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Governor Atiyeh

Governors' Reaction to Reagan Plan

In New York

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Governors' Reaction to Reagan's Plan

[Tease]

Pres. RONALD REAGAN [Inaugural Speech, January 20, 1981]: It is my intention to curb the size and influence of the federal establishment, and to demand recognition of the distinction between the powers granted to the federal government and those reserved to the states or to the people. All of us need to be reminded that the federal government did not create the states. The states created the federal government.

JIM LEHRER [voice-over]: Tonight, the governors of the states of New York, Oregon, Illinois, and Arizona tell us what they think of the new Reagan approach to them and their problems.

[Titles]

LEHRER: Good evening. President Reagan personally delivered his good news/bad news message to the nation's governors this afternoon. An initial reaction following the White House meeting was generally favorable; most governors saying they could live with Reagan's double-edged sword — less federal money for the states, but under a new federalism concept, more flexibility and control in administering it. Some were unhappy, though, over specifics — particularly cuts in funds for medical care, education, and mass transit. The governors are in Washington for the mid-winter meeting of the National Governors Conference, and since it began yesterday, most of the conversation, formal and informal, has been about the Reagan economic recovery program. We continue it tonight with the Democratic governors of New York and Arizona, and the Republican governors of Oregon and Illinois. Robert MacNeil is off; Charlayne Hunter-Gault is in New York. Charlayne?

CHARLAYNE HUNTER-GAULT: Jim, to get some idea of the dilemma facing the governors in this two-edged sword approach, let's look at a few areas where the federal government both giveth and taketh away. For example, the President proposes giving states and local school districts more control over education. But the administration also cut \$106 million in educational aid by consolidating 57 separate school programs into two lump-sum block grants. Further, the states will gain authority over 40 health and social services programs. But they will also lose over \$2.5 billion in federal aid. Likewise for Medicaid, the joint federal-state program that pays doctor, hospital, and other health-care costs for the poor. After next year, the federal government's contribution to the program would be capped to rise no more than the rate of inflation. States would have to make up the difference by either tightening eligibility requirements, making their programs more cost-efficient, or by reducing payments to recipients. Jim?

LEHRER: We go first to the governor of Illinois, Republican James Thompson. Governor, can you accept and live with the Reagan program?

Gov. JAMES THOMPSON: I think we can, and I think we have to. I'm still trying to determine its final impact on Illinois. It could range as high as a half a billion dollars in the next fiscal year; that's quite a wollop.

LEHRER: Half a billion out of how much total spending?

Gov. THOMPSON: Half a billion out of about \$11 billion for the state of Illinois. But I don't think there's any alternative. I accept the President's view that this nation can't long endure interest rates running almost 20 percent. How are you going to have a retail

industry left in this nation? How are you going to have a home-building industry, or an auto industry left in this nation with the prime rate at those figures, with inflation running into double digits, and with our current high state of unemployment, particularly in the recession mode of the northeastern and midwestern states. We're fast approaching the time when half this nation is in recession, and the other half is enjoying relative prosperity, and it's the agriculture and industrial parts of our nation that are in recession. Something has got to be done to right the nation's economy. And I think the President's approach is right. We've got to get federal spending down. It's out of control. We can't finance an \$80-billion deficit year after year.

LEHRER: Governor, specifically in Illinois, how are you going to absorb this half-billion dollars in cuts?

Gov. THOMPSON: I think there are a number of ways to do it. First of all, we have to decide what's really important to us. If a program is really important to a state or to a unit of local government, we'll try to make it up with state funds or with local funds, or to raise our own taxes to pay for it if it's that important to us. This will force us to decide what's important in government and what's not. We're doing the same thing at the local level. Before the President's announcement, I've started preparing Medicaid cuts in Illinois. And we offer a broad-ranging Medicaid program — every optional service known to the system — to recipients in Illinois. And we can't afford that anymore with costs running as high as 15 percent increases a year. We've already started telling local school districts in Illinois. "Maybe some of the programs that we mandated on you 10 years ago from Springfield aren't as important as we once thought they were, because we're going to give you relatively fewer dollars this year." We're in recession, we don't have as many tax dollars to distribute to schools this year as we did in previous years in terms of increases, although we're increasing spending for education; we're not cutting back. But we're taking a look in Illinois at our own mandates and our own funding that we're going down to the local level with, and I'm not surprised that the President's doing the same. I don't see what the realistic alternative is.

