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Select Committee on Economic Problems, Montana State Legislature(2)

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Mr. Chairman and members of the Committee:

I am pleased to testify before you today as you initiate your investigation of the economic problems facing Montana. September 29, 1980 long be remembered as the economic equivalent of Pearl Harbor Day for thousands of Montanans. The same element of surprise used by the Japanese in 1941, the Atlantic Richfield Corporation called the four members of Montana's Congressional Delegation to a meeting to announce the closure of the Anaconda Company's smelter at Anaconda and its refinery at Great Falls. The announcement came without consultation with Federal, State or local representatives, and it came without warning.

The analogy, unfortunately, can be carried further. Just yesterday, subsequent to the initial announcement by ARCO, we learned that copper concentrates from Berkeley Pit will be hauled to the west coast and shipped to Japan for processing -- thereby completing the economic raid on Montana.

The underlying message of September 29, 1980 is as
clear as that of December 7, 1941. For Montana as well as for the nation, the 1980's will be a decade of struggle for economic independence.

The emerging theme -- whether it is Anaconda, Montana or Youngstown, Ohio -- is the absolute necessity for a return to American productivity. We must reverse a trend which, over the past decade, cost the nation an estimated $125 billion in lost production and more than 2 million jobs.

In addressing this overriding issue today, I would like to outline three major elements of a plan for dealing with our economic woes. They are:

1) assistance for communities severely affected by economic dislocation such as the closure of the smelter in Anaconda;

2) development of a state and federal regulatory philosophy that will recognize the need for stable, reasonable and achievable environmental health and safety standards; and

3) creation of a tax and economic policy that will encourage even-paced industrial growth, improved research and development capacity, and increased independence from foreign sources of raw materials and technology.
MONTANA'S COPPER INDUSTRY

Before turning to these topics, however, I would like to state for the record that nothing I say should be interpreted as condoning the actions of the Atlantic Richfield Company. I simply do not feel that this method of doing business reflects good corporate citizenship. Furthermore, the closures ignore a commitment made by ARCO's top management at the time of the merger with Anaconda in 1976. At that time, Chairman of the Board Robert Anderson indicated that as much as $1 billion would be invested to rejuvenate the Anaconda Company, especially its smelting and refining operation.

Nonetheless, since the initial announcement of the closures, the Montana Congressional delegation has met with ARCO officials and repeatedly offered to assist in any way possible to keep the Anaconda Company in the business of smelting and refining Montana copper in Montana. We have been guaranteed cooperation from every appropriate federal agency from the White House to the Environmental Protection Agency and the Occupational Health and Safety Administration.

Regrettably, our offers of aid have been consistently rebuffed. In the words of Ralph Capito, President of the Anaconda Company,

"(O)ur company does not advocate changes in these environmental and health laws and regulations or seek preferential treatment for our operations in Montana. Frankly, we would
have mixed emotions were we to be given preferential treatment for the Montana Smelter. After a searching review prior to the closure decision, we determined that the totality and magnitude of the changes necessary to allow continued operation of the smelter were so great that it would now be inappropriate to seek or advocate all such changes."

Now that the company has categorically denied any intention of ever reopening these plants, the final page in this chapter of Montana history has been written.

By no means should we consider that this is the end of the story, however. What has happened in Anaconda is part of a national trend that threatens the vitality of the U. S. mineral industry specifically, and our national industrial productivity as a whole. Our ever increasing reliance on imported goods and materials has serious implications for Montana and the nation.

The decline of our basic minerals industry is, in fact, a threat to our national security. We may eventually find ourselves subject to an OPEC-like blackmail from a minerals cartel. We will also considerably weaken our international balance of trade position.

Before we discuss the national implications of a mining mineral industry, let's talk about the local situation. The 1500 employees who lost their jobs as a result of the Anaconda Company plant closures can't wait for us to revitalize our national mineral industry.
Their need is real and immediate.

ASSISTANCE TO COMMUNITIES AND WORKERS

The finality of ARCO's decision requires us to rechannel our energies toward a search for short-term emergency aid for Anaconda and Great Falls. Since news of the closure first reached me, the following actions have occurred:

- The Economic Development Administration has granted Anaconda/Deer Lodge $100,000 for economic planning and development. In addition, EDA has committed $50,000 for the Great Falls Economic Growth Council's Management Assistance Fund and $500,000 for a Revolving Loan Fund to provide capital assistance for small businesses in the area.

