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United States Department of State

Washington, D.C. 20520

November 16, 1981

11/18
MB

MEMORANDUM

TO: Mr. Lee Verstandig
The White House

FROM: Faith R. Whittlesey FRW
The White House

Otto J. Reich OJR
Department of State

SUBJECT: Proposed Briefing Format for the Legislative Exchange Council (ALEC)

Date changed to Jan 9, 10-12 Rm 450

Attached is a proposed format for a joint White House/State Department briefing to the Legislative Exchange Council (ALEC) on foreign and domestic issues.

We have asked Jayne Plank of the State Department Office of Legislative and Intergovernmental Affairs to assist us with our Central America public diplomacy efforts. She has determined that the level of interest for a briefing on Central America and other foreign policy issues is high.

Although Central America would be a principal focus of the briefing, we believe it would be advantageous to cover other foreign as well as domestic issues with this politically influential group of state legislators.

ALEC has expressed an interest in a briefing on [December 12, 1983.] January 9, 1984, 10-12 a.m., Room #450.

It is our understanding that this proposal should be coordinated with your office. Jayne Plank will serve as State's coordinator on this effort, and we would appreciate your assistance with this plan.

Please let Ambassador Whittlesey's office know as soon as possible whether you agree so that we may notify the appropriate persons.

Attachment: Proposed briefing format.

United States Department of State

Washington, D.C. 20520

November 14, 1983

MEMORANDUM

TO: S/LPD - Ambassador Otto J. Reich

FROM: H - Jayne H. Plank

SUBJECT: Invitation to State Legislators who are members of ALEC

ISSUE FOR DECISION

Whether to provide a joint White House/State briefing for the American Legislative Exchange Council on December 12, 1983.

ESSENTIAL FACTORS

In response to your request, I spoke to the Executive Director of ALEC, Kathy Teague yesterday and she was supportive and believes her membership would be enthusiastic about a joint briefing in early December. This group has been included in White House domestic briefings about twice a year, but never on foreign policy.

If approved it is essential for the invitation to be issued by the White House as soon as possible, so that ALEC could combine other activities for the participants while they are here in town.

Another important factor is the participation of the President or Vice President plus key State Department presentors.

The preferred date would be Monday, December 12, 1983, prior to NCSL.

ANALYSIS

ALEC is a group separate from the NCSL, whose membership is more conservative and usually supportive of Administration policy.

These legislators whose deliberations have a direct bearing on resolutions presented to the ALEC full membership either supporting or criticizing the Administration's foreign policy, it follows that we should make a strong effort to educate and inform them so that they can make enlightened decisions in these matters.

Their influence in their home state assemblies, as well as in their Congressional delegations, should not be underestimated.

<u>RECOMMENDATION</u>

1. That we arrange a joint White House/State briefing for ALEC.

Approve ____________ Disapprove ____________

2. For December 12, 1983 or other date of ________.

Approve ____________ Disapprove ____________

If you approve this recommendation, I will prepare the appropriate action memoranda with clearances.

AMERICAN LEGISLATIVE EXCHANGE COUNCIL

The State Factor

May, 1983

UNISEX INSURANCE

Should current gender-based distinctions be continued in insurance rates and pension benefits? Are women economically disadvantaged by this practice? What would the financial impact of outlawing this practice be? These are the questions addressed by this issue of The State Factor.

INTRODUCTION

Legislation is pending in Congress which would prohibit insurance companies from considering factors related to gender in establishing insurance rates and pension benefits. Four states have already passed such legislation and the Supreme Court is currently considering a challenge to pension plans which pay different monthly benefits to men and women because of their differing life expectancies.

Supporters of so called sex-neutral legislation contend that it is a basic "women's issue" that involves the fundamental right to equal treatment. This is disputed by other women activists who cite evidence which demonstrates that American families and women in particular will be financially penalized by this legislation. A somewhat curious alliance has developed on this issue. Both business groups and state and local governments are opposing the legislation on the grounds that it will impose enormous financial burdens on them. In addition, the effort to ban gender distinctions in insurance is opposed by the insurance industry which argues that it would abolish a long-standing, actuarially sound, and competitively necessary practice.

The ramifications of a Supreme Court decision banning sex-related distinction in the insurance industry, or federal or state legislation to that effect, are immense. The financial implications are extremely important. Estimates of the cost of abolishing the practice range in the billions of dollars annually and raise concerns for the solvency of insurance companies, state and local governments' budgets, and the discontinuance of pension benefits offered by small employers. Additionally, there are important questions about the affordability and availability of life and auto insurance if underwriters are prohibited from considering the real differences between men and women. Perhaps most important in an issue as complex and fraught with emotion as this one is an examination of the motives of the advocates of so radical a change in our business and economic lives. Are they attempting to address a real need? Are they truly trying to right a genuine wrong or are they simply trying to impose their ideological preference on the rest of our society? These are important considerations for the state legislator who will be faced with intensive lobbying on this issue.

ESTIMATED INCREASE (IN DOLLARS) IN AUTO INSURANCE PREMIUMS FOR SINGLE WOMEN UNDER PROPOSED UNISEX LAW

STATE	MINIMUM INCREASE	MAXIMUM INCREASE
ALABAMA	$63	$332
ALASKA	95	387
ARIZONA	86	377
ARKANSAS	66	253
CALIFORNIA	112	494
COLORADO	72	299
CONNECTICUT	138	578
DELAWARE	72	299
FLORIDA	60	312
GEORGIA	85	324
HAWAII		
IDAHO	65	277
ILLINOIS	79	347
INDIANA	64	299
IOWA	55	228
KANSAS	80	233
KENTUCKY	63	263
LOUISIANA	125	479
MAINE	69	283
MARYLAND	98	429
MASSACHUSETTS		
MICHIGAN		
MINNESOTA	95	326
MISSISSIPPI	83	279
MISSOURI	69	289
MONTANA	77	228
NEBRASKA	58	232
NEVADA	73	356
NEW HAMPSHIRE	95	366
NEW JERSEY	137	674
NEW MEXICO	77	261
NEW YORK	75	301
NORTH CAROLINA		
NORTH DAKOTA	61	254
OHIO	85	397
OKLAHOMA	85	195
OREGON	83	359
PENNSYLVANIA	71	828
RHODE ISLAND	95	393
SOUTH CAROLINA	114	288
SOUTH DAKOTA	59	291
TENNESSEE	66	280
TEXAS	9	308
UTAH	74	244
VERMONT	77	286
VIRGINIA	69	268
WASHINGTON	71	277
WEST VIRGINIA	96	289
WISCONSIN	63	312
WYOMING	74	243

THE INSURANCE INDUSTRY

Before the question of sex neutral insurance, as it is called by its advocates, can be examined it is important to understand the current practices of the industry. The purpose of insurance is to provide for unexpected but potentially devastating events. Each person faces the possibility of being involved in an automobile accident in which he could incur substantial expenses. Or, any single person may develop an illness which would require costly medical treatment that most simply could not afford. Any one of us may die prematurely and leave our dependents without any means of support. Not everyone will experience each of these disasters, or any of them. However, the possibility exists and prudence demands that that possibility be provided for.

The insurance industry developed as business moved to provide for the kind of unexpected but disastrous occurrences mentioned above. Different forms of insurance such as auto, health and life have developed for different kinds of protection but they all share one characteristic. For each type of insurance, relatively small amounts of money collected from large numbers of people are pooled together in order to provide a large payment to the unfortunate few who are involved in a car accident, experience medical problems or who die prematurely.

Because we have an open economy, many companies have entered the insurance business and the industry has become very competitive. In order to offer lower rates, and thus attract more customers, insurance companies have developed actuarial studies to help them determine more accurately the probability that an individual will experience an event that would entitle him to a payment from the company. The more accurately this probability is computed, the smaller is the margin the company must charge to ensure its ability to pay and the lower its premiums can be.

As competition developed, insurance companies refined their actuarial studies and began to distinguish groups which presented different risks. Those who were less risky could be offered smaller premiums and so be attracted as customers. This led to the development of many different rates for many different categories of people, based upon the general experience of the insurance companies.

Statistics demonstrate that women are more careful drivers that men. Women, on the average, have fewer and less damaging accidents than men do at every age bracket and amount of miles driven. Consequently automobile insurance rates for women are 18% to 66% less for women than for men. Statistics also demonstrate that, from every point in life after conception, women can expect to live eight years longer than men. Since there is less likelihood that a woman will die prematurely and so require a payment by an insurer, life insurance rates for women average 15% to 25% less than for men. There is a flip side to life expectancy for women. When it comes to pensions, the longer life expectancy of a woman is seen as a liability to a pension underwriter. Any payment which is to be made for the life of the woman will generally be made longer for a woman than a man. Therefore, if equal contributions are made, the monthly payments to a woman must be smaller. Since they will be made longer, the total payment remains equal. Alternatively, if the payments are to be held equal, the contributions to the retirement fund must be greater for women. This practice is what radical feminists have seized on as discriminatory and which led to the pending legislation and the current legal suits.

THE FEMINISTS' ARGUMENT

"I only want equality.....That $34 seemed like a considerable difference in a style of living. It pays a water bill."

* Nathalie Norris, plaintiff

"What we object to is the use of these stereotypic classifications, even though they might be true.....What I'm saying is that it really doesn't matter what the (statistical) tables might tell you: you should make the decision that we don't use sex as a qualifying factor."

* Dr. Mary Gray, Women's Equity Action League

"We must treat individuals as individuals, not as group statistics.

* Amy Jo Gittler, Attorney for Nathalie Norris

"NOW will mount a major campaign to outlaw all sex discrimination in insurance"

* From a resolution passed by the National Organization for Women, Annual Meeting, October 1982

"They should try to weigh people as best they can as individuals."

* Senator Robert Packwood

Nathalie Norris is the plaintiff in a case now being considered by the United States Supreme Court. She is challenging the right of the State of Arizona to offer a retirement option which pays a larger monthly amount to men than it does to women. The option is part of an overall pension plan which pays an identical base payment to men and women. Among the other options available to Arizona State workers is the choice of a lump sum payment at a certain age. This payment is also identical for men and women. The option which Miss Norris chose is the only option offered by Arizona which does not make identical payments to men and women. It is offered through a private company and guarantees a certain payment to the beneficiary throughout his or her life. Male and female employees of the State of Arizona who freely choose this option make identical contributions to the plan. The monthly benefits differ because the contributions made by the female employees must usually be stretched out over a longer period of time. The total payments are calculated to be equal.

Miss Norris doesn't dispute that women generally live longer than men(7.6 years longer on average). Her contention is that she as an individual woman might not live as long as most women and therefore she should not be receiving lesser monthly payments. She is joined in her argument by her attorney, Amy Jo Gittler, Senator Packwood (who introduced S. 324 in the United States Senate to ban the consideration of sex related characteristics by the insurance industry) and by other feminists such as Dr. Mary Gray of the Women's Equity Action League and the National Organization for Women (NOW).

One additional aspect of the feminist argument for abolishing sex-based actuarial considerations is the claim that other characteristics such as lifestyle can be substituted. According to Barbara Lautzenheiser, President of the Society of Actuaries, the possible substitutes are already factored into the rate setting calculations and so substitution is not possible.

