Originally Processed With FOIA(s):
2009-0166-S

FOIA Number:
2009-0166-S

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the George Bush Presidential Library Staff.

Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Office of the President
Series: Daily Files
Subseries:

OA/ID Number: 90520
Folder ID Number: 90520-002

Folder Title:
Saturday, August 19, 1989

Stack:	Row:	Section:	Shelf:	Position:
V	12	11	3	7

Withdrawal/Redaction Sheet
(George Bush Library)

Doc. No. / Type	Subject/Title	Date	Restriction	Classification
01. Log	White House Telephone Log [Signal Switchboard] [redaction of personal information] (1 pp.)	08/19/89	(b)(6)	

Collection:

Record Group: Bush Presidential Records
Office: Office of the President
Series: Daily Files
Subseries:
WHORM Cat.:
File Location: Saturday, August 19, 1989

Pinksheet Number: dw1420
OA/ID Number: 90520-002
Date Closed: 8/11/2009
FOIA/Sys Case #: 2009-0166-S
Re-review Case #:
P-2/P-5 Review Case #:

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Log	White House Telephone Log [Signal Switchboard] [redaction of personal information] (1 pp.)	08/19/89	(b)(6)	

Collection:

Record Group: Bush Presidential Records
Office: Office of the President
Series: Daily Files
Subseries:
WHORM Cat.:
File Location: Saturday, August 19, 1989

Date Closed: 8/11/2009	**OA/ID Number:** 90520-002
FOIA/SYS Case #: 2009-0166-S **Re-review Case #:** **P-2/P-5 Review Case #:**	**Appeal Case #:** **Appeal Disposition:** **Disposition Date:**
AR Case #: **AR Disposition:** **AR Disposition Date:**	**MR Case #:** **MR Disposition:** **MR Disposition Date:**

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

Freedom of Information Act - [5 U.S.C. 552(b)]

(b)(1) National security classified information [(b)(1) of the FOIA]
(b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
(b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
(b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
(b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
(b)(9) Release would disclose geological or geophysical information

THE WHITE HOUSE
WASHINGTON

TELEPHONE MEMORANDUM
SIGNAL SWITCHBOARD

August 19, 1989

	TIME PLACED	TIME DISC	NAME	ACTION
OUT / ~~INC~~	7:08 AM / PM	7:16	Mr. Robert M. Gates Office, Kennebunkport, Maine Kennebunkport Signal x286	Tlkd-ok 7:14 AM
~~OUT~~ / INC	11:04 AM / PM		Secretary Nicholas Brady [redacted] (b)(6)	Tlkd with Ms. Casey 11:04 AM
OUT / INC	AM / PM			
OUT / INC	AM / PM			
OUT / INC	AM / PM			
OUT / INC	AM / PM			
OUT / INC	AM / PM			
OUT / INC	AM / PM			
OUT / INC	AM / PM			
OUT / INC	AM / PM			
OUT / INC	AM / PM			

PRESIDENTIAL MOVEMENTS

LOCATION Kennebunkport, Maine **DATE** 19 August 1989

TIME	MOVEMENTS	
0744	Depart Walker's Point via Boat	(LOW KEY)
1020	Arrive Walker's Point	(LOW KEY)
1514	Depart Walker's Point via Motorcade	(LOW KEY)
1522	Arrive Cape Arrundel Golf Club	(LOW KEY)
1551	Depart Cape Arrundel Golf Club	
	via Motorcade	(LOW KEY)
1805	Arrive Walker's Point	(LOW KEY)

WHCA FORM 15, OCTOBER 15, 1980

THE DEPARTMENT OF THE TREASURY 1789

OB
8-16

Mr President.

Attached a memo on Fed policy and a few of the newspaper pieces on the subject. In the scale of things you have to deal with they are not "the end of the Western World as we know it". But we are less in control of our destiny than we would hope and I would like to talk to you about the matter when I see you in September.

If we can keep everyone quiet now it is to our strong advantage.