- I have urged Secretary Marshall of the Department of Labor to provide necessary CETA funding for assistance to workers in retraining and locating new employment.

- I have expressed my strong support for certification of workers under the Trade Adjustment Assistance Act. This program is aimed at helping workers who have been adversely affected by import policies.

- Farmers Home Administration has been involved in developing financing for new businesses in the Anaconda
and Great Falls areas. In particular, a meat packing plant in Great Falls and the foundry in Anaconda are potential new employers.

* The Small Business Administration has been contacted and urged to provide financing for local businesses to assist their economic recovery.

* Finally, we have appealed directly to the President for assistance in dealing with this crisis.

Through our efforts, some aid has come to Anaconda. We hope that more is on the way. For the future, however, more work remains to be done.

In my view, the Trade Adjustment Assistance Act should be restructured. This program was designed to provide relief to workers displaced by imports. Three changes should be made. A portion of the fund should be paid to employers who supplement their work force with TAA recipients, thereby providing on-the-job training. In addition, TAA should be made responsive to all industries facing hard times -- not just those where import competition is the major factor. Finally, benefits should be channeled toward "positive adjustment" steps, such as training workers at local colleges and vocational schools.

In short, any program of this sort should lead to new jobs rather than just a subsidy for displaced employees. As the laid off workers of Anaconda and Great Falls told me time and time again, they do not want welfare. They want jobs.
One way we can provide these jobs is by looking for ways to insure that major new defense contracts are targeted for areas such as Anaconda and Great Falls which are suffering from unemployment but which have skilled and productive workers. Recently my efforts in this direction paid off when the signing of a contract between the Department of Defense and a Hamilton firm for production of helmets. I hope that we can achieve similar success in Anaconda and Great Falls.

A diverse economy will pay long term benefits. We need to have strong manufacturing, agricultural, service and tourism industries that can absorb employees when shut-downs such as the one in Anaconda take place.

Our Coal Severance Tax is one vehicle to respond to economic problems. When displacement occurs, the fund might well provide retraining for unemployed workers. In addition, we need to examine other avenues for using coal tax revenues to stimulate the growth and manufacturing side of our economy. I understand that a proposal for investing these funds in Montana businesses and industry will be considered by the Legislature when it convenes in January. I encourage careful consideration of this legislation. Such a program might well insure that we, as a state, don't become totally
Finally, aid to the communities of Anaconda and Great Falls, I do not believe the responsibilities of the Atlantic Richfield Company should be overlooked. In many cases, second and third generation employees of the Anaconda Company have made long term personal financial commitments on the basis of explicit and implicit commitments made when it took over the Anaconda. I believe ARCO has an obligation to foster the development of new business and industry in these cities.

Furthermore, ARCO maintains a great deal of capital investment in the smelting equipment located in Anaconda and the refinery in Great Falls. If there is any way to make productive use of this equipment, either in the copper industry or in some other way, ARCO has a duty to do so.

ENVIRONMENTAL, HEALTH & SAFETY REGULATIONS

Next issue which I would like to address is the need for regulatory reform and a more complete, consistent, and effective regulatory process. This matter will be of particular interest to me because I will serve as a member of the Senate Committee on Environment and Public
As you know, ARCO cited environmental regulations as the chief reason for closing its copper processing facilities. But in my view there was nothing wrong with the regulations. The fact is that the Anaconda Company had failed to re-invest enough capital in its plants and equipment to keep them competitive.

In other words, ARCO's decision was economic -- nothing more and nothing less.

Given that, however, there are some regulatory guidelines that should be followed. First, let me underscore my belief that we should not let the quality of our environment go up the smokestack. We need reform of our environmental and health rules -- not repeal.

I fear that our current economic situation may result in a suicidal over-reaction on this point.

By the same token, let me say that I recognize industry's point of view. For too long, environmental standards have been a moving target. I believe that most leaders of business and industry are willing to comply with environmental standards if they are ensured a degree of predictability and reliability.

For example, building or improving a smelting operation requires a huge capital investment. To justify such an
investment, the firm must be reasonably confident that the environmental rules that it faces will not change continually over the useful life of the smelter.
Clean air and water are critical, as is worker safety. We must be careful that we don't give up on these goals by being overly protective of industry. However, the Clean Air Act does come up for renewal in the next Congress and I hope that we can make it more flexible and predictable for industry, while at the same time preserving our national environmental goals. Consideration should, for example, be given to longer compliance schedules for industries which require massive capital investment.