The feminist contention that individuals should be treated as individuals and not groups attacks the very basis of the insurance industry. There is no disputing that some individuals do not exactly match the expectancies for their particular group, but insurance companies are constantly striving to refine their techniques in order to more accurately predict what each individual's experience will be. However, grouping individuals with similar significant characteristics is absolutely essential if insurance is to be offered. As George Bernstein, a representative for several insurance companies says, "Insurance would never have developed if every driver had to be evaluated on the basis of his or her own experience or if the price of annuities or life insurance could only be set after individual experience had developed through the death of the insured."

There is an inconsistency in the feminists arguing that treating individuals as part of a group is not fair while they simultaneously argue for a different grouping system. At its core, the feminists argument against the present insurance practices is simply that we should not permit any consideration of the differences between men and women no matter how real or significant the differences are. They offer no case that women are being injured by the present system. In fact the evidence indicates that they are benefitting from it. They simply object to the recognition of the differences between men and women.

ACCIDENT RECORDS BY SEX and ANNUAL MILEAGE

	MALES			FEMALES		
Annual Mileage	Average Age	3 Yr Average Mileage	Acc. record	Average Age	3 Yr Average Mileage	Acc. record
Up to 2,499	49.0	1,480	.163	42.2	1,495	.079
2,500 - 4,999	49.1	3,445	.268	41.7	3,323	.103
5,000 - 7,499	46.6	5,872	.223	41.5	5,562	.152
7,500 - 9,999	44.4	8.274	.229	41.7	8,185	.179
10,000 - 14,999	41.9	11,240	.271	40.4	11,026	.242
15,000 - 19,999	40.3	15,860	.319	39.1	15,652	.249
20,000 - 24,999	38.9	20,638	.345	41.1	20,839	.299
25,000 - 29,999	39.4	25,437	.353	38.5	25,537	.277
30,000 - 39,999	38.6	31,982	.350	38.6	32,041	.273
40,000 - 49,999	37.9	41,592	.430	31.6	42,506	.318
50,000+	38.4	70,616	.563	31.4	58,926	.318
Total	41.8	17,671	.305	41.3	7,211	.163

THE IMPACT OF SEX-NEUTRAL INSURANCE LEGISLATION ON WOMEN

A fact that is not widely publicized is that Senator Packwood's legislation (and its companion House bill, H.R. 100) would also prohibit consideration of sex-related characteristics in auto, life, and medical insurance. In these cases the distinctions based on sex are entirely in the favor of women. Premiums for auto, life and medical insurance are significantly less for women than they are for men, a reflection of the lower claim rate for women.

THE MICHIGAN EXPERIENCE

In 1980 the Michigan legislature required that rate tables for insurance be unisex; separate rates for men and women were abolished. The effect was shocking. Citizens Insurance raised its rates by as much as 327% for female drivers. While that was the highest recorded increase, the others offered little succor to the woman who was forced to pay hundreds of dollars more for auto insurance in the name of equal rights: Allstate's increase was 242%, State Farm's 160%, Trans America's rate increase was 140%. While the cost of auto insurance for women was increasing in virtually every category as a direct result of the sex-neutral requirement, men were reaping an unexpected benefit. Auto insurance rates for men fell in almost every category by as much as 58%. The practical result of this so-called "women's rights" legislation was a state mandated transfer of wealth from women to men.

Life insurance would follow the same pattern if sex-neutral insurance rates are mandated. Barbara Lautzenheiser, Senior Vice President of the Phoenix Mutual Life Insurance Company, testified before Congress that such legislation would immediately raise the cost of, for instance, a one year term, $50,000 policy for a 25 year old non-smoking female by $150. A 45 year old female could expect her bill for the same insurance to rise by $1,750 per year.

THE MASSACHUSETTS EXPERIENCE

While prohibiting the use of sex related characteristics in the establishment of insurance rates can control rates, it can do nothing to control costs. As in any other kind of economic activity, the market will find ways to cope with the distortions caused by government interference. In 1977 the Massachusetts Insurance commissioner prohibited the use of sex-based auto insurance rates. Because of this regulatory interference female drivers were overcharged and male drivers were under charged in relation to their risks as drivers. Female drivers became very attractive customers while male drivers, particularly young male drivers, were avoided. The result was that 90% of auto insurance for young male drivers has been forced into the state supported residual market reinsurance facility, where the costs are subsidized by the taxpayer.

The most drastic rate increases will fall upon single women. According to the United States Department of Labor, 40% of the women in the labor force are single, and 58% of the minority women in the labor force are single. Prohibitions against the use of sex-based insurance rates will harm these women - the single women, the minority women - the most. Such legislation will dramatically increase the cost of the auto insurance she must have to support herself and her dependents.

To be fair, it must be mentioned that such laws will benefit women in certain instances. Only 39% of working women are covered by any sort of pension plan. Of this 39%, 95% are covered under defined benefit plans which provide equal monthly benefits to men and women. The remaining 2% of working women are not covered under defined benefit plans and therefore receive lesser monthly payments or are required to make larger monthly contributions. It is this 2% of working women who will benefit from sex neutral insurance laws at the expense of all other women who must purchase auto or life insurance.

Clearly sex neutral insurance laws will penalize women in the auto and life insurance markets. Such laws will effectively transfer wealth from women to men and can hardly be considered to be in the best interests of women.

BUSINESS, STATE AND LOCAL GOVERNMENTS, AND SEX NEUTRAL INSURANCE

The advocates of sex-neutral insurance are pushing for legislation that would be retroactive. Both Senator Packwood's bill and H.R. 100 would require that companies pay out pension benefits based without regard to sex even though premiums have been collected in consideration of the sex related characteristics. The effect on private businesses and state and local governments is potentially devastating. According to Miss Alair Townsend, Budget Director for New York City, the cost to the city to comply with the retroactive provisions of sex-neutral legislation would be $862 million. The FY 84 cost would be $82 million, an amount which could be used to hire 3,000 police officers or firefighters or up to 5,000 parks workers. And, according to state law, benefits will have to be raised to which ever schedule is highest, the men's or the women's, and premiums charged to the worker will have to be adjusted to the lower level. The net result is that $660 million of the $862 million additional expense imposed upon New York City in the name of "women's rights" legislation will go to benefit men. Similar ratios of cost and benefit will occur throughout the country.

The most recent legislative sessions in the States have resulted in many and widespread cuts in social services. In order to meet the increased costs of unisex insurance, State and local governments may be forced to make further cuts in such programs as health, energy and housing assistance for the poor. The result will be a double blow to the single women heads of household who are already struggling. Many of these women will not be able to cope with increased cost of their auto and life insurance and the decrease in aid available to them.

For insurance companies the solution will not come so easily. In fact, many insurance companies will be forced into bankruptcy while many businesses will no longer be able to afford to offer pension plans. Insurance companies are required to hold a percentage of the worth of their outstanding policies in reserve to guarantee that they will be able to make their payments. Because sex-neutral legislation would require them to increase the cash surrender value of women's insurance policies, and decrease the premiums charged to men, the amount they will have to hold in reserve will greatly increase. The necessary reserve increase ranges from 33% of one company's net worth to 170% of the net worth of another! The actual effect of sex-neutral insurance legislation will be to force some insurers out of business! Those that can survive will have no choice but to pass their increased costs onto their policy holders.

Businesses which provide pension plans will be also be adversely affected. Such businesses established their plans in accord with actuarially sound practices. Either they made identical contributions for their male and female employees and developed payment schedules that reflected the different life expectancies of men and women, or they assessed women a larger contribution in order to provide equal monthly pension benefits. In either case the pension plans have been structured to provide for the real costs of offering the retirement plan. Sex-neutral legislation will drastically alter this practice and impose enormous and unplanned for costs upon already struggling businesses. Either the monthly benefits for women will have to be increased or the premiums for men will have to be decreased, depending on the structure of the individual firms pension plan. In either case the firm will be forced to make much larger payments than it planned for or it will have to make its planned payments with much smaller contributions from its employees. These retroactively mandated costs will simply be too much for many firms to bear and they will be forced into bankruptcy. Those that do survive may conclude that the costs of providing unisex pensions are too great and simply discontinue a valued employee benefit.

Some businesses offer defined contribution plans which specify the contribution to be made by the firm but make no guarantee of the amount to be paid upon retirement. These plans are favored by business because they enable a business to strictly control pension costs. Employees on the other hand do not prefer defined contribution plans because they provide no assurance of amount of payment and so prevent the employee from making retirement plans. Firms which offer these pension plans will not be affected by the legislation. It is likely that most firms will change to defined contribution plans if sex-neutral insurance becomes the law, thus eliminating a valued employee benefit.

It is clear that the passage of legislation prohibiting the use of sex related characteristics in insurance rates will have a tremendously adverse impact on business. The final result will be bankruptcies and the elimination of valued pension benefits for employees. Interestingly enough the U.S. Senate sponsor of such legislation is simply not concerned about the broader implications of the legislation he is proposing. When asked by Jim Lehrer, Associate Editor of the MacNeil-Lehrer Report, whether he had "explored the impact that your bill would have not only on the city of New York but all other cities around the country and state governments and everybody else" the Senator's reply was "Interestingly, in fairness, we have not."

CONCLUSION

The insurance industry does distinguish between men and women: it recognizes real differences in the cost of providing protection to men and women. This differentiation on the whole, is immensely beneficial to women. All women purchasers of life and auto insurance benefit from the lower rates that are the result of this industry practice. Currently, according to the American Council of Life Insurance, women are charged only 72% as much as men for term life insurance while the cost to insurers is 84% as much as the cost to insure men; women are charged 9% more than men for annuities, the cost of which is 14% greater than for men; women are charged 44% more for disability income insurance when the costs are 66% greater. Prohibition of this practice will penalize the single working woman who can least afford it and impose enormous additional costs on businesses and governments. Clearly there is no justification for the charge that women are economically disadvantaged by the insurance industry's recognition of the differences between men and women. Those who advocate the abolition of this practice are pursuing ideological goals behind a smokescreen of civil rights and economic justice.

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The views expressed in this paper are solely those of the author, J. Daniel Bray (Research Director, ALEC) and do not necessarily reflect the opinions of the Chairman, Officers or Members of The American Legislative Exchange Council. This report was prepared solely for informational purposes.

File

AMERICAN LEGISLATIVE EXCHANGE COUNCIL

418 C Street. N.E.
Washington, D.C. 20002
(202) 547-4646

MEMO: "PEACE THROUGH STRENGTH" RESOLUTIONS

TO: STATE LEGISLATORS

FROM: REPRESENTATIVE T.W. STIVERS, IDAHO LEGISLATURE
NATIONAL CHAIRMAN, AMERICAN LEGISLATIVE EXCHANGE COUNCIL

DATE: APRIL 4, 1982

The current debate over the United States' military posture is receiving tremendous input at the grass-roots level, as groups of concerned citizens and their elected representatives are voicing their desire for peace and expressing their concern over the threat of nuclear war. The American Legislative Exchange Council feels strongly that State Legislators are in the best position to represent the views the American people and should play a vital role in developing a national defense strategy.

Several States have enacted resolutions memorializing Congress to put a "freeze" on nuclear arms development and deployment. According to the most reliable defense intelligence statistics, a freeze at this time would lock the United States into an inferior arms balance with the Soviet Union. Until such time as the superpowers have negotiated equal and substantially reduced levels of force, a freeze would pose a serious threat to our national security.