LEHRER: Is anybody in Illinois going to get hurt real badly? Are you going to be able to keep people from getting hurt?

Gov. THOMPSON: I don't think individual people are going to get hurt. I believe that the program is designed to protect those whom the President has called the truly needy. For example, a lot of the Medicaid cuts will not impact on recipients as such. Theirs may be limited to such things as co-payment for prescriptions: they'll have to pay the first 50 cents on a prescription. Fifty cents is not going to have that great an impact on an individual welfare recipient, I don't believe, but it may deter over-utilization of prescriptions. A lot of the impact of the Medicaid cuts is going to fall on the vendors — hospitals and other providers of care and services — which is where the real inflation has been coming. But we've got to do something to control their costs. We find, for example, in Illinois that the average cost for Medicaid to a family on welfare approaches \$1500 per family member per year. How many tax-paying citizens out there have a medical bill that high each year, or could afford to pay?

LEHRER: You think you can bring that down, now, do you?

Gov. THOMPSON: I think we'll have to bring it down.

LEHRER: Governor, thank you. Charlayne?

HUNTER-GAULT: Now, for some reaction from New York State's governor, Democrat Hugh Carey. Governor Carey, you said that you don't quarrel with the basic concept of the Reagan approach. What specific areas do you quarrel with?

Gov. HUGH CAREY: I'd rather state that I don't quarrel with the objective that the President has in mind because it has to be a common objective. What is that objective? It is to fight inflation and abate it. It is to create jobs. It is to give us a balanced budget and stop the insolvency that starts at the federal government level, and then becomes contagious to the states. It's to get rid of the lack of regulations — the regulations that impair our abilities to govern. Now, these are all objectives that we seek in common, and I'm pleased that tonight we're Democrats and Republicans sitting together. I've called from [the] beginning of the Reagan administration of the reconstitution of the bipartisan foreign policy, and a bipartisan approach to an economic policy. And I fail to find bipartisanship when, in the words of the Secretary of Treasury, he's not prepared to yield one inch in terms of a compromise on his tax program. I differ with him on the tax program. I speak from experience in New York, and if you don't cut costs before you cut taxes, you will fuel inflation, and we'll all lose. And I've said this to the President and his team, and in New York we've been through great periods of sacrifice, and we're now a solvent state. And some of the states are not as well-prepared to undergo, frankly, this crisis as we are. So I'm sympathetic to states like Michigan which has a billion-dollar deficit and enormous unemployment. How will that state suffer these cuts? We have in New York State instituted Medicaid cuts that don't penalize or cause suffering to the poor. In fact, we've improved our health delivery system, and cut Medicaid by \$2.3 billion a year. No other state has done that.

HUNTER-GAULT: Well, is there any particular area that President Reagan wants to cut that you feel is going to produce hardship in New York or make it difficult for you? What are they specifically?

Gov. CAREY: Yes. When you take the Mondale-Packwood programs, the Title XX programs, the title programs that frankly go directly to the aid of children, that go to child care centers, that have to do with foster care — it's unavoidable to say that that's going to cause suffering among children. When you look at Medicaid cuts that would be visited on people in institutions — many institutions, large hospitals, are on the brink of insolvency. And when you look at the specifics of the Medicaid Stockman proposal, what he's saying is you freeze the Medicaid rates now, and a year from now you get 5 percent. If you could take the current rate of inflation and take that 5 percent, in effect it's a 20 percent cut in Medicaid. And no hospital in New York is in a position to sustain that kind of a cut. It's unrealistic. Furthermore, if you're going to create jobs, then you can't have phoney cuts. It's a phoney cut to say you're going to cut the Ex-Im Bank. The Ex-Im Bank promotes exports, and funds them out. That cut won't stick in Congress. So you must make real reductions, and then you're prepared to make tax reductions.

