

SENATE & HOUSE JOINT
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ADDRESS

by

THE HONORABLE TED STEVENS

U. S. SENATOR

BEFORE A JOINT SESSION

OF THE

FOURTEENTH ALASKA STATE LEGISLATURE

FEBRUARY 25, 1985

JUNEAU, ALASKA

LAST YEAR, I TRAVELED ALL OVER ALASKA -- FROM DUTCH HARBOR TO TOK, FROM KOTZEBUE AND BARROW AND WESTERN ALASKA TO KETCHIKAN, THROUGH SOUTHEASTERN, SOUTH-CENTRAL, THE INTERIOR, AND THE ARCTIC. MANY OF YOU WERE MAKING SIMILAR TRIPS IN YOUR ELECTION DISTRICTS. AS A RESULT OF THOSE TRAVELS, WE AGAIN HAVE THE PRIVILEGE AND RESPONSIBILITY OF REPRESENTING OUR GREAT STATE.

IN HIS STATE OF THE UNION ADDRESS TO CONGRESS EARLIER THIS MONTH, THE PRESIDENT NOTED THAT THE PROGRESS OUR COUNTRY HAS MADE OVER THE PAST FOUR YEARS "BEGAN NOT IN WASHINGTON, D.C., BUT IN THE HEARTS OF OUR FAMILIES, COMMUNITIES, WORKPLACES, AND VOLUNTARY GROUPS WHICH, TOGETHER, ARE UNLEASHING THE INVINCIBLE SPIRIT OF ONE GREAT NATION UNDER GOD."

IN MY BOOK, THIS NEW AMERICAN SPIRIT -- THE RENEWED FAITH IN OUR FUTURE AND OUR ABILITY TO ACCOMPLISH GREAT THINGS -- SOUNDS A LOT LIKE OUR OWN ALASKA SPIRIT. THAT SPIRIT -- WHICH I SAW IN ACTION AGAIN AND AGAIN DURING MY TRAVELS -- GUIDED US THROUGH THE FIRST QUARTER CENTURY OF STATEHOOD, AND -- GOD WILLING -- IT WILL ENABLE US TO ACCOMPLISH EVEN MORE IN THE NEXT 25 YEARS.

OUR ABILITY TO KEEP THE ALASKA SPIRIT ALIVE AND CONTINUE OUR STATE'S SOCIAL AND ECONOMIC DEVELOPMENT DEPENDS IN LARGE PART ON THE RESULTS OF THE DEBATES TAKING PLACE HERE AND IN WASHINGTON. I WANT TO SHARE WITH YOU MY THOUGHTS ON THE FEDERAL BUDGET PROCESS AND ITS SIGNIFICANCE FOR YOUR DELIBERATIONS IN JUNEAU.

PRESIDENT REAGAN'S BUDGET PROPOSAL FOR FISCAL YEAR 1986 RECOMMENDS A LONG LIST OF BUDGET FREEZES AND CUTS. IF APPROVED BY CONGRESS, THESE REDUCTIONS COULD AFFECT NEARLY EVERY ALASKAN. NOT ALL OF THESE WILL BE APPROVED -- AND I DO NOT SUPPORT MANY OF THEM. LET ME DESCRIBE SOME:

- o CAP THE MEDICAID PROGRAM AT \$22.5 BILLION. RESTRUCTURE MEDICAID TO GIVE STATES ADDITIONAL AUTHORITY TO CONTROL COSTS.
- o RESTRICT ELIGIBILITY FOR NON-SERVICE CONNECTED HEALTH CARE. DISABLED, LOW-INCOME, AND SPECIAL GROUP VETERANS WOULD NOT BE AFFECTED. VETERANS WOULD PAY FOR NON-SERVICE CONNECTED MEDICAL CARE COSTS.
- o PHASE OUT REAL DIRECT LOANS AND LOAN GUARANTEES TO ELECTRIC AND TELEPHONE COOPERATIVES BY 1990. RAISE INTEREST RATES FROM THE CURRENT 5 PERCENT LEVEL TO 7 AND 1/8 PERCENTAGE POINTS ABOVE THE FEDERAL GOVERNMENT'S BORROWING COSTS.
- o TERMINATE THE ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) AND ITS LOAN PROGRAMS AND ELIMINATE THE COMMUNITY SERVICES BLOCK GRANT PROGRAM.
- o IMPOSE A TWO-YEAR MORATORIUM ON NEW ASSISTED-HOUSING CONSTRUCTION COMMITMENTS AND A ONE-YEAR MORATORIUM ON PUBLIC HOUSING MODERNIZATION.
- o PHASE OUT THE ENVIRONMENTAL PROTECTION AGENCY'S SEWAGE TREATMENT GRANTS BY 1990.
- o ABOLISH THE ESSENTIAL AIR SERVICE SUBSIDY PROGRAM.

