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ADDRESS

BY

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U.S. SENATOR

STATE OF ALASKA

BEFORE A JOINT SESSION

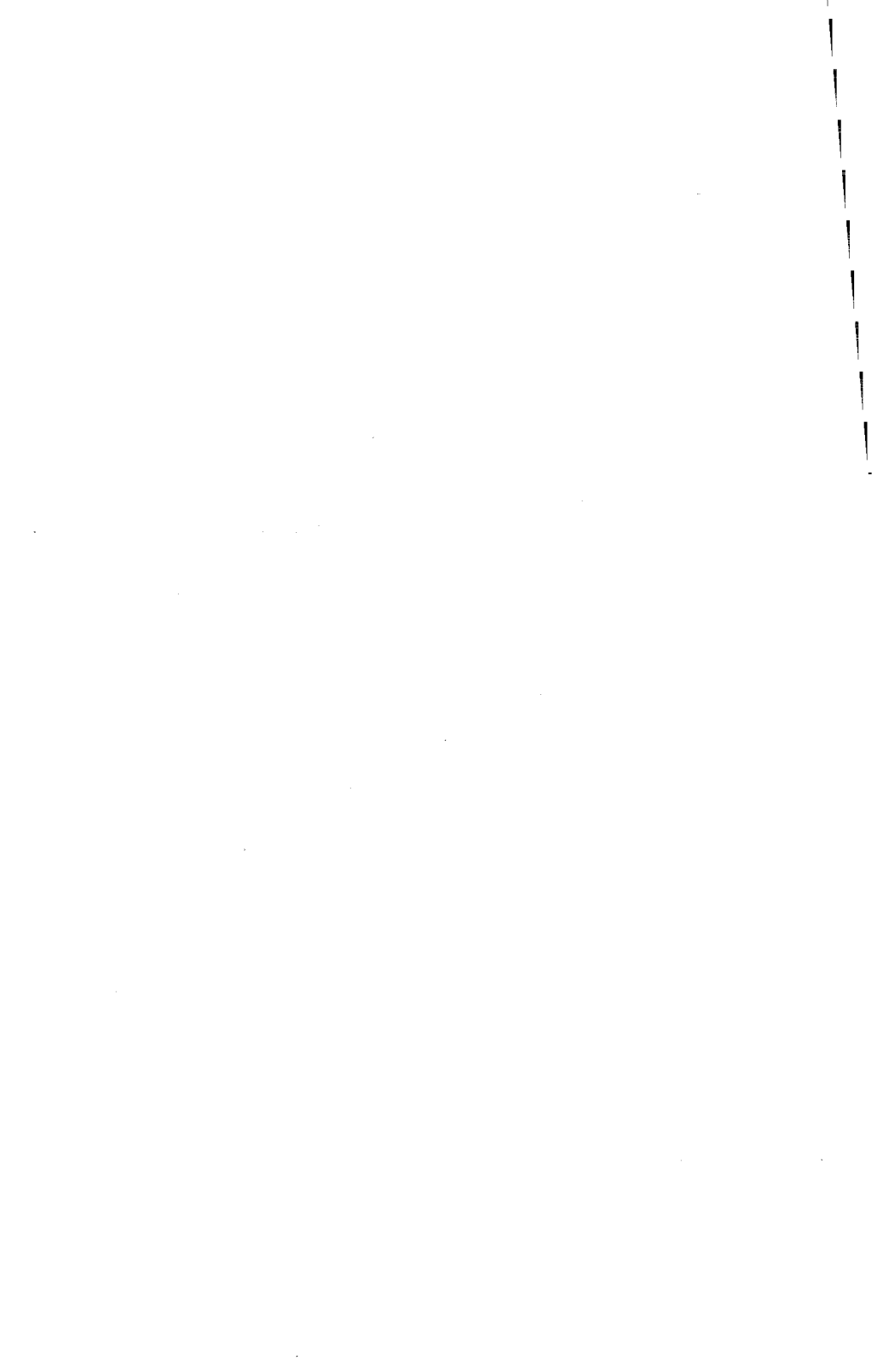
OF THE

FIRST SESSION OF THE

EIGHTEENTH ALASKA STATE LEGISLATURE

February 25, 1993

Juneau, Alaska



ADDRESS OF
SENATOR FRANK H. MURKOWSKI
TO
THE ALASKA LEGISLATURE, JUNEAU, FEBRUARY 25, 1993

I. Introduction:

- * Americans have asked for change. And change is what we've gotten.