HUNTER-GAULT: In terms of the programs that you just outlined, where you feel there'd be some significant hardship in New York State if the plan goes forward, without the federal aid how can the state absorb those costs for those programs?

Gov. CAREY: The state of New York has a budget which is in, I call, a positive margin. We have a slight surplus, but I have said to the local governments — I have said to mayors and county officials — we cannot as a state step in and bail out the federal government if it makes cuts that are too onerous.

HUNTER-GAULT: So what will you do? I mean, you're saying that you can't raise taxes? What does that mean? You will reduce programs of cut programs?

Gov. CAREY: Well, I disagree with those who say there is no alternative. There is an alternative: it's called the Congress. I served in the Congress 14 years. This program now goes to the House Ways and Means Committee; it goes to the Budget Committee. Congressman Jones of Oklahoma differs entirely with the tax cut approach. The tax cut he says

in his own words will simply fuel consumption, cause inflation, and not create jobs. When I hear voices like that, I know I'm not alone.

HUNTER-GAULT: Finally, Governor, what's your reaction to the concern in the civil rights community that without some federal oversight, the poor will lose out politically to stronger interest groups vying for those funds at the local level?

Gov. CAREY: There isn't any question that the gains that have been made since the civil rights days of 1965 have not been translated. Not been translated into the real needs — jobs. And I fail to see how this particular program is going to create jobs for those most in need. I favor what we've done in New York: we have targeted — *targeted* — the depreciation schedules, targeted our capital investment to create jobs. I disagree with the accelerated depreciation program which is basically the 10-5-3 — the Jones-Conable Bill — because it fails to recognize the needs of the northeast and the midwest governors, and of our states. It will mean, in effect, that you'll get a premium to move out of our states and take your depreciation elsewhere.

HUNTER-GAULT: All right, Governor, we'll come back, Jim?

LEHRER: Next, another Democrat, Governor Bruce Babbitt of Arizona. Governor Babbitt, what's the view from Arizona of the Reagan program?

Gov. BRUCE BABBITT: Jim, my view of the proposal is that it's at once too much and too little. It goes, I think, too far in some areas; there are other areas where it doesn't go nearly far enough, and I think the reason for that is that it lacks an underlying philosophy of what it is the federal government should do, and what those areas are where state and local governments should be responsible for programs exclusively without any federal participation whatever.

LEHRER: Well, let's take them one at a time. Give me an example of where the program goes too far.

Gov. BABBITT: Well, the area of excess is transfer payments. The governors for years have been on record saying that there's one area where there ought to be more federal participation not less, and that's in this area that the President characterizes as the safety net — the programs that operate directly from the federal government on individuals. Now, the President includes programs like SSI, Social Security, and Medicare. He should also include Medicaid and AFDC. Those are two programs that—

LEHRER: Aid to Families with Dependent Children.

Gov. BABBITT: It's essentially welfare and Medicaid. They're programs that are analogous to Social Security and Medicare. They can be administered with great efficiency at the national level, and we should have one uniform national policy rather than simply dumping the problem back on the states for 50 different solutions.

LEHRER: What about the argument that the President is using, that you and the other state governments can operate these programs more efficiently with less waste and fraud and abuse.

Gov. BABBITT: Well, I think exactly the reverse is true — that there are— in income transfer programs there are enormous efficiencies to be gained by operating at the federal level. That's one of the reasons why the President includes Social Security, SSI — which is a form of welfare program — and Medicare. He fails, however, to extend that logic where it must extend, and that is to include welfare and Medicaid.