- o TERMINATE THE SMALL BUSINESS ADMINISTRATION AND TURN OVER ITS LOAN PORTFOLIO TO THE TREASURY FOR LIQUIDATION OVER A FOUR-YEAR PERIOD.
- o TERMINATE GENERAL REVENUE SHARING.
- o IMPOSE COAST GUARD USER FEES FOR NON-EMERGENCY SERVICES TO COMMERCIAL AND RECREATIONAL BOATS SUCH AS LICENSING, INSPECTIONS, AND MAINTENANCE OF NAVIGATION AIDS.

THIS IS ONLY A SMALL SELECTION OF THE PRESIDENT'S PROPOSED BUDGET CUTBACKS, AND THE PRESIDENT'S PROPOSALS DO NOT EXHAUST THE LIST OF OPTIONS AVAILABLE TO US. I HAVE BROUGHT YOU DESCRIPTIONS OF THE PRESIDENT'S BUDGET AND COPIES OF A LIST OF BUDGET CUT OPTIONS PRINTED BY CONGRESSIONAL QUARTERLY.

THE MOST IMPORTANT POINT OF THESE LISTS IS THIS: CONGRESS HAS NO ALTERNATIVE BUT TO TERMINATE OR CURTAIL MANY FEDERAL PROGRAMS. THERE IS NOTHING MAGICAL ABOUT THE PRESIDENT'S LIST; ALTERNATIVE BUDGET CUTS ARE POSSIBLE. BUT WHAT WE CAN'T CUT IN ONE AREA WILL HAVE TO BE CUT SOMEWHERE ELSE. EVERY ITEM IN THE FEDERAL BUDGET -- INCLUDING ENTITLEMENT PROGRAMS THAT WERE FORMERLY CONSIDERED UNTOUCHABLE -- IS UP FOR REVIEW.

EVEN IF CONGRESS APPROVED ALL OF THE PRESIDENT'S BUDGET PROPOSALS, FEDERAL EXPENDITURES FOR FISCAL YEAR 1986 WOULD STILL EXCEED \$970 BILLION DOLLARS.

AND THE DEFICIT FOR FISCAL YEAR 1986 WOULD APPROXIMATE \$200 BILLION DOLLARS MORE THAN 4 PERCENT OF THE GROSS NATIONAL PRODUCT (GNP).

IN ORDER TO KEEP YOUR PERSPECTIVE IN EVALUATING THESE FIGURES, REMEMBER THAT IN 1969 -- THE LAST YEAR IN WHICH THE FEDERAL GOVERNMENT RAN A SURPLUS -- ALL FEDERAL EXPENDITURES TOTALED ONLY \$184 BILLION. OUR DEFICIT IN FISCAL YEAR 1986 WILL BE AS LARGE AS THE TOTAL BUDGET THEN.

OUR FINANCIAL PROBLEMS STEM PRIMARILY FROM THE FANTASTIC INFLATIONARY PERIOD WE WENT THROUGH IN THE 1970s. REMEMBER THAT PRESIDENT NIXON IMPOSED WAGE AND PRICE CONTROLS IN 1971 WHEN INFLATION WAS ONLY 4.4 PERCENT, THE INTEREST RATE 6 PERCENT, AND UNEMPLOYMENT 6.1 PERCENT. THOSE CONTROLS WERE REMOVED AFTER STRONG CONGRESSIONAL OBJECTIONS.

THE DOUBLE DIGIT INFLATION, INTEREST, AND UNEMPLOYMENT RATES OF THE LATE 70s SHOCKED THE NATION AND HAD A CATASTROPHIC EFFECT ON OUR ECONOMY AND THE FEDERAL BUDGET.