The enclosed materials, developed by the American Security Council, outline the danger of nuclear freeze resolutions. Eleven States have passed "Peace Through Strength" resolutions which memorialize Congress to adopt a national defense policy designed 1) to achieve overall military and technological superiority over the Soviet Union; 2) to accept no arms control agreement which locks the United States into a position of military inferiority; 3) to pursue positive non-military means to roll back the growth of communism; and 4) to assist our allies and other non-communist countries defend themselves against communist aggression. The American Legislative Exchange Council will make available model "Peace Through Strength" resolutions to State legislators upon request. Please contact the ALEC Research Department in our Washington, D.C. headquarters.

PEACE THROUGH STRENGTH

ALEC Members are leading state legislatures throughout the country in memorliazing Congress to pursue a military policy which would insure peace through strength. Already, eleven states have passed "Peace Through Strength" resolutions (see box below) and a dozen other states have them pending or cleared through one house. ALEC Indianna State Chairman, Senator Dan Manion, was responsible for the most recent resolution which was passed by the Indiana Legislature on March 7, 1982.

States which have passed "Peace Through Strength" resolutions are: Alabama, California, Colorado, Delaware, Florida, Indiana, Kansas, Louisiana, Mississippi, Nebraska, and Texas. Resolutions have passed one house in: Arizona, Illinois, Massachusetts, New Hampshire and Virginia.

The current swell of support for the peace through strength posture reinforces President Reagan's dedication to rebuilding our defense capacity after years of deterioration in the face of Soviet arms build-up. The "Peace Through Strength" resolutions are receiving strong bi-partisan support because their emphasis is on the common goal of peace.

The Kansas Peace Through Strength Resolution is excerpted in part here:

A Resolution memorializing the Congress of the United States to adopt a National Strategy of Peace Through Strength

WHEREAS, The Soviet Union has exploited United States peace initiatives to build up its strategic and conventional warfare capabilities; and

WHEREAS, This has given the Soviet Union the means to support increasingly bolder world-wide aggression, and

WHEREAS, The Soviet Union has demonstrated an unwillingness to live by international law, and

WHEREAS, The United States is the one world power that can stop the Soviet expansionism: Now, therefore,

Be it resolved by the Senate of the State of Kansas:

(a) That we urge the Congress of the United States to adopt a National Strategy of Peace Through Strength, the general principles of which would be:

(1) To inspire, focus and unite the national will and determination to achieve this goal of peace through strength.

(2) to achieve overall military and technological superiority over the Soviet Union. (3) to create a strategic defense and a civil defense which would protect United States citizens against nuclear war at least as wll as the Soviets defend their citizens;

(4) to accept no arms control agreement which in any way jeopardizes the security of the United States or its allies, or locks the United States into a position of military inferiority,

(5) to re-establish effective security and intelligence capabilities;

(6) to pursue positive non-military means to roll back the growth of communism; (7) to help our allies and other non-communist countries defend themselves against communist aggression; and

(8) to maintain a strong economy and protect our overseas sources of energy and other vital raw materials.

Soviet President Leonid Brezhnev recently announced that his country would discontinue its deployment of missiles aimed at Europe and threatened retaliatory measures if the United States did not stop deployment of European based Pershing missiles. It is commonly known, however, that the Soviet offer comes only after the Soviets have completed their deployment of SS-20 missiles. And even their removal represents no real concession since the SS-20's are mobile and can be easily manuevered in an emergency call for attack. Last November, President Reagan offered the Soviets a treaty which called for a dismantling of Soviet missiles and cancellation of Pershing deployment but Moscow summarily rejected the opportunity.

In spite of Soviet refusal to accept terms for actual reductions, some states have recently passed resolutions and Congress is currently debating legislation which call for a "freeze" on nuclear arms development and deployment. States which have passed resolutions calling for a nuclear freeze are: Connecticut, Massachusetts, Maine, Minnesota, Oregon, and Vermont. Six more states have passed resolutions in one house or have them peding before the legislature. According to the most reliable defense intelligence data, a freeze at this time would lock the U.S. into an inferior position in the arms balance with the Soviet Union, while "Peace Through Strength" resolutions recognize the advantage of bargaining for peace from a position of power. At least until such time as the superpowers have negotiated equal and sharply reduced levels of force, a nuclear freeze would be an extreme threat to our national security.

The American Security Council has organized the Coalition For Peace Through Strength to work with other organization concerned with national defense and assist state legislators in developing model resolutions. The American Legislative Exchange Council, in conjunction with ASC, is sending fact sheets on "Peace Through Strength" resolutions to all 7,400 state legislators.

AMERICAN SECURITY COUNCIL

THE COALITION FOR PEACE THROUGH STRENGTH

John M. Fisher
President

The Nuclear Weapons Freeze Proposal

A world wide campaign is being conducted for a "nuclear freeze" through "a moratorium on all further testing, production and deployment of nuclear weapons and nuclear delivery vehicles to be verified by national means." The "freeze" would be followed by nuclear arms reduction to zero on both sides.

This is the strongest, best organized disarmament campaign yet, with a nuclear freeze petition being circulated in 100 non-Communist countries.

One objective of the campaign is to get state legislatures and the United States Congress to pass a nuclear freeze resolution. Six state legislatures have already passed the resolution and 140 Members of Congress have co-sponsored it.

President Ronald Reagan opposes the nuclear weapons freeze, on the basis that, "A nuclear freeze at this time would legitimize a condition of great advantage for the Soviets," (The New York Times, March 16, 1982).

Chairman Leonid Brezhnev favors the nuclear weapons freeze, and says that the Soviet Union is ready to agree to halt production and stockpiling of nuclear weapons (UPI dispatch published in Boston Globe, February 25, 1982).

No one should endorse the nuclear freeze without careful consideration. Among the points to consider are:

(1) The appeal of the nuclear freeze movement is based on fear. The simplistic starting point is that the biggest threat in the world is the danger of nuclear war which arises from the possession of nuclear weapons.

There is no reference to the real threat to peace which is Soviet expansionism backed by a massive Soviet military build-up. There is no reference to what the U.S. and its allies are seeking to defend through nuclear strength -- or from what. Nowhere is there any expression of the principle that human liberty and dignity are worth defending -- or that preserving the people of America and the non-Communist world from Communist tyranny is worth risk-taking.

(2) The freeze is limited to nuclear disarmament, totally ignoring the enormous Soviet conventional warfare advantage. How could we conceivably defend against the overwhelming Soviet conventional might if we were to drop our nuclear defenses?

(3) Advocates of the freeze contend that the U.S. and the Soviet Union now stand in approximate balance (parity) in nuclear power and thus a freeze will endanger neither side.

(over)

The facts do not support this contention.

Time Magazine, for example, reports (March 29, 1982) that the Soviet Union has more than double the "nuclear destructive force" that the U.S. has. That is why the Reagan Administration is trying to catch up by building B-1 bombers, Trident missile submarines, cruise missiles and M-X missiles. The freeze would stop these needed U.S. weapon systems.

(4) The proponents of a nuclear freeze call for the status of the weapons to be verified by "national technical means" -- not by on-site inspection. This means that verification of the freeze and subsequent reductions in arms would be monitored by spy satellites. There are many ways in which nuclear weapons can be hidden from cameras and other sensors in satellites. Since the Soviets have violated most treaties, President Reagan has insisted that there be on-site inspection in his "Zero Option" proposal regarding theater nuclear weapons.

(5) According to the sponsors of the nuclear freeze, "either the United States or the Soviet Union could initiate movement toward the freeze by taking modest, unilateral steps...." But the plan for the nuclear freeze does not require prior agreement on the terms or details of the freeze (i.e., no rights and duties are established). The plan, such as it is, includes no schedule for those "modest, unilateral steps," nor does it explain how either side could insure that their unilateral steps would become mutual steps. The plan offers no schedule for the beginning of the freeze or its completion. It does not specify what should or could be done if one side did not respond to the "unilateral steps" of the other side.

It is worth recalling that the U.S. is still waiting for the Soviet Union to respond to the more-than-modest unilateral steps taken by the Carter Administration such as the cancellation of the B-1 bomber and the closing of our only I.C.B.M. production line.

No American wants war. Every American wants peace. The only real difference between us is how best to keep peace and whether keeping our freedom is important.

We believe that most Americans believe that so long as the Soviets continue taking over Afghanistans, keeping our peace with freedom can only be done through strength.

That is why 276 Members of Congress (a majority) have co-sponsored a Resolution calling for the adoption of a National Strategy of Peace Through Strength and have become Members of the Coalition for Peace Through Strength. Eleven state legislatures have passed the Resolution and it has passed one house in five other legislatures. In addition, 125 national organizations such as the VFW and the American Legion Auxiliary have joined the Coalition for Peace Through Strength.

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THE STATE FACTOR

file

THE REAGAN PLAN FOR TAX REFORM
June 1981

BACKGROUND

Since the early days of Spring, the Reagan Administration's tax plan has been the subject of technical, but historic legislative controversy. Opponents of the plan -- "Keynesian economists" who generally support higher government spending — regard the tax plan as inflationary and inequitable. They see it as a stimulus for sudden, unrestrained consumer spending. Supporters of the President's proposal counter such criticism by documenting the causal relationship between low tax rates and capital formation. Supporters also see the plan as a timely, tested remedy for the sluggish state of the American economy.

Proponents and opponents of the President's tax plan support their positions with an array of sophisticated and confusing statistics. But the theories associated with the plan need not be as esoteric as the statistics suggest. State legislatures have repeatedly passed laws reducing sales taxes, property taxes, gasoline taxes, and state corporate income taxes. There are over 60 versions of state enterprise zone legislation, authorizing an assortment of tax relief for employers and employees in business-depressed areas. The "supply-side" tax reform in the states is the logical complement — indeed, a precursor -- of the President's plan.

For states, the Reagan tax plan holds out the promise for increased investment, productivity and revenue. Paradoxically, it will broaden the tax base by reducing the tax burden. Certain elements of the Reagan tax plan will also trigger automatic reductions in some state laws relating to the sale of capital assets. (Most of the 40 states that have a state capital gains tax define that tax in terms of the Federal tax code.)

There is a reservoir of public and legislative support for a tax plan that will work. Legislators and laymen alike seem willing to accept the Reagan plan, provided that four concerns are satisfied:

- the plan must benefit the poor, middle-income, and upper-income classes in an equitable manner;
- the plan must be deflationary, or, at least, not inflationary;
- the plan must be a provable stimulant for savings and investment; and
- the plan must offer substantive, lasting tax relief.

This issue brief will examine each of these concerns separately, with particular emphasis on the precedents for the proposed income tax changes.

KEY COMPONENTS

Both before and after the Treasury Department revealed details of the tax proposals, Reagan Administration and congressional leaders agreed on one preliminary conclusion about the tax code. The present income tax laws are steeply progressive, meaning that the tax rates imposed on people at the higher part of the income scale are greater than those at the lower. As noted below, this feature of tax law not only assesses incomes at nominally and proportionally greater levels, it also incorporates a disincentive for individuals to work harder and produce more. "Tax changes which increase the after-tax reward to labor [causes an] increase [in] the quantities and quality [of goods and services], and increase the resulting output and real income," stated an internal Treasury Department study.