- * We used to play a run-and-gun offense, to use a football analogy. Our game plan was to throw long... To strive for ANWR leasing or Alaska oil export with the big play.

- * We have been used to exploiting our strengths in Washington ... a President sympathetic to Alaskan concerns... a unified congressional delegation with seniority and clout.

- * Well, our offense no longer holds the field in Washington. We've shifted to the defensive.

- * Instead of advancing toward ANWR leasing, we are in a position of defending against permanent wilderness designations.

- * Instead of finding new ways to make Alaska's resources more accessible or competitive, we will have to block a host of new environmental regulations and wilderness designations.

- * Even if we find ourselves bogged down in a defensive struggle in Washington, however, there are still plenty of areas where we can still run with the ball here at home.

* And yes, we must remember that it is still possible for us to "score" while on defense.

* In fact with change comes new opportunities. That's essentially what I want to talk with you about today: A new game plan given the changed realities in Washington.

II. The Fiscal Problem:

* Change is the topic of the times and President Clinton is certainly carrying the banner.

* The President is calling for Americans to sacrifice. We must get the deficit under control. The American people support the concept, although there is much to learn about the specifics.

* We do have fiscal problems.

* Interest on our accumulated \$4.1 trillion debt now runs 15% of our budget. The deficit this year alone is predicted to be another \$320 billion.

* Entitlements -- those mandatory social programs such as Social Security, Medicare, Medicaid and others -- account for nearly 60% of our spending.

* Projections are that in just five years if left unchecked entitlements will account for about 75% of our total spending.

III. Clinton's Plan:

* The President's plan contains both good news and bad news. The good is that it identifies the problem -- reducing the deficit.

* The bad news is that we have been presented is the largest tax increase in history.

* But many of us had hoped the President would FIRST propose a sound, long-term plan for reducing the cost and size of government, including an effort at reducing the rate of entitlement growth.

* I made a pledge to Alaskans during the campaign that I would not support tax increases until we had first put together a workable plan to reduce the size of government and I intend to keep that promise.

* By reducing the entire cost of government, allowing total spending to rise by just 2% a year, we could balance our budget in just seven years.

(Chart I, Plan)

* Let's take a look at the President's plan and see what you think of it:

* **New Revenues:** Dominant in the President's plan are new taxes totaling \$360 billion. They include the new energy tax, increases business taxes and higher income taxes for many Americans.

* The plan also contains \$36 billion in "user fees" -- everything from increased fees to enter national parks, to a new mining law that charges a 12.5% royalty on hardrock minerals.

* For every dollar in tax increases, there are less than a dollar in spending cuts.

* **Spending Cuts:** The spending cuts, excluding defense, amount to \$149 billion. Cuts in domestic programs total \$71 billion -- just 13% of the plan. Cuts in entitlements -- the major federal expenditure -- total \$78 billion, just 15% of the plan.

* The largest cuts by far come from defense. The President wants to cut defense by \$187 billion through 1998. In fact, if it weren't for defense cuts, new taxes would account for all the deficit reduction in the plan.

* **New Spending:** There is \$162 billion of new spending in the plan. It more than cancels out the \$149 billion of spending cuts. There is more money for social programs, more for job training, more for highway construction. Many of the programs are important, but not all of them are vital.

* For example:

-- \$28 million to Marion Berry's city council in Washington, DC.

-- \$188 million to subsidize AMTRAK, most of benefit only to those in the East, not the West.

* The result is this plan really doesn't cut domestic and entitlement spending. **Spending grows by \$13 billion.**

*The plan, as you can see, proposes to reduce the deficit by \$533 billion. But the reality is that this plan is the largest tax increase in our history.

* There is only a 53-cent reduction in spending for every one dollar in new taxes.

* And we still haven't accounted for the cost of pending health care reform programs. Last week, administration officials admitted they will probably be seeking other tax increases this spring to pay for the cost of health care reform -- a new national sales tax, introduction of the so-called value-added tax (V-A-T) tax to America, under consideration.

(Chart II -- Spending:)

* I was looking at another chart recently showing federal spending as a percentage of the gross domestic product. Since the 1950s we have consistently spent more than we have received in tax revenues.

* Last year taxes raised accounted for 19% of the GDP, while federal spending accounted for 24%.

