Secretary of the U.S. Department of the Interior, told Governors that while demand for oil and natural gas was rising in the United States, domestic production of both resources was declining, with one-third of all oil used in the U.S. being imported. In contrast, although coal production had fluctuated, it was a known resource with billions of tons in reserve awaiting only a determination as to the most effective and safe way to mine it. Among the Ford Administration's objectives were to reduce petroleum and other energy usage, to implement the technologies necessary to focus on new and renewable sources of energy, and to tap additional oil resources from the outer continental shelf. In addition, agreement had been reached with the automobile industry to come up with a 40-percent increase in mileage by the 1979 model year. And Secretary Morton told Governors of the President's plan to levy a $2.00 tax across the board on oil, coupled with a 37-percent per-thousand cubic foot excise tax on gas. In addition, the President proposed to regulate the price of oil, eliminating the two-tier system and levying a windfall profits tax. This would ultimately add $30 billion to the federal government's coffers, of which $2 billion would go to state and local governments to cover the increased cost of energy and $25 billion would go directly to consumers, via tax breaks and funding for job-producing industries, heavily weighted toward meeting the needs of low-income Americans.

Economy/Domestic Spending – James Lynn, Director of the Office of Management and Budget, warned of the dangers of continuing to squeeze the defense budget in order to accommodate increases in spending for domestic programs, spending that—to echo Rockefeller's words—would reach more than half of Gross National Product by the year 2000 if it continued to grow at the rate it had risen in the previous twenty years. The solution, he noted, was to slow the rate of increase in domestic spending. He also discussed President Ford's proposed programs to stimulate a lagging economy, including spending for public service and public works jobs.

During intense gubernatorial questioning of Administration officials, concern was expressed about how federal plans to deal with the energy crisis—plans geared toward reducing consumption—might ultimately force states to increase gas taxes, and how federal efforts to reduce domestic spending growth would—likewise—ultimately force states to either cut back social programs or raise taxes.

Noting the conflict between the Administration's plan to address the energy crisis through price adjustments, and Congress's preference for rationing, Governor Cecil Andrus of Idaho suggested an alternative under which quotas for the reduction of energy usage would be based not on the volume of oil used but rather on its cost, giving responsibility for allocation to the states, which were better equipped to handle the matter more quickly and efficiently than the federal government. Secretary Morton responded that the rising cost of oil per barrel would hinder that approach, and he argued that any effort to control the volume of consumption of an essential commodity—whether it be energy, housing, or food—would have an insidious and depressing effect on the spirit of Americans and on the American economy. Governors also argued that increasing taxes and tariffs on oil imports would not, based on past experience, necessarily reduce consumer demand. Governor Thomas Salmon of Vermont noted, for example, that the price of gasoline had increased 32 percent in less than two years, yet consumer demand had declined only three to four percent over the same period. And allowing further price increases would have a disproportionate impact on low-income Americans. Administration officials responded that volumetric rationing as an alternative would make it difficult to make equitable allocations state by state.

Governor William Milliken of Michigan—whose state had been devastated by high unemployment—recommended extending unemployment benefits an additional thirteen weeks. Also discussed was restoring money rescinded or deferred by the federal government in order to help states create jobs that would be more productive than the public service jobs being proposed by the Administration. Governor Milton Shapp of Pennsylvania recommended placing embargoes on the shipment of U.S.-produced energy to other nations, and taxing profits by American corporations abroad at the time those profits are made in order to discourage corporations from taking their manufacturing operations outside the United States.

Governor Wendell Anderson of Minnesota argued that a reduction in interest rates would enable states to put more people to work productively.

Governors also raised their concerns about the impoundment of federal highway funds that had taken place. And they asked whether the Ford Administration had taken a position on the proposal of the National Governors' Conference that Congress relieve the matching requirement on certain highway funds (totaling $4 billion under an Administration proposal) now expected to be released to the states. The response to the latter question was that the President's proposed tax reforms would be the equivalent of relief, with a projected $2 billion from those reforms going to state and local governments.

Congressional Perspective

Democratic congressional leaders then spoke of their opposition to the administration's plan to balance personal tax cuts with energy tax increases and of their own proposal to adjust the administration's drop in the level of federal support to the states for education, manpower, and social services. They also talked of the need to increase federal revenue sharing—including funding for public service jobs—to the states.