After consulting with congressional leaders of both parties, the Reagan Administration proposed the following changes:

- Cut indidvidual income taxes 25% over 33 months, instead of 30% over 36 months;
- Reduce the top rate on investment income from 70% to 50%, effective immediately instead of a three-year phase-in);
- Increase to $2000 the exemption for individual "Retirement account funds"; double to $15,000 the exemption for self-employed persons;
- Allow the lesser-paid of two spouses to deduct 10% of his/her wages (up to $30,000);

The cornerstone of the tax plan concerns the way that taxes are cut. A straight cut in the nominal taxes may be negligible, since such a tax reduction is offset by increases in other taxes (e.g., social security and energy). A cut in the marginal tax rate, however, reduces the tax penalty inherent in moving from one tax bracket to another. Bruce Bartlett, Staff Director for Congress' Joint Economic Committee, explains "Reaganomics" in this way: "Creating or fostering incentive depends on cutting marginal tax rates. That is, reducing marginal rates lowers the relative price of work in the trade-off between work and leisure, and lowers the relative price of investment in the trade-off between investment and consumption. All this [sic] is a long way of saying that the more you can keep of the next dollar you earn, the more likely you are to earn that dollar."

Thus, one of the comparative advantages of the Reagan tax plan is the positive influence it will have on all individual incomes. The reduction of the top tax rate from 70% to 50% closes the gap between "earned" and "unearned income," thereby making tax shelters less attractive. Indeed, the Reagan tax plan envisions considerable relief for all taxpayers, as indicated below:

CHANGE IN TAX LIABILITY FOR FOUR-PERSON FAMILY
AS PROPOSED BY REAGAN ADMINISTRATION

INCOME	PRESENT TAX	PROPOSED TAX	NOMINAL CHANGE	PERCENT CHANGE
$ 5,000	$ -500	$ -500	$ 0	0.0%
10,000	374	291	-83	-22.2
15,000	1,233	952	-281	-22.8
20,000	2,013	1,549	-464	-23.1
25,000	2,901	2,244	-657	-22.6
30,000	3,917	3,045	-872	-22.3
40,000	6,312	4,862	-1,450	-23.0
50,000	9,323	7,154	-2,169	-23.3
100,000	27,878	22,045	-5,833	-20.9
200,000	66,378	58,179	-8,199	-12.4

[Source: A Program for Economic Recovery, Office of the President (Pub.) Feb. 18, 1981]

Some of the objections to the President's tax plan are based on confusion about the "demand-side" and "supply-side" of the economy. The two are not identical. Basically, the demand-side of the economy refers to the purchase of goods and commodities in the market-place; it is reflected in the "aggregate level" of consumer spending. Under the theory of Keynesian economics (see box below), increases in the demand-side of the economy are the determinant of economic growth. Keynesian economists generally believe that the level of industrial and commercial production is solely a response to aggregate demand. Accordingly, Keynesians prefer a "demand-side" tax cut which increases the purchasing power of lower- and middle-income individuals.

What disturbs Keynesian economists is that the Reagan tax plan, unlike the tax cuts of the Ford and Carter Administrations, is not designed to stimulate aggregate demand. Rather, the intent is to encourage savings, investment, and capital formation. In short, the plan invigorates the incentive for people to create; it appeals to the profit motive. The level of aggregate demand is important only to the extent that it reflects purchases made possible by savings, investment and capital formation. The growth of the economy comes from the willingness and ability of individuals and entrepreneurs to invest in a business or enterprise. That investment occurs in the supply-side of the economy.

EMPIRICAL EVIDENCE: WILL THE PLAN WORK?

The recurring question debated by supporters and opponents of the President's tax plan is, "Will it work?" Will the plan increase the level of saving by individuals? Will employers and entrepreneurs use the money to finance new busnesses and, thereby, create more jobs? In theory, the answer is a positive yes. In practice, the answer is even more reassuring.

In practice, the earliest "laboratory experiment" of a Reagan-style tax cut took place during the 1920's. Like President Reagan, Presidents Harding and Coolidge set out to enact real, lasting reductions in the marginal tax rates. The tax rates were actually cut five times, from a 4 percent minimum/73 percent maximum in 1920 to a .4 percent minimum/24 percent maximum in 1929. The reasons for the reductions were best summed up by Treasury Secretary Andrew Mellon:

A Supply-side Primer

The intellectual rationale for President Reagan's tax and fiscal policies are often referred to as "supply-side economics." The phrase is new, but the concepts are not. The intellectual underpinning for supply-side economics is similiar to tax reforms initiated by Presidents Harding, Coolidge, Kennedy and Johnson (see pp. 3-4). The theory has also been tested in Puerto Rico. The following is a list of relevant terms:

•Keynesian economics: Named after the late Lord John Keynes, this model sees recession and depression as the result of a shortage of demand. This model also sees inflation as the product of too much demand, which usually takes the form of consumer spending.

•Monetarism: The economic school of thought that regards the supply of money as the dominant source of inflation/deflation. Monetarists believe that a "tight money" policy (to. wit., high interest rates and short money supply), coupled with a reduction in government spending, can reduce inflationary pressures.

•Laffer curve: Named after UCLA economist Arthur Laffer, the curve is a graphic depiction of the disincentives created by high tax rates. The curve shows that government revenues increase when tax rates are lowered. Conversely, the curve shows a diminishing rate of return on high tax rates.

•Aggregate demand: Refers to consumer interest, utilization, or purchase of a good or service. In supply-side theory, the level of aggregate demand is determined by shifts in the level of supply (e.g., capital investments).

•Average tax rate: The mean tax imposed on income in a particular tax bracket. Reduction of the average tax rate translates into varied tax changes for specific incomes.

•Marginal tax rate: The tax rate that applies to the next dollar of income for a worker or investor. Reduction of the marginal tax rate affects only the income at the top and bottom ends of the tax brackets.

> High [tax] rates tend to destroy individual initiative and seriously impede the development of productive business. Taxpayers subject to the higher rates cannot afford, for example, to invest in American railroads or industries, or embark on any new enterprises in the face of taxes taking away 50% or more of any return that may be realized. These taxpayers are withdrawing their capital from productive business and investing it in tax-exempt securities and adopting other lawful methods of avoiding the realization of taxable income.

The results of the Harding-Coolidge tax cuts were five years of 3.5% unemployment and 0.5% inflation. The number of taxpayers in the $50,000 tax bracket tripled between 1920 and 1928; the number of taxpayers in the $100,000 bracket quintupled. Thus, the lower marginal rates generated at least twice as much revenue as the previous tax system, pushing the American economy out of the post-War recession and reversing the inflationary trends of 1919-20.

Another experiment with growth-oriented tax reduction occurred between 1963 and 1965. The tax reform, sponsored by the Kennedy-Johnson Administration, involved a two-year, 27% cut in all the marginal tax rates. The maximum tax was lowered from 91% to 70%, and the minimum rate was dropped from 20% to 14%. Although the inflation rate at the time of the tax change was only 1.6%, the expectations of a high inflation rate were very high. The Kennedy-Johnson tax reductions are credited by Keynesian and supply-side economists with forestalling a recession.

"What happened to the tax cut in 1965 is difficult to pin down," recalled President Kennedy's Chairman of the Council of Economic Advisors, Walter Heller. "But... did it pay for itself in increased revenue? I think the evidence is strong that it did." The following statistics, which compare the years before and after the Kennedy-Johnson tax reductions, buttress Mr. Heller's comments:

BUSINESS ACTIVITY BEFORE AND AFTER KENNEDY-JOHNSON
TAX RATE REDUCTIONS, 1957-62 and 1963-68

activity	1957-62	1963-68
inflation	1.6%	2.3%
Federal tax receipts	18% ann. increase	50% ann. increase
savings, as % of GNP	6.7%	7.5%
# working or seeking work	660,000 a year	1.3 million a year

[source: Treasury Department and ALEC computations]

One important distinction between the Kennedy-Johnson and Reagan tax initiatives is that the latter are accompanied by budget and monetary restraints, whereas the former was followed by a boon of Great Society programs and heightened deficit spending.

More recent empirical evidence of the positive potential of income tax rate reduction may be extrapolated from experience with the 1978 "Steiger Amendment." That Amendment, sponsored by the late Rep. William Steiger (R-WI), reduced the maximum Federal capital gains tax from 52% to 28%. The logic was familiar: if the government reduces the tax on income gained from the sale or transfer of a capital asset, the homeowners, stockholders, and owners of other assets will be more inclined to sell or buy capital assets. A $1.1 billion Federal revenue increase is commonly attributed to the reduction, even though the Carter Treasury Department forecast a $2.7 billion revenue loss. In the Fiscal Year following passage of the Steiger tax reduction, venture capital investment rose over 1300%.

"Incentives" and "initiatives" are the two themes that unite these three precedents. In each instance, the reduction in tax rates was preceded by either a recession or a period of high inflation. In each instance, the reductions were an across-the-board cut. In the Harding-

Coolidge and Kennedy-Johnson examples, the rate reductions were a multi-year, systematic cut. In all cases, the lower tax rates brought in more tax revenue than even the sponsors had projected.

OTHER PRECEDENTS: HAS THE PLAN FAILED ELSEWHERE?

Critics of the Reagan tax plan usually cite recent experiences in Great Britain as evidence of the former's fundamental flaws. In 1978, Prime Minister Margaret Thatcher promulgated reductions in Britain's overly-progressive tax rates (the marginal tax rate was 98%). As of June 1981, Mrs. Thatcher's tax policies have resulted only in a 17% annual inflation rate, 20% mortgage rates, and an unemployment rate that hovers below 10%. Britain's GNP may have a zero growth rate through 1982, according to projections by Europe's Organization for Economic Cooperation and Development.

The British example is an invalid comparison with the Reagan tax plan, for a variety of reasons. First, Mrs. Thatcher's income tax cuts were primarily aimed at the middle- and upper-income classes, neglecting the influence of consumer spending habits of the lower classes. In fact, the British tax policies reduced the purchasing power of all income groups through across-the-board increases in gasoline and sales taxes. During her first year in office, the Thatcher government increased the Value-Added-Tax (VAT) by three points, bringing the VAT to 18% and effectively cancelling the value of the income tax cut. The VAT increase required price increases for almost every good and commodity -- clothing, restaurant meals, transportation, fuel, furniture, appliances, equipment, and liquor, to itemize just a few.

Mrs. Thatcher's tax policies were further undermined by the unique nature of the British economy. British public sector programs are more pervasive than in the United States, meaning that tax cuts have a deleterious ripple effect on British industries. Mrs. Thatcher's subsequent budget and tax cuts thus overwhelmed the British economy in a manner inapplicable to the U.S. "Without spending," notes the respected author of Wealth and Poverty, George Gilder, "tight money merely choke[d] the [British] private sector... (I)nefficient and overmanned British public sector industries absorbed billions of pounds of scarce capital beyond their previously budgeted [government] borrowing levels." In contrast, President Reagan's simultaneous tax and budget cuts will act to revive American industry, which is not dominated by government programs on a level similar to Britain. The Reagan plan envisions a schematic reduction in the national deficit, as indicated in the following table:

PROJECTED BUDGET DEFICIT UNDER REAGAN
TAX RATE CUT [in billions of dollars]

1981	1982	1983	1984
\$51.35	\$20.05	\$8.25	+5.75 (surplus)

[source: House Republican Study Committee,
U.S. House of Representatives]

If any foreign country offers an example of Reagan-style tax reform, it is Puerto Rico. In 1976, the Puerto Rican Government embarked on a six-year program of 5% annual tax rate reductions. The tax reductions were across-the-board; in some aspects, the reductions are more radical than what President Reagan proposes (e.g., the Puerto Rico top marginal tax is reduced from 87% to 50%). The Puerto Rican Governor also repealed two 5% surtaxes. Three years after the program was first started in 1976, tax revenues rose by \$15 million, and the unemployment rate decreased by 1.2%. One year later (1979), following further automatic tax rate cuts, government revenue rose by 13.5% and the number of tax returns increased by 100,000.

