

SENATE AND HOUSE JOINT JOURNAL SUPPLEMENT

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March 7, 1986

FRIDAY

No. 19

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U. S. SENATOR TED STEVENS

ADDRESS TO THE ALASKA STATE LEGISLATURE

March 7, 1986

One word will be used so often this year that I predict an avalanche of new words and phrases to replace it.

Deficit--not a new word, but one with a new global significance.

We have heard a great deal about our deficit--few have paid much attention to deficits throughout the world. For instance, Canada now has a thirty point four billion dollar deficit. If we had one similar in size, ours would be a whopping two hundred sixty billion dollars.

Recent analysis of the Soviet budget indicates that with the decline in oil prices, additional pressure will be placed on the Soviet Union's already beleaguered economy.

Great Britain projects a ten point two billion pound deficit--and, probably the worst news of all is the deficit of Saudi Arabia.

For the fourth year, the Saudis will run a deficit. The experts I talked with predicted a Saudi 1986 deficit close to 30 billion dollars at a fourteen dollar oil price--they have had deficits of 15 to 20 billion for the last three years. (The Saudis, too, have a reserve fund--and also, worldwide investments exceeding 80 billion--so they are not broke. Their cash flow is in a deficit pattern, however.)

Now, I can just see some of my old friends here squirming and mentally saying "What's Stevens belaboring that for--we don't have a deficit in Alaska".

So far, that would be right, but consider a few things about these deficits. Canada is our largest trading partner--we trade more with our Canadian neighbors than with all other countries combined. Their deficit means that their dollar will continue to maintain a low exchange rate to ours, leaving us with a continuing imbalance in our trade. They will increase their exports to us but earn less from them. And, the Saudis are in a most difficult position--if they increase oil production to try to increase their income, oil prices worldwide will be further lowered. The great problem for the Saudis is that there is already an oversupply of oil in the world--what is known as an overhang of the market--and they eventually will reduce production, not increase it.

When I was in London recently, I was briefed by two international oil companies on worldwide energy problems. Both saw the declining demand in the second quarter of this year. One postulated a reduction in production; the other predicted an increase in the overhang. If the first was right, the current oil price decline will be short lived. If the second was correct, God only knows how low the price of oil will go before there is action to correct the

imbalance between supply and demand. The second company's economist indicated he would not be surprised by five dollar oil by the end of this year. That would be bad news for Alaska--real bad news. If it occurred, then we will know what 'deficit' means. But, it would not be bad news for the Federal Government. With the price of oil declining, the value of the dollar worldwide receding, inflation continuing at a low level, and interest rates coming down to the level of the late 60's, our federal deficit may be more manageable than previously predicted.

I know that Congressman Young and Senator Murkowski have talked about our federal deficit--and Gramm, Rudman, Hollings. That amendment was added to a five-year plan to reduce the deficit to zero by 1991. As Senator Murkowski pointed out when he was here, it is action taken by the Congress in response to resolutions such as you here in our Legislature sent to us, demanding that the Federal Government balance its budget. Even assuming we do balance the budget by 1991, the federal debt will be two point four trillion dollars--with interest running about two hundred billion dollars per year.

The Gramm-Rudman-Hollings amendment has been called many things by many people--it has been severely criticized and highly praised. I do not use it as either a whipping post or an altar. It is neither--it is a mechanism for discipline adopted by a Congress which represents a society divided by a multitude of interests and regional problems. The sooner that everyone realizes that Gramm-Rudman-Hollings is not a solution but a device which attempts to assure a solution, the better off all concerned will be. And, members of state legislatures throughout the country which, and I believe wisely, demanded that Congress balance the budget, must accept the sure fact that such action will reduce federal assistance in almost every area of the economy.

Even in the defense area, there are shifting priorities. And, while many people don't realize it, Congress has already cut 153 billion dollars off of President Reagan's projected defense spending plan that he approved in 1981. Last year alone, our Appropriations Committee cut 35 billion dollars from the President's original 1986 budget for defense. We will, I hope, be careful not to delete in our budgeting process systems which are on the table in the Geneva Arms Control talks.

When we left Geneva recently, I had a feeling of optimism for the first time. The Soviets have indicated that the INF--Intermediate Nuclear Force--negotiations will go forward without linkage to our strategic defense initiative, and while there have been no positive results yet, our negotiators believe real negotiations will commence this year.

Since I have been in the Senate, I have tried to alert the nation to the increasing Soviet offensive armaments in their eastern provinces. There are now more Soviet naval vessels in the Pacific than the United States maintains worldwide. And, the Soviets now have 57 Army divisions east of the Ural Mountains.

As a consequence, the Department of Defense is now moving to improve the defense of Alaska, and to protect the vital national missions of many of our military installations.

We have seen the F-15's, our first line defensive fighter, come to Alaska, along with A-10's, the Army's favorite close support aircraft. Now, we will have AWACS--the Airborne Warning and Control System--at Elmendorf, together with a KC-135 Air National Guard tanker unit at Eielson. Those new units complement the new Sixth Light Division which we will activate later this month at Fort Wainwright, with supporting units at Fort Richardson.

All of these will add to our economy--but that is not the reason they are here. We must remind everyone of General Billy Mitchell's advice:

"Alaska is the most central place in the world for aircraft and that is true either of Europe, Asia or North America," he declared. "I believe, in the future, he who holds Alaska will hold the world, and I think it is the most strategic place in the world."

And, let me point out that when--hopefully--we achieve a new series of agreements with the Soviets to radically reduce intermediate and long-range nuclear missiles as well as chemical weapons, increased monitoring and surveillance will be necessary to assure compliance with those agreements. Alaska is uniquely located for such missions, and we, in all probability, will see increased military units stationed here then.

This year, defense expenditures in Alaska are budgeted for one point three billion dollars, including about three hundred million dollars in military construction.

Even the post office will also continue its improvement of Alaska facilities--it will have spent nearly one hundred million dollars for new postal facilities, ninety nine percent of which were completed by Alaska architects, engineers, and contractors. (Past visits of Postmasters General were very helpful in convincing the post office of the necessity for this modernization program--the new Postmaster General, Al Casey, will be in North Pole on May 28 to dedicate four Arctic Explorer commemorative stamps--so I am hopeful the process will continue.)

We are not without our mutual problems which I have not discussed, for I want to see what aspects of them you are interested in. Issues such as sovereignty, 1991, the sale of the Alaska Power Administration, federal housing, education, health and social expenditures in Alaska, fisheries issues, the future of oil and gas development in ANWR, environment, federal tax levels, transportation, tourism, and the Winter Olympics are subjects that come to my mind. You may have others you wish to pursue. I'll try to answer any questions you have in the time available to me.

When I sat where you are now, my predecessors came annually, gave a speech, but were not given the opportunity to respond to our questions. In 1969, when I first returned here to appear before this joint session, I asked if the leadership would ask if there were questions I might try to answer. From that occasion has grown a unique Alaskan practice--these annual appearances before you to both make comments and answer your questions. Other states are now following suit. And, I predict that the time will come when presidents and cabinet officers will come before Congress for similar sessions.

The Senate, after ten years of urging by me and Senator Howard Baker and others, has finally joined with the House to start television from the Senate. Openness and public scrutiny is essential to preservation of our democracy--thank you for permitting me to be part of your open proceedings here today.