LEHRER: Now, Give me an example of the other side, where he doesn't go far enough.

Gov. BABBITT: Well, there are some areas where I believe — and, I think, increasingly

the governors believe — that the states ought to assume full responsibility. Those are areas where states and local governments have historically done the bulk of the work. I would include elementary and secondary education. The federal government foots less than 10 percent of the bill there. I would suggest the states can handle that. For the federal 10 percent we get with it about 90 percent of prescriptive regulation, dictation in the affairs of local schools. Transportation is another area where I think that all you'd have to do is transfer the 4-cent gas tax back to the states. There's no reason for the federal government to collect the tax, run it through the Department of Transportation, and send it back to us. The answer is: let us keep it in the first place. Local police is another area: law enforcement is traditionally an area of local concern, and they don't go far enough — their logic should extend to a complete termination of federal assistance in those areas. If we were to do this, this two-way sword would not only get the budget under control, but it would clean up the intergovernmental system. It would make government work better. My feeling is that the President hasn't gone far enough; he hasn't seen the reach of his own logic, and I would encourage him simply to pursue it one step higher.

LEHRER: Have you and others made these points in meetings with the administration officials today and with the President today?

Gov. BABBITT: Yes we have, quite forcefully — with Mr. Stockman on Sunday, with Mr. Schweiker today, and with the President this afternoon.

LEHRER: What kind of response did you get?

Gov. BABBITT: Well, I sense a reluctance to discuss the philosophy of the federal system. The answer is, "this is an urgent matter. We've selected budget cuts; trust us, they're the right ones." And my feeling is that, sure, we have to have the budget cuts, but we're missing a golden opportunity to have a rationale for which programs are cut, and to sort out the system, and really achieve two tasks at once.

LEHRER: Thank you, Governor. Charlayne?

HUNTER-GAULT: Finally, another Republican view. This one from Oregon Governor Victor Atiyeh. Governor, what kind of problems do the proposed budget cuts present for your state?

Gov. VICTOR ATIYEH: Well, not a great number of them that cannot be matched. I've gone through the process myself through a special session of our legislature last August, and then preparing the budget that we have this time. And as I look at what the President is recommending, much of those things, particularly in human resource, Oregon has already done. But before we go any further, I would like to say one thing because I think it's important to return back to why we're doing what we're doing, or why the President is doing what he's doing. Listening to the other governors, we get mired down in the minutia and forget the object in mind. The object in mind is inflation at an unprecedented rate in terms of our country. The object is almost a trillion dollars of deficit in the federal budget — to get that back down. Ninety billion dollars in interest. Let's keep that in front of us all the time as we start thinking, well, what do I like about this little piece, and what don't I like about that little piece. The target is so important that we cannot escape the target.

HUNTER-GAULT: Well, let me ask you this. In terms of the cuts that you will have to make in your state, will you be able to absorb the cuts?

Gov. ATIYEH: No, No, and I've said repeatedly in my own state that wherever those cuts might be, don't expect us to absorb them. I will, however, say this; and this is just from what I've heard while I've been here. The term was used by Mr. Stockman of a "blue-print." And he, in effect, was asking governors as I listened to him, "All right, help us flesh this thing out; help us put this building together in its detail. What size two-by-four

are we going to put here, and what kind of a window are we going to put there?" So we have the opportunity to, wherever we see that opportunity, to make it a better building. And that's where I intend to come from, and that's what I expect to do.

HUNTER-GAULT: Well, let me ask you this. If you cannot absorb the cuts in the programs that you have, what will happen to the program?

Gov. ATIYEH: Well, much of what I at least understand is going to occur with block grants. That means, then, that we can shift around between those that are hard-pressed and those that are not so hard-pressed. Back to the language I've used repeatedly in my own state — the absolutely essential and the desirable. And what we're talking about in most instances are desirables rather than essentials. I — as the President — will make sure that the essentials remain, and so we can shift money if it comes to us as block grants in which we have that flexibility to maneuver it around. I'm certain that those that genuinely need state services and federal services will get those services. Now, where we're going to get the complaints are those that are on the order of desirables, and of course, the higher or lower desirable — whichever way you want to look at it — they're going to get to the outer reaches, and they will be dropped. But that may be a proper reanalysis of what government has been doing and gotten us in so much trouble in the past.