It should be noted that the Puerto Rican Government raised the excise tax on beer and cigarettes about the same time that the tax rate reductions began. The Government also increased the taxes on U.S. corporations. Unlike the increase in Britain's VAT, however, the Puerto Rican excise increase was selective and does not affect every citizen in a manner akin to the British VAT. Similarly, the increased corporate taxes apply only to foreign investments. The purpose of Puerto Rico's 30% tax rate cut is to (A) reduce work disincentives caused by high marginal tax rates, and (B) close the gap between earned and unearned income. Those goals, as noted above, have been achieved.

IS THE REAGAN TAX PLAN EQUITABLE?

One of the most consistent arguments against the Reagan tax plan is that it unfairly benefits the upper classes at the expense of the middle and lower classes. The argument is so pervasive among certain congressional circles that House Speaker Thomas "Tip" O'Neill told reporters on June 7: "He [the President] has no concern, no regard, no care for the little men of America...he doesn't associate himself with those types of people. He has very, very selfish people around him, people only of the upper echelon of wealth in the country."

To begin, the Reagan tax plan is not designed to favor one income category over another. The tax plan is, by definition, an across-the-board reduction in rates. The plan does, however, come at a time when the middle- and upper-income taxpayers are paying the bulk of Federal tax receipts. Consider the following statistics:

- The top 50% of wage earners pay 93.5% of Federal income tax receipts;
- Almost 2/3 (72%) of the taxes paid in this country are paid by individuals in the $10,000 - $60,000 tax brackets;
- The lower 50% of wage-earners (those making less than $10,000) pay 6.% of Federal income tax receipts; and
- The richer 50% of taxpayers paid an average tax of $3,924 - an increase of 60% since 1973.

The undeniable fact that middle- and higher-income persons receive a nominally higher tax break merely reflects the equally undeniable fact that they pay a higher percentage of their income in taxes. The two upper classes shoulder the higher tax burden and, indeed will continue to shoulder the higher tax burden under the Reagan tax plan. The following tables, provided by the respected New York firm, W.R. Grace & Company, prove the point:

PERCENT REDUCTIONS IN AVERAGE TAX RATES
AS PROPOSED BY THE PRESIDENT FOR 1984

income level	wages & salaries	total income
$ 10,000	28.5%	28.5%
30,000	27.2	27.2
50,000	26.7	26.5
100,000	22.0	25.7
200,000	12.5	24.1

PERCENT REDUCTIONS IN MARGINAL TAX RATES
AS PROPOSED BY THE PRESIDENT FOR 1984

income level	wage & salaries	total income
$ 10,000	28.6%	28.6%
30,000	27.0	27.2
50,000	26.5	26.5
100,000	14.0	23.6
200,000	2.0	22.5

Both charts show, unequivocably, that the lower- and middle-income classes actually receive the most generous tax rate relief. Granted, the two upper tax brackets receive a nominally higher tax break. But that feature is one of the rewards of the capitalist system. To the extent that the Reagan tax plan reduces (by an equal, uniform percentage) all marginal and average tax rates, the Reagan plan encourages individuals in all tax brackets to work harder, earn more, and save more.

WILL THE REAGAN TAX PLAN BE INFLATIONARY?

A number of Keynesian economists (e.g., Walter Heller, Hobart Rowen, John Kenneth Galbraith, Charles Schultze, Alice Rivlin) claim that the Reagan tax plan will be inflationary. The argument that the Reagan plan will generate more inflation is based on outdated and misleading assumptions about the economy. Such arguments presume, number one, that a reduction in tax rates will mainly cause consumer spending, rather than savings and investment. Second, the arguments presume that consumer spending is, in and of itself, a principal cause of inflation. Neither presumption is accurate.

1. Consumer spending and inflation - Reduced taxes are inflationary only if (A) the tax reduction results in higher budget deficits, and (B) the higher deficit is financed, or "monetized," by printing more money. Both variables are interdependent to the extent that deficit spending -- which occurs when the government spends more money than it receives -- encourages a loose monetary policy. More simply stated, the cause of inflation has more to do with monetary policy than with tax policy. The classical definition of inflation still holds true: inflation is the result of too much money chasing too few goods.

It is important to remember that President Reagan's tax plan reduces these cyclical tendencies partly by relying on reduced government spending. The President has proposed budget cuts of $54 billion, which fixes the Administration's projected deficit at $38 billion (approximately $20 billion below current levels). The initial revenue loss associated with the tax reductions during the first year (5% in FY 1981) are offset by the reduction in government spending. The key phrase, of course, is "revenue loss during the first year." The budget cuts themselves may lead to an increase in tax revenue, since the revision of eligibility criteria in public aid programs eliminates the work disincentive inherent in welfare and unemployment compensation.

The cyclical pressures of deficit spending and loose money policy are further mitigated by the proven revenue potential of tax rate reductions. The Harding-Coolidge and Kennedy-Johnson examples cited above indicate the extent of that potential. The increased revenue will either drastically reduce the deficit or eliminate it altogether, thereby ameliorating pressure on the Federal Reserve Board for loose money.

2. The Reagan tax plan and inflation - Even if consumer spending is the principal cause of inflation, the Reagan tax plan avoids the problem by restoring a market-place balance between between consumer spending, personal saving and private investment. This restoration is not just vague, abstract theory. The fact is that the marginal propensity to save and the marginal ability to invest are very high at the middle- and upper-income levels. If the top tax rates in those two brackets are scaled down by 25%, as the President proposes, the incentive to work harder and seek higher, more productive employment is increased.

In contrast, the current tax structure imposes a work penalty in the form of the increased tax rates that accompany higher income. When new jobs or salary raises push workers into higher tax brackets, the marginal tax rate (i.e., the new tax imposed on the next dollar earned) is relatively higher as a percentage of income than was the previous tax. Although the nominal income of a family of four may rise by $2000 or $3000, the interaction of inflation with the progressive tax structure may result in a net loss of earnings for the family.

The empirical evidence of past years suggests that steeply progressive tax rates are inflationary, and that tax rate reductions are deflationary. A progressive tax structure, or even a series of tax rate reductions weighted to the lower income brackets, encourages consumption while doing little to stimulate production. Consumer spending is the main product of such a tax cut, since the daily needs of lower-income families are greater than those of the middle- and upper-income classes. Consumer spending, as noted above, is not the dominant cause of inflation; but a surge in consumer spending, if not accompanied by a surge in savings and investment, will not evoke the capital formation needed to dramatically increase production.

ANALYSIS

The tax reforms of the 1920s and 1960s set a new oxymoron for the 1980s: high tax rates result in low revenue, but low tax rates bring large revenue. The high marginal tax rates of the 1970s not only obstruct capital formation and investment, they also are a barrier to upward mobility and government revenue. In contrast, the Reagan tax plan is an equitable, proven stimulus for America's financial stagnation. It portends an increase in tax revenues, while promising fundamental, across-the-board tax relief.

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— TAX cut

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You select a marginal cut where
the next dollar you earn is
most impt. — what $ are you willing
to stop working
If tax 10% on Monday

When is saturation point.

Top —
Cutting 10% at that
margin. It's a cut of tax
rate but, not a tax cut.
Because bracket creep will
still cause taxes to increase . . . .
only reducing the cut.
If Fed Gov't keeps the

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Reagan wants to remind us that states created the federal gov't. Cut budget & return power to states are 2 primary themes.

1st Step - Cut the fed gov't thru Office of Management & Budget, Not a partisan issue - Gramm-Latta bill.

Each level of gov't should have burden of raising own taxes; eliminate revenue sharing etc.

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James Edwards - Energy

Rise of price of oil corresponds w/ inflation rise & gold price rises.
- Reduce budget 48%
- " taxes 10%
- Accelerated depreciation
- Stabilize monetary policy
- Balance by 1984; cut inflation ½; 13 million new jobs

We should be as concerned about those who supply funds to gov't as those who receive benefit.

Program needs a consensus.

Reduce dependency on foreign oil. Oil prices decontrolled. Drilling is at all time high — 30% increase. Imports lowest since 1972.

Offshore leasing program — Calif leases next ~~year~~ month; 200 million new acres for exploration next year.

- Petroleum allocation repeal saved 700 million man hours

Edwards continued

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accelerated decontrol of natural gas thru 1985.

N. Gas Policy Act → projected 1985 oil price of $18 per barrel equivalent to gas

There is a discrepancy??

$3.20 p 1000/mcf by ~~[illegible]~~ 1985? ______ (?)

Coal: Overregulated; Clean Air Act & Surface mining & transportation

Nuclear: more elec. power now generated by nuclear than by oil.

Breeder reactor development.

Utilities represent over 1/3rd of our industrial investment.

Conservation

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~~Re~~ Unleaded Gas:
We are requiring unleaded gas which causes more ~~to~~ energy to produce; causes lower gas mileage; use of catalytic converter which increase cost of car $600 to $800. Dumb.

Nuclear –
27,000 rod elements – spent fuel from light-water nuclear plants.
Recycling can be used in both breeder reactor & other reactors so energy isn't wasted. Lose uranium & plutonium.
Waste disposal reprocessing is something we should be doing. Other nations getting benefits of energy source.

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1 reprocessing plant = 1 million barrels of ~~the~~ oil p/day.

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Terrell Bell - Sec. of Education

Role of Fed Gov't in Ed. and what the role should be. Big gap.

Favors local system not fed system. $14.5 billion budget will be reduced 25%.

Loans, grants, work-study program to low income groups - Loan program out of hand. New regulations should moderate and eliminate entitlements aspect of program. Should be based on need.

Title I = $3½ billion - elementary school children are getting good results from these programs. Equal access to education - for all minorities, income groups, etc.

1964 Civil Rights Act: Prohibits discr. against handicapped, minorities, etc. Free appropriate access to handicapped law is defective.

Fed. reg's have included teaching methods as in bilingual methodology. Withdrawn

Bell #2

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Regs & laws & rules on sex discrimination prohibition. Reg's torture the law on Title 9. Does it mean we must have a uniform dress code.

Fed: shouldn't be involved in beards, clothes etc. So reg's have been filed in Fed Register to take that dress code rule off the books.

Title 9 even tries to get into employment practices thru rules & regs. For instance, argument that Alabama's female volleyball coach should be ~~[illegible]~~ paid same as Bear Bryant.

Bussing: Not pressing these actions

Handicapped law: Fed Gov't shouldn't tell a State they must have summer school ~~[illegible]~~ all summer, etc.

Education -
Rell

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Block Grants for elementary & secondary education. States take a block of money that includes, for instance, 44 different programs → state decides how much to spend on various programs. State utilizes & divides money as it sees fit.

Education budget will be cut 25%.

Co-educational physical education.

Equality Vs. Excellence:

Minimum Competence doesn't challenge the gifted.

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Larry Kudlow
Ass't Director - OMB

goals:
1) Inflation
2) Balance Budget
3) Private sector incentives for growth & confidence

GROWTH:
Central theme.
Recession & unemployment is not answer. Optimism & growth is. - Progress
- Technologically
- Entrepreneurs
- etc
we've been successful historically due to excellence.