2/ There is ~~an~~ an F.O.M.C meeting next week where I hope the present flap will be overlooked and that the Fed will continue on the course it has been on since June.

Put the overheads away and hit 'em straight

NFB

THE SECRETARY OF THE TREASURY
WASHINGTON

Destroy when finished. There are no other copies.

MEMORANDUM FOR THE PRESIDENT

FROM: Nicholas F. Brady

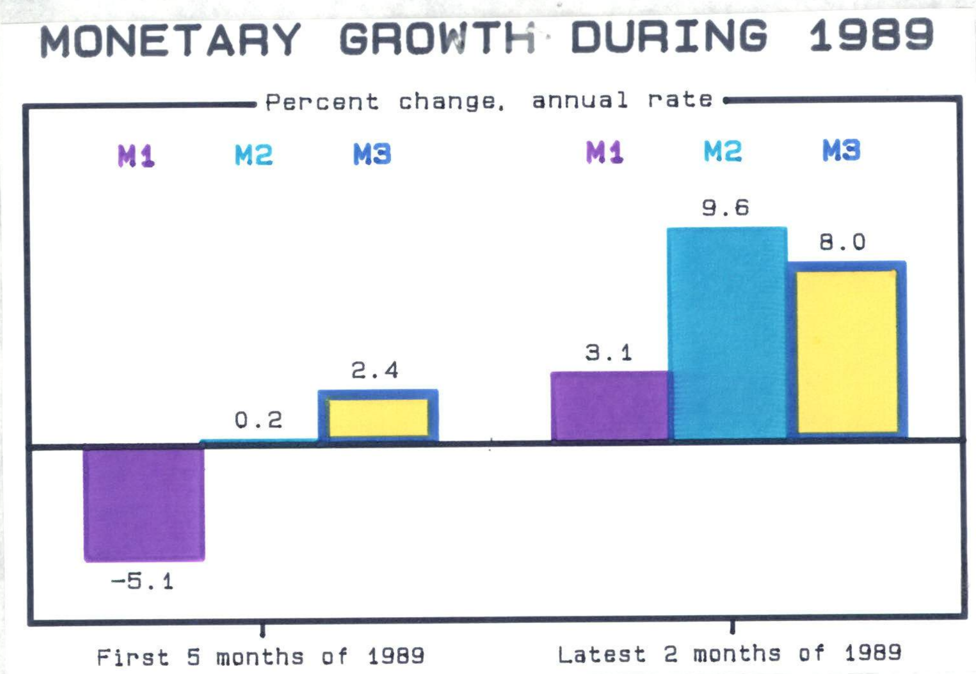
SUBJECT: Federal Reserve Policy

The Fed was fairly tight in controlling the money supply and pushing up interest rates in 1988 and actually increased its pressure early this year. The degree of restraint was probably exaggerated because it did not take into account the transitory effects of temporary price increases in oil and food products. At the same time the Fed did not give enough emphasis to the possible punishing effects of an unwanted and unnecessary economic recession. The seven-year expansion has become more balanced and continues to be solid, as indicated by the upward revision of many key economic statistics.

Both Mike Boskin and I have repeatedly emphasized the risks of excessive monetary restraint in frequent private discussions with Alan Greenspan, particularly the risk that an economic recession would make the job of achieving a meaningful budget compromise in 1991 vastly more difficult, if not impossible, for the President.

However, an equally important fact to note is that either for his own reasons, or perhaps in response to our firm pressure, Greenspan and the other Fed governors have tacitly changed direction as indicated in the following charts. This fundamental change took place two months ago in June and the Fed has eased substantially since then. Irrespective of whether or not we agreed with their earlier policies, we should now be very careful to avoid disrupting the current transition by appearing to intervene in their responsibility to set monetary policy, particularly during the period leading up to the next FOMC meeting on August 21 and 22. Also there is no useful purpose served by resurrecting the Fed vs. President controversy where the Administration comes out the loser 9 times out of 10.