* Another sobering thought is that beside the \$360 billion in new taxes, the President is also proposing a \$31 billion economic stimulus package. The spending is designed to jump start our more than \$6 trillion economy. This would be too small to even cancel out the negative effect of the new taxes proposed.

* Government doesn't create meaningful jobs, it doesn't "grow" the economy, job creation and economic growth is led by small business unencumbered by high taxes and needless regulation.

* History teaches us, but apparently not very much.

IV. Alaska Effects:

* So what does this all mean for Alaska?

* It appears Alaskans are in for change. About the only thing they will have left is **small change** in their pockets, if this plan passes as is.

* **Energy Tax:** Let's look at the energy tax:

*There is a myth that the energy tax is fair and equitable -- that it spreads the pain around regionally.

*But oil has been singled out to carry the highest tax burden. Coal, natural gas, even nuclear energy are being taxed at 25.7 cents per million BTUs of energy produced, while oil is being assessed more than twice that tax, 59.9 cents per million BTUs.

* Only 8.6% of our GDP is attributable to the production of energy. Why should we focus this tax on such a small sector of the economy? A more broadly based tax, like a value-added tax, would be much more fair, if we have to raise taxes. We should not be balancing the budget on the backs of the energy industry, energy states like Alaska, and those who have no choice but to consumer a greater amount of energy.

*Oil seems to have joined alcohol and tobacco as the newest sin tax. But it is not a sin to use oil to heat your home when no other fuel is available, or to use it to power your airplane so you can get home to your village.

* Virtually no other state will be hit harder than Alaska by the proposed new energy tax. Alaskans will pay at least three times more than residents in other other states. Only Wyoming residents may come close.

* Gasoline/ aviation fuel likely will increase 7.5 cents per gallon; while diesel will go up over 8 cents. Diesel, that fuels electric generation in the Bush, will rise more than \$4 per drum -- a cost to be borne by rural Alaskans who already pay as much as 40% of their income for heat and electricity.

* The BTU tax would also hit Alaskans repeatedly.

* It also will drive up the cost of freight, and add to the cost of all manufactured goods made from petroleum; not counting the effect on fishermen with their boats, loggers with their trucks and power saws, or miners with their heavy equipment.

* I intend to fight this tax and work to find a more equitable solution to meet our fiscal needs.

* **Mining Royalty:** Let's look at the proposed 12.5% gross royalty on minerals.

- * It makes all mineral development on public lands more difficult -- and in Alaska where mining costs are high, probably impossible. This will drive small miners out of business and will effectively preclude any future mineral development on Alaska's public lands.
- * I intend to support reasonable reforms in the mining law, but not the extreme proposals now before us.
- * **Deep Military Cuts:** The Clinton plan, which is calling for \$187 billion of new military cuts, would reduce our active force to 1.4 million, 200,000 fewer troops than current plans.
- * While it is impossible to predict, such reductions could lead to the demise of the Sixth Light Infantry? They could force the closure of Fort Richardson or they could cause the loss of the Cold Regions Test Center at Fort Greely.
- * Cuts of that size could create the same kind of "hollow force" that followed the demobilization after WWII and Vietnam. It was that process that required the greater level of military spending that we witnessed in the 1980s. They again could produce more, not reduced, military spending over the long term.
- * Given the problems in the former Soviet Union, in Eastern Europe, in the Mideast, the world is still a very dangerous place.
- * **Timber sale funding:** The President is also proposing the phase out of timber sales in national forests where sales have not turned a steady profit in the past.

- * The proposal is far from clear as to how it would work. It clearly doesn't take into account shifting market conditions.
 - * It doesn't take into account that environmental extremists, simply by filing suits, appeals and protests, can make "economic" sales into "uneconomic" ones, because the cost of all administrative procedures are deducted from federal "profits."
 - * One result of the proposal could be the loss of one-third of the economy in Southeast, that relies on the timber program.
 - * There are also numerous other programs affecting Alaska that will be affected by the package.
- *It sounds like we have our work cut out for us.

V. What's Our Game Plan?

- We are in a struggle for our future. With the changes in Washington it's time for a strong defense to hold the line against new regulatory burdens and land lock-ups.
 - Our opponents are well-financed and well-organized; Emboldened by the Clinton-Gore promises they react quickly. By staying on the offensive in Alaska we can keep our momentum.
- Robert O. Anderson's Hondo Oil, gas pipeline is a case in point. The line, without gas supply or permits, resulted recently in environmentalists gathering in Fairbanks to plan a strategy for stopping the project.