Issues: 3 Huge influences
1) - Interaction of economy & budget is huge.
Economy developments trigger spending.
Unemployment triggers welfare, U. Ins., etc
weak economy
Every 1% of unemployment cost
$25 billion → both new cost & lost tax revenue due to lost income.
So - growth keeps unemployment down & saves us money
2) - Interest rate - every 1% costs $4 billion to budget → debt service on nat'l debt. June - 8%; Dec - 20%
= $32 billion increase in spending

Ludlow

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5) - Inflation & cost of living adjustments:
~~Every~~ 1% of inflation costs
$2 billion in cost of living
adjustments to programs.
Interest rates affect the
Consumer Price Index → it grew
from 7% (1st quarter) to 14% (2nd quarter).

This year — expect 55 billion deficit.
1 — Weak economy
2 — Interest rates
3 — Inflation

How to handle Budget?
- Meatcleaver approach: Difficult to work.

- Better to do combination of
1) Budget cuts 2) tax cuts 3) Reg. reform
4) monetary reform
Lower inflationary expectations

Larry Ludlow

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Tax-Cut (1981-84): 4 yr period
Return $58 bill to N.E.
$70 Midwest
$71 South
$50 West

Per Capita Estimates
$1200 N.E.
1200 Midwest
1000 South
1000 West

Wages & Salaries growth:
15%
18%
22%
22%

Employment & jobs: growth:
5%
9%
15%
15%

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Excelerated Depreciation law
should help older industrial areas.
Also, the auto deregulation
should also help older areas.

[redacted]

2 pronged resource reallocation:

1) Tax Cut
Budget Cut
~~[illegible]~~ shift
from Public
Sector to Private
~~sector~~

Public to Private

2) Fed to State in administering
Washington to State-Local

GROWTH:
8% unemployment = unbalanced budget

Drew Lewis

~~[illegible]~~

Sec of Dept of Transport.

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- Amtrak Cut = $300 million

- Mass transit — ~~operating~~ operating expenditures have been cut.

- Personnel cuts = 10% in Fed Aviation A.

- Federal railways → budget cuts → reduce low service routes. Dead weight

- CONRAIL →

Needs to lay off 11,000 people. Labor costs expensive & is a loser —

Wants to make conrail a good freight company only by taking passenger & commuter out

Could sell it.

Or reform it.

Return as much as possible to private sector.

- Hwys: 4¢ tax remains & is sufficient to complete Interstate System.

- Urban & rural roads must be funded by state & be state respon.

complete by 1990

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Mass Transit ->
Trying to shift as much as possible to user fees.

Interstate System =>
needs a 5 YR bill instead of 1 YR bill so the system can be defined w/ certainty & completed.

55 M.P.H. speed limit ->
can restricts funding if state violates.

80,000 pound limit on Inters. is too low?
Interstates built for 120,000 pound wt. limit

James Watt
- Interior

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— 200 million acres of offshore leases

— Will turn over fed lands to state that want it → we'll also get 50% of the royalties

— No land use — strip mining

— Alaska — Emergency Proclam

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Taxes:

-Latta - $20 bill
Gramm more in
Tax cuts

Budget:

Gramm-Latta -
$148 bill
less spending

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— so more money for gov't borrowing
83% will use money either to save or pay debt.

Accel Capital Recovery System
A. C. R. S.:
$10 billion business cuts thru accelerated depreciation

Unearned income tax comes from 70% max to 50%. The capital gains tax will be down to 20% max

— Estate tax exclusion will be increased

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savings in America w/ borrowing — then nothing left.

Encourage more saving. In lower bracket, most of extra money goes to pay debt. In middle income → they save. Savings used to be 7% of GNP. In Germany - 27% - Japan, 23%. In America, 4½%.

Will the deficit be inflationary?. Depends on how financed. If financed with printed $ → then inflationary. Reagan is hoping that pool of savings will increase ~~to~~ by $40 to 45 billion

NEA LEGISLATIVE REPORT

GOVERNMENT RELATIONS

AMERICAN LEGISLATIVE EXCHANGE COUNCIL (ALEC)

THE RIGHT WING AGENDA

FOR

STATE LEGISLATURES

NEA/GR 7/16/81

NEA Government Relations . 1201 16th Street N.W. . Washington, D. C. 20036

The American Legislative Exchange Council (ALEC)

What Is It?

The New Right national organization that supports efforts to introduce legislation at the state level. Co-ordinates relationships between state and Congressional legislators. Drafts 'model' legislation for introduction into state legislatures. Provides research and back-up to state legislators in their efforts to introduce the New Right Agenda. It is one of the most devastatingly effective New Right organizations and has wrought havoc at the state level.

Who Is It? (1979 Listing)

Its membership is state and national legislators including:

Officers:

MESH 602 964-5167 255 9402

Chairman: Rep. Donna J. Carlson, Arizona
First Vice Chairman: Sen. Robert Monier, New Hampshire
Second Vice Chairman: Rep. T. W. "Tom" Stivers, Idaho
Secretary: Rep. Daniel Richey, Louisiana
Treasurer: Congressman Tom Hagedorn, Minnesota
Immediate Past Chairman: Rep. Louis E. "Woody" Jenkins, Louisiana

Board Members:

Rep. W. H. Becker, Colorado
Rep. John Brooks, Idaho
Rep. David Copeland, Tennessee
Rep. Paul Dietrich, Missouri
Hon. Frank Dunkle, Montana
Rep. Robert Eberle, Washington
Rep. John T. Flack, New York
Rep. Edgar Fredricks, Michigan
Rep. John Linder, Georgia
Sen. Donald Lukens, Ohio
Sen. John McCune, Oklahoma
Rep. William Polk, Washington
Rep. Penny Pullen, Illinois
Del. Eva Scott, Virginia
Sen. Ray Taylor, Iowa
Rep. Donald Totten, Illinois

Congressmen and Senators

Cong. Ken Kramer, Colorado
Cong. Jack F. Kemp, New York
Cong. James Santini, Nevada
Cong. Philip M. Crane, Illinois
Cong. Dan Marriott, Utah
U.S. Senator Steve Symms, Idaho
Cong. George Hansen, Idaho
U.S. Senator James McClure, Idaho
U.S. Senator Richard Lugar, Indiana
Cong. Henry J. Hyde, Illinois
Former Cong. Jack Cunningham, Washington
Former Cong. Charles Wiggins, California

State Legislative Leaders

Lt. Gov. Terry Branstad, Iowa
Sen. Owen Johnson, New York
Assemblyman Dean Rhoads, Nevada
Rep. Jock Scott, Louisiana
Sen. Bill Richardson, California
Sen. Louis Bergeron, New Hampshire
Sen. Carl Moore, Tennessee
Sen. Mark Q. Rhoads, Illinois
Rep. John R. McElderry, Colorado
Rep. Lane Carson, Louisiana
Sen. Edward Sawyer, President, Arizona Senate
Rep. Frank Kelley, Speaker, Arizona House
Rep. Hal Wick, South Dakota
Rep. James Betts, Ohio

Why Is It Important To NEA?

The majority of its legislative proposals are directly or indirectly related to public education, most with devastating implications. A summary of legislative proposals is provided below. NEA state affiliate staff and leadership will recognize many of the proposals. They originate in Washington, not in your state capital.

Where Does the Money Come From?

Predominantly from private cooperations. A sample of which are:

Winn Dixie Stores, Inc., James E. Davis, President
Pennsylvania Dutch Company, Mt. Holly Springs, Pennsylvania
Mr. DeWitt Wallace, Reader's Digest, Mt. Kisco, New York
Blue Bell, Incorporated, Greensboro, North Carolina
Forest Products Manufacturing Company, Inc., Jasper, Indiana
Sunmark Foundation, St. Louis, Missouri
Petroleum Publishing Company, Tulsa, Oklahoma
Texas West Oil and Gas Corporation, Midland, Teaxs
National Co-op Refinery Association, McPherson, Kansas
Inspiration Copper Company, Inspiration, Arizona
Texland Petroleum, Inc., Fort Worth, Texas
Floyd Graham Construction Company, Lebanon, Oregon
Marathon Oil Company, Findlay, Ohio
Ashland Oil, Inc. Ashland, Kentucky
Union Oil Company of California, Los Angeles, California
Energy Resources Group, Houston, Texas
Gulf Oil Corporation, Pittsburgh, Pennsylvania
Chevron, U.S.A., San Francisco, California
American Petroleum Institute, Washington, D.C.
Scaife Family Charitable Trusts, Pittsburgh, Pennsylvania
Louisiana Assoc. of Business & Industry, Baton Rouge, Louisiana
Arizona Mining Association, Phoenix, Arizona
Sun Petroleum Products, Philadelphia, Pennsylvania
Cities Service Company, Tulsa, Oklahoma
The Williams Company, Tulsa, Oklahoma
Eli Lilly and Company, Indianapolis, Indiana
Champion Spark Plug Company, Toledo, Ohio
Perry Homes, Inc., Houston, Texas
Boise Cascade, Boise, Idaho
Wester Savings and Loan Association, Phoenix, Arizona
Ransburg Corporation, Indianapolis, Indiana

How Wide is Support for ALEC?

Most conservatives in Congress support the efforts of the organization. Also the President is an ardent supporter.

> "I am happy to endorse the fine work of the ALEC and its programs to coordinate innovating ideas among our state legislators. ALEC is long overdue and I encourage all Americans who want to limit the ever-expanding size of government to support this fine organization."

Legislative Proposals

The following is a summary of major ALEC legislative proposals. Where they have a direct or indirect impact on education a detailed summary is provided.

- Public Services Protection Act

  This prohibits contractual agreements between all governmental subdivisions of the state and any public employee union or association.

- Tax Limitation - State Constitutional Amendment

  Recommends a percentage limit that tax revenues may be of personal income. Would require a two-thirds vote of both Houses of the state legislature to enact all taxation measures. Restricts agreement on negotiating salary, working conditions, pension and retirement benefits, sick leave, until the governing authority of the political jurisdiction appropriates specific funds for this purpose.

- Spending and Debt Limitation Amendment

  Any increases in state spending shall not exceed the legally determined growth in the state economy. No debt obligations for current operations shall be issued unless they are paid the same year.

- Tax Indexing Act

  Tax tables will be automatically indexed by the rise in the CPI so that taxes do not increase as a result of inflation.

- The Right to Work Act

Better known as the 'right to scab act' seeks to extend this prohibition against several traditional association rights to further states. The pressure for this legislation witnesses unabbated.

- Student Freedom of Choice Act

Would prohibit the collection of mandatory student activities dues for any purpose, thus weakening on-campus student organizations.

- Textbook Content Standards Act

Would impose severe mandatory statewide curricula and content controls on school districts. It would establish a statewide Textbook Adoption Agency with power to determine what textbooks can and cannot be used in public schools. It also specifies certain requirements:

Improving Education

Suggested Legislation

(Title, enacted clause, etc.)

Section 1. *[Short title.]* This act may be cited as the Textbook Content Standards Act.

Section 2. *[Statement of purpose.]* The purpose of this act is to provide broad minimum standards and general education guidelines for the selection of textbooks for the public schools.

Section 3. *[Definitions.]* For the purpose of this act, the term—

(1) "Textbook Adoption Agency" means any department, board, commission, agency or other entity of the state, localities or municipalities which is authorized to adopt textbooks for use in public schools.

(2) "Textbook" means a book designed for use by pupils as a source of instructional materials, or a teachers edition of the same book.

(3) "Teaching materials" means all material designed for use by pupils and their teachers as a learning resource and which help pupils to acquire facts, skills or opinions or to develop cognitive processes. Instructional materials may be printed or nonprinted and may include textbooks, educational equipment and tests.