Energy – House Majority Whip John McFall of California said that a key difference between Congress and the Administration was in their interpretation of what plagued the economy. Congress believed it was recession, while the Administration believed it was inflation. And McFall blamed the administration for causing the recession through its tight budget and monetary policies coming on the heels of the energy crunch. He also argued that the Ford Administration's energy proposals—including its proposal to impose a tariff of $3.00 for imported oil—would add 60 percent to the rate of inflation. He argued instead in favor of action to achieve a gradual reduction in energy usage and a push to create new jobs and spur economic recovery.

Senator John Pastore of Rhode Island echoed Rep. McFall's sentiments, adding that Congress did agree with the Administration on the wisdom of reducing our nation's reliance on imported oil from 20% to 10% by 1985. But like McFall, he argued that the reliance reduction should be slow and steady, not sudden, as the Administration was proposing. And he argued in favor of incentives for domestic energy usage adjustments and production.

Representative Jim Wright of Texas, told governors that the Administration's proposed tax rebate would provide the average American family with perhaps $125 in one year but that this amount would be offset by the costs to Americans resulting from the Administration's energy conservation proposals. He said that Congress proposed instead to use a series of gas tax increases that would be slow enough to permit Americans to adapt to rising fuel costs while making adjustments toward greater energy efficiency. The proceeds from the tax increases could then be placed in an energy conservation and development trust fund. Congress also had under consideration a proposal to impose an excise tax on cars, the amount of which would be based on an automobile model's level of energy efficiency.

In response to gubernatorial concern that a goal of shifting our reliance from oil to coal would be difficult to meet in the northeastern United States if railroads were not upgraded to help carry coal to their region, Representative Brock Adams of Washington, Chairman of the House Budget Committee, said that the House would be debating legislation to provide emergency assistance for continuing threatened rail service and for reconstructing and reorganizing the rail system.

A number of western governors asked whether the federal government was prepared to provide economic and environmental impact aid to states whose rural communities contained coal that had yet to be tapped. Assuming that coal was a desirable alternative to oil, these communities—currently sparsely populated—might experience a sudden population surge for which neither they, nor their states, were prepared. Members of Congress said that they would take the issue back to Capitol Hill for consideration.

Economy/Domestic Spending – Majority Whip McFall said that Congress was working toward a self-imposed 60-day deadline to enact a tax cut and a 90-day deadline to report out other important economic legislation. And Congress was moving to protect the states against proposed reductions in the level of federal support for education, manpower, and social services. One focus of support for the states would be the creation of public service jobs. And Congress would seek to overturn the Ford Administration's deferral of a $225 million appropriation earmarked for local public works under the Economic Development Administration. Finally, a tax cut bill would be targeted toward stimulating job creation in the private sector. It would include an $8 billion rebate on 1974 taxes and an immediate $8.4 billion reduction in 1975 withholding from current paychecks.

McFall also noted that the House Banking and Current Committee had just reported out legislation to reduce interest rates and allocate credit to productive, rather than speculative, uses.

Senator William Proxmire of Wisconsin, Chairman of the Senate Banking Committee, addressed the issue of the drop in housing starts resulting from inflation. Legislation was pending that would call on the Federal Reserve to reduce interest rates to address this problem, and to effectively reduce mortgage rates, which should trigger housing starts.

Representative Wright argued in favor of releasing what remained of impounded highway trust funds not yet approved for (or expected to be approved for) released, which could be in turn be used to assist states that were having trouble meeting their federal highway aid matching requirements.

Finally, Members of Congress cautioned the governors not to expect all desired proposals for return of impounded and rescinded funds to be approved. And they asked NGA to consider what the priorities should be for states.

At the closing plenary session, William E. Simon, Secretary of the Treasury, spoke to governors about the status of the economy, expressing optimism that by the end of 1975 there would be significant declines in both the rate of inflation and the rate of unemployment. But he suggested that states, by virtue of their rapid rate of spending growth, had contributed to the nation's economic problems and that "we" (meaning not just the federal government but the states as well) "have to restore greater discipline in our fiscal and monetary affairs. Only then can we truly tame the demons of inflation." Simon said that two other goals were critical: to strengthen the foundations of the nation's economic system; and to preserve the free enterprise system from further encroachments by the government. Agreeing with Simon on the issue of government encroachment, governors expressed concern about federal mandates and the extent to which they were impeding progress in a wide variety of areas, including pollution control.