HUNTER-GAULT: What are you specifically talking about there in terms of desirables?

Gov. ATIYEH: Oh, my goodness. You could think just about wherever you want. Those that actually — let's talk about welfare for a second. There are those that are on welfare that probably, if they were given some impetus not to be, would be off welfare. People that somehow or other have families that might contribute to their support — someone that are relatives of theirs that might contribute to their support but don't have to. I'm just trying to pick — I know, I could sort it out in the sense that there are citizens of our state, looking at the other side of it, who absolutely depend on state services — they have no other alternative. They should be covered. Those then, if I were to pick it, who have an alternative should look for those alternatives.

HUNTER-GAULT: So in other words, what the federal government has done in your view has provided the impetus for the states to tighten their belts in many of these programs?

Gov. ATIYEH: Yes. Let me tell you one story that was told in our state out of our human resource, which maybe explains this rather well. He told the story about a little green frog in a rut in the road; and he was trying to jump out and could not. His friend came by and said you better get out, you're in deep trouble. He says, I can't get out of there. His friend says, I can't help you. The next day, he saw his friend that was in the rut in the road, and he said, how did you get out? He said, a wagon came by and I had to. And I think that's just about what's occurring now. The wagon's coming by and some people are going to have to get out of the rut of the road.

HUNTER-GAULT: Jim? Thank you.

LEHRER: Governor Thompson, have you gotten the same impression that Governor Babbitt has gotten — that what really the President and White House are saying is, "Hey, look, don't tinker with our program; support us and trust us and leave us alone?"

Gov. THOMPSON: I have two impressions. It's quite clear that as a matter of congressional and interest group strategy you begin with your strongest position. That's why Secretary Regan tells Governor Carey he's not going to compromise one inch. Sure, he's going to compromise. He's going to compromise plenty when he gets down to the Hill, as the Governor suggested.

LEHRER: But not in the first conversation, right?

Gov. THOMPSON: He's not going to compromise in the first conversation or he'll never even get to the Hill. That's true also of the budget cuts. The President's not going to get all the budget cuts he wants. Even he acknowledges that; he said, getting on the plane the other day, he'd take 99 percent. Well, he'd take 97 or 95 or 94, I dare say, and his cabinet officers have told us governors that we've been meeting over the last two days that in a number of areas like transportation, for example, if we stayed within the Reagan budget guidelines, they'd be glad to listen to propositions to move priorities around away from the priorities they have now if we had better ones. So there is going to be congressional review as Governor Carey suggests. There will be an ultimate compromise. But unless the President starts strong and hangs in there, and tries to put as much in one package as possible, he's not going to get it passed, and if he doesn't get it passed, the country's going to be in trouble. The other thing I'd like to say is that I suspect there are a good number of us governors — Republican as well as Democratic — who agree with Governor Babbitt on fundamental philosophy, and would disagree with the President on his fundamental philosophy of where state and federal responsibilities ought to be. I'd gladly trade transportation and education and law enforcement if the federal government administered welfare at the federal level. I've long thought that welfare ought to be administered at the federal level, and give us the traditional state responsibilities, and we'll make that tradeoff. And I don't believe that the Reagan administration's really locking the door to consideration of that proposal. But I think what the President has proposed here is massive cuts in the growth of federal spending, and cuts in the growth of federal taxation, tight monetary policy, to get this nation back on the track immediately, as quickly as we can, suggests that they don't want to spread themselves all over the lot, and if they had more time, they'd move to stage two or stage three which may be the Babbitt proposition.