Section 4. *[Textbook content standards.]* (a) The textbook adoption agency shall not approve a textbook which contains anything of a partisan or sectarian character.

(b) Material adopted by the textbook adoption agency may not degrade, and where appropriate shall teach high moral standards including:

(1) honesty;

(2) acceptance of responsibility;

(3) respect for the individuality of others;

(4) respect for parents and those properly in authority;

(5) the importance of the work ethic in achieving personal goals; and

(6) the existence of absolute values of right and wrong. — As concept ^ specific

(c) Materials adopted by the textbook adoption agency may not ridicule or present in a degrading manner the religious or ethical beliefs of others.

(d) Teaching materials shall:

(1) emphasize the importance of the family as the core of American society;

(2) present the historical, philosophical, ethical, religious and other underpinnings which influenced the political institutions of this country and which have preserved the liberties of the American people;

(3) include the principles of the free market economy and the effectiveness of the system;

(4) demonstrate the importance of obeying the law; and

(5) be designed to foster the intellectual development of the child by providing instruction in reading, writing and arithmetic, and by cultivating the mind to seek the knowledge produced through centuries of academic endeavor.

(e) Teaching materials may not promote sadistic or degrading behavior. Presentations of violence shall be made in the context of the consequences of the violence.

(f) Teaching materials shall not invade the privacy of the pupil or the pupil's parents.

(g) Only textbooks which meet the requirements of this section may be adopted by the textbook adoption agency for use in the public schools.

Section 5. *[Severability clause.]*

Section 6. *[Repealer clause.]*

Section 7. *[Effective date.]*

• <u>Family Savings for Education Act</u>

Allows tax free savings for educational purposes, public and private, elementary, secondary or post-secondary.

• <u>Honor America Act</u>

All children <u>shall</u> be required to pledge allegiance to the flag every school day.

• <u>Abortion Funding Prohibition Act</u>

Would prohibit the use of state, federal or local funds to be spent on abortion.

• <u>Student Proficiency Act</u>

Would require state proficiency and testing in reading and writing for graduation.

• <u>Education Tax Credit Act</u>

On the same principle as the federally proposed legislation, giving a $250 exemption from state tax for parents sending their children to private schools. This would mean a combined state and federal subsidy of more than $820 per year for such students if both state and federal legislation were passed.

• <u>Free Enterprise Education Act</u>

This would mandate compulsory curricula in the 'American Free Enterprise System' including the banning of any curricula or materials which denigrates the free enterprise system. It requires the teaching of such aspects as self interest and limited government, and encourages the use of materials for schools provided by right wing free enterprise organizations such as Amway and the Heritage Foundation. Sec. 4

- <u>School Discipline Act</u>

  Re-introduces the use of corporal punishment by teachers in schools in order to maintain discipline.

- <u>Parental Rights Act</u>

  Gives parents the right to object to all persons of 'secular humanism' in schools, including the right to deny and review certain testing, instructional materials and teaching methods.

- <u>Teacher Proficiency Test</u>

  "Any person applying for a certificate authorizing such person to become superintendent, principal, or teacher in public schools shall, in addition to other requirements, satisfactorily pass an English and mathematics proficiency examination which shall include arithmetic, grammar, sentence structure, spelling and phonics, both encoding and decoding."

- <u>Government Lobbying Prohibition Act</u>

  No government funds, directly or indirectly, shall be used to lobby any level of government.

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AMERICAN LEGISLATIVE EXCHANGE COUNCIL
418 C Street, N.E.
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November 23, 1981

URGENT MEMORANDUM

FROM: REPRESENTATIVE T.W. STIVERS, ALEC NATIONAL CHAIRMAN
TO: INVITEES TO ALEC'S EXCLUSIVE PRESIDENTIAL AND CABINET BRIEFING

RE: ALEC WHITE HOUSE BRIEFING

I would like to cordially invite you to attend an exclusive White House and Cabinet Briefing with the President of the United States and Administration officials on Monday, December 14, 1981. Please see complete agenda attached.

Participation by the President is definitely confirmed and the meeting will provide key state legislative leaders an opportunity to discuss the Fiscal Year 83 Budget and Programs and their impact on the States.

Prior to the Monday Briefing, the American Legislative Exchange Council will host a Reception and Buffet on Sunday evening, December 13 at the Capitol Hilton for all State Legislator attendees, Members of Congress and White House and Administration guests. Following the Briefing, ALEC will host a luncheon with several distinguished guests.

It is imperative that you immediately contact ALEC's Director of Programs, Sheila Spencer (202/547-4646) with your response. At that time, please give her your Social Security number and date of birth for Secret Service Clearance purposes.

ALEC has reserved a block of rooms at the Capitol Hilton Hotel, 16th and K Streets, NW, for Sunday evening, December 13. The rate is $55 for a single room and $60 for a double, and you will be responsible for contacting the Capitol Hilton at 202/393-1000 to make your reservation.

Enclosed is a copy of the draft invitation you will receive from the White House as soon as federal employees are allowed to return to work.

P.S. There is a strict limitation on the number of attendees, so please respond promptly. In the event that you cannot participate, your place will be filled by another state legislator.

Dec 14

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ALEC's Exclusive White House and Cabinet Briefing, II

December 13 & 14, 1981
Washington, D.C.

Headquarters Hotel: Capitol Hilton
16th & K Streets, NW
(Two blocks from the White House)

SUNDAY, DECEMBER 13, 1981

Welcome Reception and Buffet
5:00 PM - 9:00 PM - Capitol Hilton Hotel
For Legislators, Members of Congress, White House and Administration guests.

MONDAY, DECEMBER 14, 1981

8:30 AM - Arrive at White House Gates

9:00 AM - Briefing Commences
The President
The Honorable David Stockman
The Honorable Richard Schweiker
The Honorable Drew Lewis
The Honorable Caspar Weinberger

12:30 PM - Adjournment
Press Conference and Press Availability after Briefing.

1:00 PM - Luncheon hosted by ALEC
Guests: Anne Gorsuch, Administrator of the Environmental Protection Agency, or
The Honorable James Watt, Secretary of the Interior
Congressman Newt Gingrich (R-GA)

3:00 PM - Luncheon Adjourns

****

ALSO OF INTEREST

TUESDAY, DECEMBER 15, 1981

9:00 AM - 12 Noon - President's Advisory Task Force on Federalism
Chaired by Senator Paul Laxalt (R-NV)

2:00 PM - 5:00 PM - Regulatory and Judicial Reform Subcommittee
Chaired by Representative T.W. Stivers, Idaho
Executive Office Building

THE WHITE HOUSE

WASHINGTON

November 10, 1981

A C T I O N

MEMORANDUM FOR RICHARD S. WILLIAMSON

FROM: JUDY PEACHEE

SUBJECT: DRAFT MAILGRAM OF INVITATION TO DECEMBER 14 MEETING FOR SUPPORTERS

On behalf of President Reagan, I extend a cordial invitation to you to attend a White House briefing on Monday, December 14, 1981, from 9:00 a.m. - 12:30 p.m. The meeting is being held for members of the American Legislative Council, and will include briefings by the President and Administration officials.

Discussed will be the Administration's goals for the Fiscal Year 1983 budget. We hope you will be able to attend this meeting so that you might be more thoroughly informed on future initiatives in the Economic Recovery Program.

Please contact ____________________ to let us know your plans. We will need to know your date of birth and Social Security number for the Secret Service.

Richard S. Williamson
Assistant to the President
for Intergovernmental Affairs

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American Legislative Exchange Council
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FIRST READING

The Newsletter of the American Legislative Exchange Council

MARCH, 1981 Volume 7, Number 3

ALEC Leaders Meet With President Reagan

On February 9th, the Chairman and other key leaders of the American Legislative Exchange Council (ALEC), met with President Ronald Reagan to express support for the President's policies to cut the federal budget and taxes and to decrease the role of the federal government in state affairs.

At a White House meeting attended by approximately 35 state and local lawmakers, ALEC Chairman Rep. Tom Stivers (Idaho) thanked the President for his longtime support of ALEC and pledged ALEC's support the Reagan program. Afterwards, Rep. Stivers added, "We in the State Legislatures have for too long been pushed and shoved by the federal bureaucracy. We are very encouraged by President Reagan's obvious determination to seek a return to sound economic policy and a restoration of the states' sovereign powers."

Joining Rep. Stivers at the meeting was New Hampshire Senate President Robert Monier (ALEC Director), Louisiana Senator Dan Richey (ALEC Secretary), Illinois Senator Donald Totten (ALEC Director), Ohio Senator Buz Lukens (ALEC Director) and ALEC members Sen. William Campbell (California), Sen. Anne Lindeman (Arizona) and Assemblyman Chuck Hardwick (New Jersey).

Earlier that day, Representative Stivers, Senators Lukens, Monier and Richey, along with ALEC Executive Director Kathleen Teague, met with Health and Human Services Secretary Richard Schweiker. The group urged Secretary Schweiker to reduce or eliminate many federal mandates in the health and welfare fields in order to curtail the fraud, abuse and waste which runs rampant in these programs.

The meeting between President Reagan and the state and local lawmakers was one of a series of gatherings held that week between the President and key constituent groups.

In addition to general support for the direction of the Reagan policies, the ALEC leaders urged Congress to authorize the President to impound budgeted funds in order to bring the FY 1981 budget in balance.
They endorsed the Kemp-Roth tax cut proposal; encouraged replacing categorical grants to states with block grants; urged the return of many acres of federally-owned land to the states, and supported the further decontrol of domestic energy resources.

In addition, the group endorsed the Enterprise Zones approach to inner city revitalization and praised efforts to instill California-style welfare reforms in the federal assistance programs.

ALEC will continue to advise the President on issues of concern to the State Legislatures and will also assist in transmitting information about Administration policies and programs to the states.

Enterprise Zones Conference Draws Hundreds to Atlanta

In an unusual gathering which crossed nearly all political lines, almost 300 lawmakers, legislative staff members, urban and state planners, business people and media representatives gathered in Atlanta, Georgia in late February for the National Conference on Enterprise Zones.

Co-sponsored by ALEC, the Heritage Foundation, the Sabre Foundation and the National Business League, the Conference provided an intense orientation on the enterprise zones concept -- including its economic, philosophical, political and technical underpinnings.

Drawn by the increasing publicity and political activity generated about enterprise zones, delegates to the Conference were generally supportive of the concept, but there was disagreement over the precise scope of the local, state and federal proposals. (Continued on page 2)

ALEC

The American Legislative Exchange Council is a non-profit, non-partisan, tax-exempt public affairs and research organization. ALEC's members are State Legislators, Members of Congress and concerned citizens who share ALEC's dedication to limiting the excessive growth and power of government, especially at the federal and state levels.

In addition to FIRST READING, ALEC members receive our monthly issue brief, THE STATE FACTOR.

ALEC also sponsors National Legislative Conferences on state and national issues and publishes a biennial collection of suggested state legislation entitled, THE SOURCE BOOK OF AMERICAN STATE LEGISLATION.

Membership in ALEC is $15 per year for legislators and $20 per year for non-legislators (associates).

FIRST READING Editor........... ......Janette C. Imholz

Publisher..........Kathleen Teague, ALEC Executive Director

ALEC Director of Research......... .....Constance C. Heckman

ALEC MOTIONS

Enterprise Zones

(Continued from page 1)

Major addresses were given by Congressman Robert Garcia (D-NY) and U.S. Senator John Chafee (R-RI), sponsors of the federal Urban Jobs and Enterprise Act. Both lawmakers expressed intense support for the enterprise zones approach, but cautioned against using it in place of successful urban redevelopment programs.