WE ARE NOW IN THE MIDDLE OF THE STRONGEST ECONOMIC RECOVERY IN 34 YEARS. WE HAVE CUT INFLATION AND REDUCED INTEREST RATES AND UNEMPLOYMENT. BUT THESE THINGS ALONE ARE NOT ENOUGH TO RESOLVE THE FEDERAL BUDGET CRISIS.

OUR NATIONAL DEBT WILL EXCEED \$2 TRILLION BY THE END OF FISCAL YEAR 1986 AND WILL APPROACH \$3 TRILLION BY THE END OF THE DECADE. COMPOUNDING INTEREST ON THE NATIONAL DEBT HAS BECOME A MAJOR PROBLEM THAT REQUIRES THE ATTENTION OF THE WHOLE NATION.

IN 1986, THE FEDERAL GOVERNMENT WILL BORROW A THIRD OF ALL NEW SAVINGS IN THIS NATION. MOST OF THIS DEFICIT BORROWING WILL BE DEDICATED TO PAYING THE INTEREST ON THE

NATIONAL DEBT, WHICH WILL TOTAL \$170 BILLION -- THE SECOND LARGEST ITEM IN THE FEDERAL BUDGET. BY 1990, THE INTEREST ON THE DEBT WILL PROBABLY BE CLOSE TO \$300 BILLION AND MAY BE THE LARGEST ITEM IN THE FEDERAL BUDGET. THE COMPOUNDING OF THE INTEREST ON THE NATIONAL DEBT IS ABSORBING THE CAPITAL WE NEED FOR PRIVATE SECTOR INVESTMENT, AND PAYMENTS TO FOREIGN LENDERS ARE EXACERBATING OUR BALANCE-OF-PAYMENTS PROBLEM. THIS SITUATION IS INTOLERABLE. WE ARE HEADING FOR A NATIONAL BANKRUPTCY IF WE DO NOT ACT TO REDUCE THESE DEFICITS NOW. AFTER WE HAVE BALANCED THE BUDGET, WE MUST THEN ASSURE THAT THE FEDERAL DEBT ITSELF IS REDUCED.

EVERYONE SHOULD UNDERSTAND THE URGENCY OF THE SITUATION. THE PRESIDENT'S BUDGET PROPOSALS HAVE BEEN GREETED WITH LESS THAN UNIVERSAL ACCLAMATION, BUT CONGRESS MUST AND WILL ACT -- FIRST TO ELIMINATE THE DEFICIT AND THEN TO REDUCE THE NATIONAL DEBT TO MANAGEABLE LEVELS. QUICK-FIX PROPOSALS FOR ACROSS-THE-BOARD BUDGET FREEZES HAVE FAILED. NOW CONGRESS' LEGISLATIVE COMMITTEES WILL ANALYZE, IN-DEPTH, THE FUNDING LEVELS OF EACH PROGRAM WITHIN THEIR RESPECTIVE JURISDICTIONS. I HAVE BEGUN TO DO JUST THAT IN THE SUBCOMMITTEES THAT I CHAIR, PARTICULARLY DEFENSE APPROPRIATIONS.

THE PROCESS IS GOING TO BE LONG AND PAINFUL -- NOT EVEN THE MOST OPTIMISTIC MEMBERS OF CONGRESS ARE PREDICTING A BALANCED BUDGET BEFORE 1990 AND SUBSTANTIAL REDUCTIONS OF THE NATIONAL DEBT WILL TAKE EVEN LONGER. BUDGET CUTBACKS THAT ARE REJECTED NOW WILL BE PROPOSED AGAIN, ALONG WITH OTHERS, DOWN THE ROAD. MANY INFLUENTIAL MEMBERS OF CONGRESS -- ON BOTH SIDES OF THE AISLE -- ARE ALREADY CALLING FOR CUTS THAT GO BEYOND THE PRESIDENT'S PROPOSALS.

THESE FEDERAL DEFICIT PROBLEMS COMPLICATE WHAT I KNOW IS ALREADY A DIFFICULT STATE BUDGET PROCESS. BUT, KEEP THESE ITEMS IN MIND AS YOU WORK ON OUR BUDGET FOR THE STATE OF ALASKA.