- We all must recognize the hostile federal climate we now face... but we must seize opportunities where we can find them. In some instances, our priorities mesh with the Clinton-Gore trade interests and environmental bias:

* For example, we can:

- Promote Alaska natural gas as a clean fuel and to address the trade deficit -- Japan's trade deficit with the U.S. rose 14% last year. Japan's need for gas is up. And new technology, where the gas energy can be used twice, to make electricity may make gas sales truly economic.

- Promote the Bristol Bay Buybacks. Given the size of the President's package, opportunities may present themselves to actually find a mechanism to fund the buybacks.

- Russian Arctic Pollution remediation. This is an area where the Clinton-Gore environmental sensitivities should help us continue to receive federal support to find the extent of Russian radiation and heavy metal pollution of the Arctic, and hopefully to clean it up -- if that becomes necessary. Just recently we secured a nuclear submarine to help in the research.

*Rural economic development. Let's work on a real jobs program for Alaska villages.

- Clean Coal Export Demo Project: We can combine support from the state and the Department of Energy to develop coal processing technologies to develop and market the Beluga

coal field. The time for this project has come. The coal-water fuel project at Ship Creek and the K-Fuel process both look promising. The trick is to create a new high-quality fuel that has environmental benefits.

- Tourism Opportunities in Alaska: There are certainly many projects from Denali, to Glacier Bay, to Kennicott where we should be able to work with the President and Secretary Babbitt to increase visitation to and support of our national parks.
- In other instances, we must exercise State prerogatives to challenge inequities, protect our interests and forge new ground and fight for what's just and for what's ours.

*Specifically, I would suggest:

- Alaska claim its public use access roads on federal lands the so-called RS 2477 access routes. Given efforts in Congress to retroactively repeal any such claims, you must make your case to claim the trails this year, or the chance to have better access in the state could disappear.

- Resolve Mental Health Lands litigation to free up projects or come up with a plan to allow resource projects like the Wishbone Hill and Beluga coal projects to proceed. Without resolution soon, these and other projects will die for a very long time. Projects like these are hard to come by. We can not afford to throw they away.

* Because of the mental health lands dispute the preception in the natural resource investment community and international markets is that there is a natural resource development permitting freeze in Alaska. This we must change.

- Encourage independent oil companies to develop new areas. You need to find out quickly actually what the independents will need in the way of incentives to come to Alaska.

- Push for State control over wetlands regulation. This may take an amendment to the Clean Water Act, but we in Congress will need Alaska to push other states to also help push for the changes.

- Take back fish and game management on federal lands by solving the subsistence issue in Alaska.

- And fund fish marketing and fish product development -- that means investing more money for the Alaska Seafood Marketing Institute, not less.

- We must do what we can to keep from losing ground on our long-term battles.

- We must mobilize to stop ANWR wilderness by starting grassroots efforts in key states and regions, and educate new members of Congress to keep them off the wilderness bill. It's too early to say we'll win, but we won't lose without a fight.

- * At a time when Boeing is laying off 28,000 employees, maybe it is time again to revisit Seattle and present our message on ANWR.

- We must fully fund Arctic Power as a vehicle for all Alaskans to invest and participate in effort to preserve opportunities in ANWR.

- *There are also other potential trouble spots:
 - There is the proposal for more parks, refuges, and BLM wilderness proposals -- 20 million acres or more.

 - * Magnuson Act -- could lose majority on council;

 - * Marine Mammal Act and Endangered Species Act -- claiming fishing grounds and eliminating subsistence.

- * Glacier Bay fishing ban. We'll have to battle a hostile park service on this one.

- * We must also keep an eye to the future and embark on new directions for the coming new century.

- * We must push for the use of Poker Flats for polar orbital launches.

- * We must push for expanded Arctic research.

- * And we must do what we can to make the dream of Alaska as an international transportation hub become reality.