In her keynote address, Margaret Bush Wilson, Chairman of the Board of the NAACP was careful to say that her organization has not yet reached a decision on endorsement of the concept. However, she added that she will recommend to the NAACP Board of Directors that ,"...the enterprise zones idea is a potential means of providing economic growth in depressed areas and should therefore be taken seriously."

Prior to Mrs. Wilson's address, a telegram to Conference attendees was read by ALEC's Executive Director, Kathleen Teague. The telegram was from President Reagan's Assistant for Intergovernmental Relations, Richard S. Williamson and stated:

> "...President Reagan has asked me to extend his best wishes to the sponsors and participants of the National Conference on Enterprise Zones for a most successful meeting. He applauds your innovative efforts and looks forward to working with you in the future. As you know, the President endorsed the concept of enterprise zones during his campaign and believes that their formation throughout the country will be a major step toward urban economic rebirth..."

The leader of Enterprise Zones legislation in the states, Illinois Senator Donald Totten, addressed the Conference on Saturday afternoon and outlined ten points to consider in the formulation of enterprise zones legislation. First on the list was Senator Totten's belief that the zones should be designated by the local jurisdiction -- not by the federal or state governments. This received broad support from the Conference participants who repeatedly expressed concern for neighborhood preservation.

ALEC provided Conference scholarships to over fifty state legislators and legislative staff members. In all, attendees represented 35 states and the District of Columbia.

Transcripts and tapes of the conference may soon be available. Please read next month's First Reading for additional details. Also, the March issue of ALEC's The State Factor will provide a thorough look at Enterprise Zones legislation on the federal and state levels -- watch for it!

Two ALEC members from Colorado have recently been nominated for prominent positions in the Reagan Administration.

Former State Rep. Anne Gorsuch, a two-term Republican from Colorado's 12th District was recently nominated to serve as Director of the Environmental Protection Agency (EPA). Mrs. Gorsuch, an Attorney, served in the Colorado legislature as a member of the Legal Services and Transportation and Energy Committees and Chaired the State Affairs Committee on the Colorado House.

Former Speaker of the House, Robert Burford was nominated for Director of the Federal Bureau of Land Management (BLM), a key agency involved in the West's "sagebrush rebellion" movement.

Mr. Burford, a rancher, was first elected to the Colorado House in 1974 and did not seek re-election to his seat in 1980. He had earlier been a candidate for the position of Secretary of Interior which eventually went to fellow Coloradoan, James Watt.

Court Disallows Senate Takeover

The Illinois Supreme Court, in a plurality decision, voted to disallow the Republican takeover of the Illinois Senate which took place on January 15. The Republican minority had gained control of that body by taking advantage of two democratic absences and a controversial ruling by Governor James Thompson (R). These two factors enabled the Republicans to elect a Senate President even though they are a one vote minority.

Thompson had ruled that merely a majority vote was necessary to elect the Senate President, not the traditional 30 votes. He explained that there was no mention in the state Constitution of a minimum vote requirement.

The Democrats, led by the former Senate President Philip Rock (D-Oak Park) filed suit with the Illinois Supreme Court which consists of four Democrats and three Republicans.

Three of the Democratic Justices ruled that 30 votes were required to elect the President. The three Republicans voted that the Constitution does not specifiy any amount requirement and that this matter should be resolved in the Senate not the Court. The fourth Democrat also agreed that this matter should be decided in the Senate and a written rule should be established.

The Court's verdict forced Governor Thompson to reconvene the session and oversee a vote on the minimum vote requirement. When reconvened, the Democrats, with all members in attendance, passed the ruling that 30 members must be present and then voted in Democratic Senator Philip Rock as President.

GOP Captures Washington Senate

Washington State Senate Republicans won a surprising victory when Democratic Senator Peter von Reichbauer jumped over to the Republican Party. This move gave the Republicans a one vote majority allowing them to elect Jeannette Hayner as Senate President.

Senator von Reichbauer cited budgetary dissatisfaction as his principle reason for the switch. Republicans now control both houses of the Washington Legislature as well as the Governor's seat.

This is an incredible turnaround during this redistricting year. Last session, Democrats controlled the Senate and the Governor's mansion and the House was locked in a 49-49 tie.

FEDERAL REVIEW

On March 10, President Ronald Reagan presented the final proposed FY 1982 federal budget. The basic provisions of the budget are common knowledge: spending cuts of nearly $150 billion; termination or phasing-out of certain public aid programs; and a ten percent across-the-board reduction in income tax rates, effective July 1.

The ALEC Research Department is currently preparing analyses of key areas of the President's Economic Recovery Plan. In the meantime, state legislators may be interested in the following remarks, excerpted from recent Congressional testimony by OMB Director, David Stockman:

"There are two gauges we can use to evaluate the Federal Government's efforts to enhance programs and services at the state and local level. The first is the extent to which the overall fiscal and monetary policies of the Federal Government support or damage the ability of state and local governments to effectively govern. Measured in that score, no amount of Federal dollars infused into the Federal system can remedy the damage done to state and local governments by the economic developments of the past four years -- developments that, as the President has correctly indicated, relate to past policies of the Federal government.

"In the past states have met these temporary downturns with long-term borrowing that can be retired when times are better. The chaotic condition of today's long-term markets makes such amortization totally unfeasible. Meanwhile, states and localities continue to be pressured by general wage and cost pressures directly related to the persistent devaluation of our nation's currency that is brought on by our tax and spending policies.

"This erosion, it must be pointed out, cannot be stemmed by an infusion of Federal dollars into the state and local governmental system. The Federal government is, if anything, in even worse shape than its partners in the Federal system as a result of its previous policies.

(Continued on page 4)

Don't Miss CPAC '81

The Conservative Political Action Conference - 1981 (CPAC) will be held on March 19-22 at the Mayflower Hotel in Washington, D.C. 1127 Connecticut Avenue,NW.

Confirmed speakers include President Ronald Reagan, Vice President George Bush, U.S. Senator Paul Laxalt, U.S. Senator John East, Congressman Robert Dornan, and White House Political Director Lyn Nofziger.

ALEC will be represented at CPAC '81 seminars by Executive Director, Kathy Teague, Treasurer Paul Dietrich, and Board Members Illinois Senator Donald Totten, Ohio State Senator Buz Lukens, and Virginia Delegate Lawrence Pratt.

Panels will deal with federalism, energy, Reagan economics, national defense and the 1980 campaigns.

Sponsors of the conference are the American Conservative Union and the Young Americans for Freedom in co-operation with Human Events and National Review magazines.

Registration fees are $125 (single), $230 (couple), and $90 (student with ID). For more information contact CPAC '81, Route 1, Box 1002, Sterling, Virginia 22170, (703) 450-5162.

REFERENCES

Wealth and Poverty By George Gilder

Surely one of the most controversial documents of the modern presidency is Ronald Reagan's Economic Recovery Message to Congress. The Message has incited certain groups to label the proposed tax and budget cuts as inequitable, inflationary and lacking in compassion.

Against this backdrop of liberal hue and cry is a timely "supply-side" manifesto entitled, Wealth and Poverty. The author is George Gilder a gifted writer who has that enviable ability to blend complicated economic axioms into a layman's vocabulary. Consider, for example, Gilder's statement on public aid programs: "When government gives welfare, unemployment payments and public-service jobs in quantities that deter productive work, and when it raises taxes on profitable enterprises to pay for them, demand declines. Buying power does not essentially "trickle down" as wages or "flow up" and away as profits and savings. It originates with productive work at any level."

Or consider what Gilder has to say about the modern American tax system: "The only way tax policy can reliably influence real incomes is by changing the incentives of suppliers. By altering the pattern of rewards to favor work over leisure, investment over consumption, the sources of production over the sums of wealth, taxable over untaxable activity, government can directly and powerfully foster the expansion of real demand and income."

Page after page, Mr. Gilder inveighs with lyricism and wit against the provable fallacies of Keynesian, liberal dogma. He gives the reader 21 lucid chapters on such phenomenon as the growth of the welfare state, the emergence of stagflation, the "myths" of discrimination, and the advent of supply-side economics. In the process, Wealth and Poverty identifies the causes and possible cures for the ailments of contemporary capitalism.

Barron's magazine has called Gilder's book, "the seminal work of the decade." Wealth and Poverty is more than seminal theory. It is a magnum opus for conservatives and liberals alike who wish to understand why economic policies of the past two decades have failed — and what to do about it. The wonder is that Mr. Gilder was able to make his case in a single book.

Reagan Plan (Continued from page 3)

"There is yet another yardstick by which we can measure the effects of Federal policies on the ability of state and local governments to meet their committments. I refer to the essential usefulness of the dollars that the Federal government provides to states and localities. A significant share of the resouces we make available to states and localities has been consumed not by the intended users, but, by the overseers of Federal categorical grant programs.

"The Administration's program of block grants to states for social services under Title XX of the Social Security Act is an example of a high quality conduit of Federal assistance to the states. It provides over $3.1 billion in flexible services money to state governments. This money can be used for a wide range of social services activities under models selected by state officials. The average size of a Title XX grant awardamounts to nearly $59 million per state. Despite the large dollar size, the program requires only 170 Federal employees at the Washington and regional level to administer.

"In the generic areas of social services and categorical health programs, the President has called on Congress to enact block grant legislation. The President has called for enactment of block grants to state and local educational agencies that would allow educational practitioners to target Federal dollars to meet the unique needs of different states. The President has also charged his Administration with the general task of reviewing the existing configuration of program regulations and requirements on a Government-wide basis. He wants the states to have maximum flexibility to put the Federal money they receive to its most effective use."

Collective Bargaining Rare in Local Governments

According to the February 27th issue of the Government Union Critique, 83% of all local government employees in this country refuse to deal with public employee unions. Only 14,000 of the nation's 80,000 local jurisidictions bargain or meet and confer with these unions. This is especially surprising when considering that half of the nation's full-time state and local employees are organized into unions, outnumbering unorganized employees four to one.

These figures come from the report just released from the federal Bureau of Census. Dated October, 1980, the report is based on an October, 1979 census survey.

Welcome New Members!

ALEC is pleased to welcome over thirty new members this month including:

Sen. John Maitland, ILLINOIS
Rep. Thomas McCarthy, MISSOURI
Sen. Ed Davis, CALIFORNIA
Sen. Warren Green, OKLAHOMA
Rep. James Hudson, TENNESSEE
Rep. Bill Peterson, MINNESOTA
Rep. Lori Heiser, PENNSYLVANIA

and, from NEW MEXICO............

Rep. Mary L. Thompson
Rep. Martha Lambert
Rep. Stephen Kennedy
Rep. Dan C. Berry
Rep. Robert B. Corn
Rep. Charles Ted Asbury
Rep. Max Coll

FINAL PASSAGE

According to the Census Bureau, the 1979 Tax Revolt did not slow local spending. Overall direct local spending rose 10.2% to $121.4 billion in 1979 after going up only 7.7% the year before.

Nationwide, 1979 receipts dropped to $39.5 billion from $41.4 billion the year before while spending was increasing for schools, libraries, police and fire protection and even parks.

Increases in state and federal aid and boosts in other local taxes and user charges more than made up for the drop in property tax income.

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