WHEN I VISITED UNALASKEET LAST FALL, THE FIRST QUESTION I HEARD WAS: "WHAT ARE YOU GOING TO DO TO REDUCE THE FEDERAL DEFICIT, WHICH IS KEEPING INTEREST RATES UP, DRIVING UP THE EXCHANGE VALUE OF THE DOLLAR, AND HURTING OUR ABILITY TO SELL OUR PRODUCTS ABROAD?" HIGH FEDERAL DEFICITS HAVE ALREADY HURT ALASKANS JUST AS MUCH AS THE RESIDENTS OF EVERY OTHER STATE.

ALASKA HAS NOT BEEN SPECIALLY TARGETED FOR CUTS IN THE FISCAL YEAR 1986 BUDGET PROCESS.

WE FACE PAINFUL POTENTIAL CUTS IN ESSENTIAL PROGRAMS, BUT EVERY STATE FACES THE SAME CHALLENGES. EASTERN STATES ARE DEEPLY CONCERNED ABOUT PROPOSALS TO TERMINATE AMTRAK SUBSIDIES AND REDUCE URBAN MASS TRANSIT ASSISTANCE. MIDWESTERN STATES ARE OPPOSED TO PROPOSED CUTS IN FARM SUPPORTS AND RELATED SUBSIDIES. ALASKA IS NOT BEING SINGLED OUT FOR PUNISHMENT.

SOME STATE LEGISLATORS HAVE EXPRESSED THE FEAR THAT IN REDUCING THE DEFICIT, THE FEDERAL GOVERNMENT WILL TURN MAJOR RESPONSIBILITIES OVER TO THE STATES WITHOUT PROVIDING THE STATES THE RESOURCES NEEDED TO HANDLE THEIR NEW DUTIES.

I BELIEVE -- AS DO MANY OTHER MEMBERS OF CONGRESS -- THAT THE BATTLE TO REDUCE THE FEDERAL DEFICIT WILL INCLUDE A RE-EXAMINATION OF THE FEDERAL-STATE RELATIONSHIP. A GOOD ARGUMENT CAN BE MADE THAT THE TRANSFER OF FEDERAL RESPONSIBILITIES TO THE STATES SHOULD BE ACCOMPANIED BY A RELAXATION OF FEDERAL LAWS THAT FORCE STATES TO INCUR UNNECESSARY COSTS.

EACH POLITICAL PARTY HAS CONTRIBUTED TO THE CURRENT DEFICIT. A BIPARTISAN EFFORT WILL BE NEEDED TO REDUCE IT IN A FAIR AND EQUITABLE MANNER. SUCH A BIPARTISAN EFFORT MUST INCLUDE YOU HERE IN JUNEAU. THE NEED TO REDUCE THE DEFICIT WILL NOT DETER THE ALASKA CONGRESSIONAL DELEGATION FROM DEFENDING ALASKA'S VITAL INTERESTS. IN ORDER TO DO THIS AND PARTICIPATE FULLY IN THE BUDGET PROCESS, HOWEVER, WE NEED TO WORK WITH YOU TO IDENTIFY PRIORITIES FOR ALASKA. WE FACE PROPOSALS NOT ONLY TO CUT PROGRAMS BUT ALSO TO RAISE REVENUES BY RESTRICTING THE ONSHORE MINERAL REVENUE SHARING OR LIMITING SEVERANCE TAXES. I NEED NOT TELL YOU WHAT THOSE PROPOSALS WOULD DO TO ALASKA.

WE MUST COORDINATE OUR EFFORTS ON THESE ISSUES. AND NOT ALL OF THE CHALLENGES WE FACE ARE BUDGETARY. OTHERS INCLUDE THE REVISION OF THE ALASKA NATIVE CLAIMS SETTLEMENT ACT, OCS REVENUE SHARING, REAUTHORIZATION OF THE MAGNUSON FISHERY CONSERVATION AND MANAGEMENT ACT, OIL EXPORTS, OPENING OF THE ARCTIC NATIONAL WILDLIFE REFUGE TO OIL AND GAS EXPLORATION, TAX SIMPLIFICATION, AND POSSIBLE CHANGES IN THE ALASKA LANDS ACT.

IF ALASKANS WANT BALANCED ECONOMIC DEVELOPMENT, WE HAVE TO SPEAK WITH ONE VOICE IN SUPPORT OF THE TOTAL ECONOMY OF ALASKA. ALASKA FACES MANY CHALLENGES AND SOME IMPORTANT OPPORTUNITIES DURING THE COMING YEARS.