ECONOMIC AND TAX POLICIES

The final issue which I would like to discuss is the relationship between economic and tax policies and how we stimulate industrial productivity in Montana, rather than state action. Obviously federal tax policy has the most major impact on business and industry. However, I believe the types of initiatives being considered by Congress apply with equal weight to the deliberations of the State Legislature.

I anticipate that a wide range of measures will be proposed in the next Congress to address the questions of tax relief and tax incentives for the revitalization of American industry. These measures will likely include accelerated depreciation schedules for capital investments,
especially those related to regulatory requirements, re-
fundable tax credits for companies with little or no lia-
ability and adjustments to the tax treatment of capital
gains and losses to encourage high risk investments.

I also anticipate specialized programs for particular
industrialization plans. Some have suggested
that they should be similar to the same type of major re-
industrialization plan that has been set forth for the
steel industry. I am concerned that we must not deplete
our revenue base before we are sure that our decline in
copper and steel are truly comparable. Furthermore, we
must ensure that the remedy prescribed is truly effective.

To assist in this determination, I have initiated a
thorough analysis of the copper industry with the assistance

I am hopeful that specific initiatives will emerge
from this activity. In any case, I will share this report
with the committee upon its completion.

The decline of copper production in this country,
along with our growing dependence on foreign sources for
other critical minerals, leaves this country in a very
serious position with respect to our national security.

In a report issued on October 31, 1979, the General
Accounting Office reported that regular annual growth
in U. S. copper demand has been taking place and is likely
to continue at an annual rate of 3.5% per year between
1975 and the year 2000. Despite this fact, domestic refining operations are declining and imports of refined copper have risen over the last 10 years from 6% to over 19% of U.S. consumption.

Environmental regulations, international cartels and increased energy cost have all played a part in the decline of domestic mining and processing industry. This in turn has had an adverse impact on our balance of trade and on our willingness to invest in domestic processing facilities. A report issued by the Joint Economic Committee in August of this year contained several recommendations designed to encourage domestic mineral industry production and investment. These were:

- Increase the investment tax credit;
- Permit faster write-off of mineral industry capital equipment;
- Establishment of federal policy to insure that the mineral industry has access to adequate energy supplies;
- Encourage performance rather than design standards in environmental regulations; and
- Make federal lands more accessible to mineral exploration and development in a fashion consistent with the concerns of local citizens and the national interest.

I am hopeful that Congress and the Legislature will explore these and other alternatives as we seek to develop a co-
ordinated and comprehensive strategy for meeting our critical materials needs.

CONCLUSION

In conclusion, I must note that the ARCO announcement of the closure was grim news. However, just as Pearl Harbor mobilized the American people in 1941, I am hopeful that this action will stir Montanans to work for an improved and diversified economy for our state as we enter 1981.

Special aid is being provided to the communities of Anaconda and Great Falls. I hope more will follow. I also hope ARCO will meet its responsibilities.

In the next few days, the Presidential Commission will announce its views on the challenges facing the United States in the 1980's. I was fortunate enough to be an advisor to the Commission, and I want to share with you a brief preview of this report. The principal concern is with our nation's capacity for economic growth. The report concentrates at length on the underlying problems of inadequate capital investment, shrinking research and developments efforts, intractable inflation and flagging productivity.
The Commission's principal conclusion is that all of us -- public officials and private citizens, labor and management, consumer and businessman, Democrat and Republican; in short, all Americans -- are going to have to pull together, to invest, to save, to forego immediate consumption. This theme is especially applicable to today's hearing, for the Anaconda pull-out is so typical of the problems plaguing our national economy.

But we must not react by bailing out a failing industry -- even if anybody thinks it's a realistic possibility, and I know few who do. Rather, we should work to get our local employers to expand their operations and to attract new employees to transfer their operation to Montana.

Personally, I do not believe the economic wreckage left by the Anaconda pull-out will be repaired immediately, or even the next few months, or the next few years. Rather, this void will take years to fill, but I believe that if we follow the programs outlined in my remarks today, it will be filled successfully.

Montana's economy will go through major changes in the eighties. Making sure those changes are healthy and prosperous is our challenge. I am committed to that task. Together we can reach that goal.