VI. Conclusion:

- We will fight as hard as possible to generally hold the line in Washington. But the state must boldly push forward with new opportunities back here in Alaska. The best defense is a good offense.
- Alaska won't be able to change Washington, DC. We can't tilt at windmills. It's obvious that now is not the best time to publicly push for ANWR's opening, but we must continue to lay the groundwork at the grassroots level for when times improve.
- With unemployment in the nation at more than 7%, while economic indications look good, there is still a real concern for jobs.
- We will move heaven and earth to fight wilderness designations that are unfair. We will fight regulations that are unreasonable. We will pursue new opportunities that are attainable. And in the end, we will win the bright future our children and grandchildren deserve.

The Clinton Budget Plan: New Taxes & Phantom Savings

Deficit Reduction Category	FY'93 to FY'98	As a % of Total
New Taxes*	\$360	68%
User Fees & Other Receipts	\$36	7%
Tax Cuts	(\$83)	-16%
Net New Revenues	\$313	59%
Defense Cuts	\$187	35%
Domestic Cuts	\$71	13%
Entitlement Cuts	\$78	15%
New Domestic Spending	(\$144)	-27%
New Entitlement Spending	(\$18)	-3%
Net New Domestic Spending	(\$13)	-2%
Debt Service Savings	\$46	9%
Total Deficit Reduction	\$533	100%

* Includes increased taxes on Social Security.
Items represent change from CBO's uncapped baseline.
Items which increase the deficit are shown in (parenthesis).

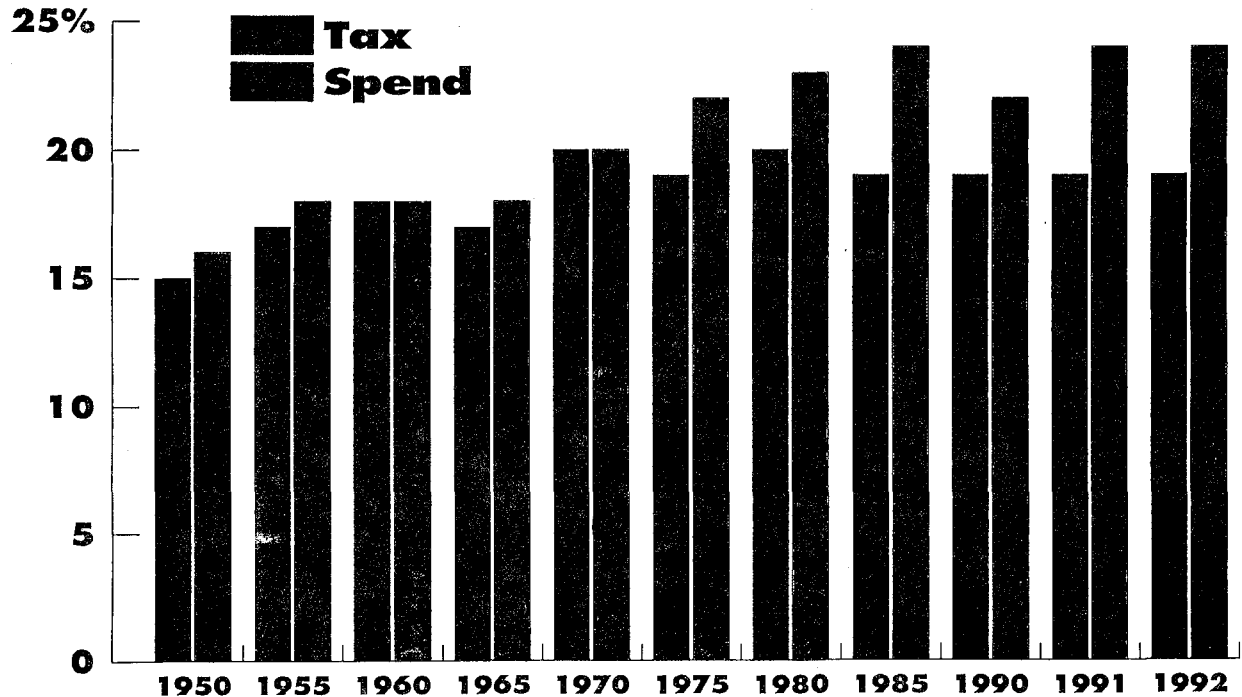
Source: Senate Budget Committee (Min. Staff)

Federal Government Taxes and Spending As a Percentage of GDP 1950-1992

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The nation's \$4.1 trillion debt can be attributed to the difference between government sending and taxation

SOURCE: Budget Baselines, Historical Data, and Alternatives for the Future, OMB, January, 1993