During discussion of policy positions, there was considerable disagreement over whether to include a clause expressing the governors' opposition to any plan that would impose tariffs on oil imports as a means of reducing energy consumption and raising revenue to plow back into research and development on energy alternatives.

Memorable Quotes

William Seidman, Assistant to the President for Economic Affairs, said: "The basic thrust of the President's program this year is to take the four or five trend lines, all of which have been going in the wrong direction, and turn them around this year. That includes our gross national product, which is going down and has to go up. That includes unemployment, which is going up and has to go down. That includes inflation, which has been going up and has to go down. That includes interest rates, which have been at an all-time high and have to go down....[n]ow the problem obviously is one of going down a road which has a big cliff on one wide which says inflation, and on the other side a big cliff which says recession, and really the question before us is where is the proper path so that we do not get over the cliff on either side."

U.S. Treasury Secretary William E. Simon said: "We have insisted, as a people, that our government give us conspicuous prosperity and damn the cost. We tried to end poverty, clean up the environment, and create a Great society without being willing to pay for it. We waged a war on distant shores, and left the bills to our children to pay. Again and again long-range necessities have been sacrificed on the altar of short-term gratifications. In a very real sense we have been living off our inheritance and, at the same time, mortgaging our future. We have transferred more and more of our wealth out of the most productive sector of our economy, the private sector, and into the least productive sector, the government. Our government has become swollen and fat, and our private enterprise system—the system that once gave this country the greatest prosperity and the highest standard of living in the history of man—has grown weak from undernourishment. By allowing short-term considerations to prevail time and again, we have gradually created fundamental imbalances in our economy."

Governor James Longley of Maine said to representatives of the Ford Administration regarding their proposals for dealing with the energy crisis, the recession, and unemployment: "The drum beats that I hear are that Washington really doesn't know the unemployment problem; doesn't really understand the recession problems except from the standpoint of statistics. Because Washington, by virtue of the economy in the area, build in a syndrome of comfort from statistic interpretations and that concerns me. My other concern is that when we do make these decisions that we are certain that the proprieties that are being established by you, and your departments, and the government in general in Washington, are the same priorities that we see, and when you put in this ballpark of interpretation the defense posture, defense spending, and say how can we justify [this] when the needs of our people are so acute; when the problems of the inner cities are facing us with, in some cases, 50% unemployment, I think the drum beats I hear are human needs.

Selected Policy Positions Adopted:

(1) With respect to the energy crisis facing the nation, expressing the view that a conservation program of massive proportions must be the central focus of the country's short-range energy management program and should: be coordinated through all levels of government, establish and accelerate stronger standards for automobiles, require more vigorous enforcement of the 55-mile-per-hour speed limit, ensure stronger programs for public transportation, provide for tax and other incentives for conservation actions, accelerate state energy management programs with federal financial support, and that in addition, should it be determined after careful monitoring for four to six months that additional measures are deemed necessary to accomplish conservation objectives, (a) a price mechanism or allocation program would be brought into play along with the encouragement of immediate alternate energy source development, providing that any price increases should be phased in to avoid abrupt impacts and ensure adequate opportunity for adjustment, and (b) a standby allocation program should be made available, which—if it involved volumetric limits, would provide flexibility to minimize inequities and unfair burdens by region or individual state; (2) recommending that when unemployment in any state exceeds ten percent, the federal government begin to participate in the first phase of benefits in the same way it currently participates in the extended benefit program; (3) opposing cuts in funding to states under the Law Enforcement Assistance Administration; (4) opposing federal involvement in legislation that would impose rules by which states dealt with their

public employees; (5) urging the release of money being withheld by the federal government for Comprehensive Employment and Training Act (CETA) programs; (6) urging Congress and the Administration to permit a two-year moratorium on state-funded matching requirements for highway trust funds presently impounded, and to permit greater flexibility at the state level to use trust funds for reconstruction, realignment, and safety projects; (7) urging the President to immediately release all authorized highway funds still impounded; (8) requesting support for the President's proposals to renew the Highway Trust Fund with a reduction in the amount of the federal gas tax to be allocated to the trust fund to 1 cent, and with the remaining 3 cents of federal tax being replaced by increased state-collected revenues up to 3 cents per gallon on fuel.