LEHRER: Would you make the same deal, Governor Carey — that if the federal government will take care of welfare and Medicaid, New York would take care of transportation and everything else?

Gov. CAREY: Well, I'm an independent Democrat, and sometimes I'm independent of my own party and what it thinks and what it does and so forth. And I intend to remain that way. I may be more of a Reagan loyalist than some others I hear speaking now because I didn't take an oath to uphold the Constitution by Mr. Stockman. I don't know much about Mr. Stockman. I know he came from Michigan, and I mentioned before: Michigan is in pretty rough shape. But I've heard Ronald Reagan say the way he'd approach cutting — and I think it's a good idea — he would assess 2 percent across the board. The 2 percent across the board, put through for three years in a row, would produce a bigger fundamental reduction in the federal budget than the way Mr. Stockman has gone about it. Mr. Stockman's cuts won't hold. Why do I say 2 percent will work? Because the governor of New York did it, and it worked. Oh, in a case or two, people went around me and got the money back — like the state university, but basically — basically, the 2 percent held, and that's the way you can cut. And everyone takes some of the sacrifice. Now, let me tell you the kind of a cut that I would resist. I think it's foolish. I can't understand someone with Ronald Reagan's background cutting the National Endowment on the Arts 50 percent. Arts create jobs. I come from a state where our program for tourism has raised income from \$3.5 billion to \$7 billion. Now, that cut in the Endowment seems like a very attractive cut. It's a foolish cut.

LEHRER: Governor Babbitt, let me ask you a point that Governor Carey mentioned a moment ago which was that you folks in the sunbelt are really going to make out as a result of President Reagan's budget cuts. Is he right?

Gov. BABBITT: No, I don't think so. I think that there has been way too much attributed to this concept of the Sunbelt versus the Frostbelt. The important thing here is that we have a once-in-a-generation chance to sort things out, and these chances don't come often. They come in times of adversity and great change. And we can't continue to have this candy store of federal programs. What the President is saying is we're going to whittle a little bit off of each lollipop, and what I'm saying is the arts are a state and local responsibility. There's no national interest in government subsidies to the arts. And we ought to clear all that stuff out of the candy store, and say sure, we'll take the budget cuts in exchange for federal assumption of just a few responsibilities in which there's a—

LEHRER: But are you suggesting that that be the Democratic approach now — in other words, not buy the President's program as offered, and come back with this alternative that you're suggesting?

Gov. BABBITT: Well, it's a counter-offer, but I'm saying— I don't think we can postpone it and say we'll do it later. These kinds of sea changes of institutional arrangements and budgets come literally once in a generation. We're at that point. This window will be open for maybe six months, and we've got to do it now.

LEHRER: What do you think about that, Governor Atiyeh? I mean, would you buy the deal? Would you buy the offer of Governor Babbitt, or do you think you should go with the President?

Gov. ATIYEH: I think we should go with the President but not just because the President said "I want to make sure that's the case." But as I look at some opportunities that we have in human resource — and we've already taken advantage of those opportunities — I'd like to have a crack at it. I think that we can do things. And we are actually different. You talk about Sunbelt and the other non-Sunbelt. That only says that states are different—

LEHRER: You've got both frost and sun.

Gov. ATIYEH: I've got the whole bunch, yes, including a little rain from time to time. But it basically says states are different, can handle clients or people who need social services in different ways, and probably better. And so no, I'm not willing to make this kind of a tradeoff; I'm not going to jump on that particular bandwagon. I don't dislike what's really been suggested so far. I want to say just one thing.

LEHRER: There are just a couple seconds left.

Gov. ATIYEH: Couple seconds? —is that we've got— this is a personal commitment that the President has, not a political one. I'm excited about it.

LEHRER: Governors all, thank you very much for being with us tonight. Good night, Charlayne.

HUNTER-GAULT: Good night, Jim.

LEHRER: And we'll see you tomorrow night. I'm Jim Lehrer. Thank you and good night.