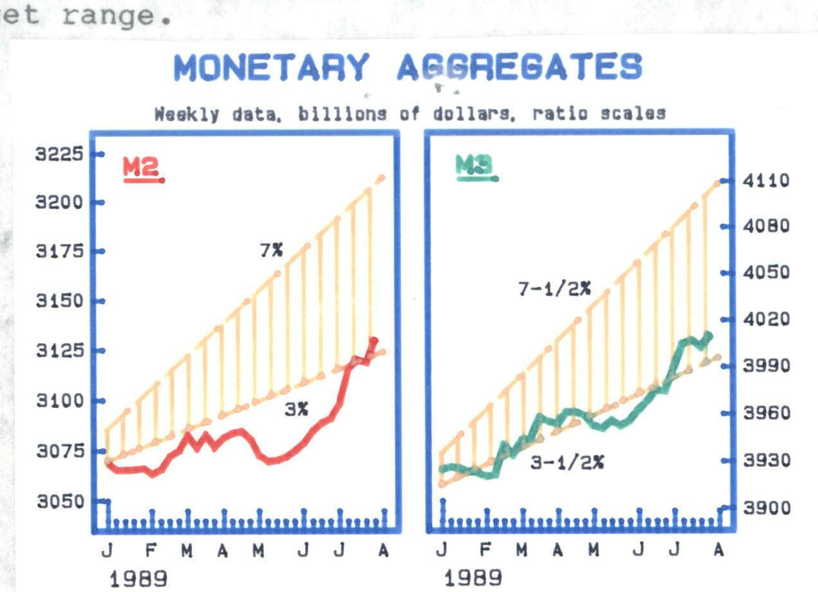
As indicated in the first chart, all of the monetary aggregates have grown rapidly since mid-1989. The Fed has a fine line to draw but they appear to be on a growth track again and there is no reason to have a near-term recession unless an egregious policy error is made.



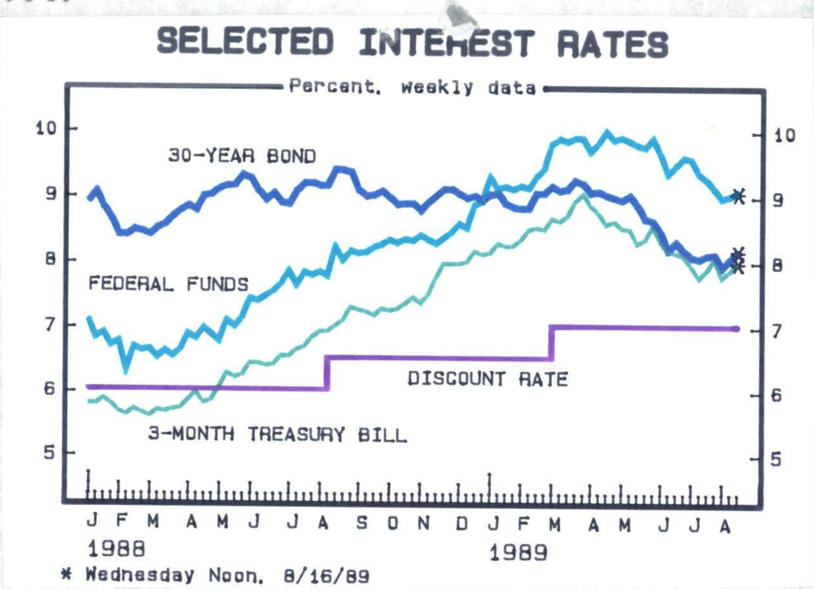
As mentioned, the shift to an easier policy began in early June. It can be tracked by three successive reductions in the Fed's target for the all important Federal funds rate.

Early June	9-3/4 percent to 9-1/2 percent
Early July	9-1/2 percent to 9-1/4 percent
Late July	9-1/4 percent to 9 percent

Although the monetary aggregates are still sluggish, they too have risen rapidly since early June. M2 and M3 are getting in the target range.



As a result of these steps, interest rates have been coming down. From their peak levels earlier this year, short-term Treasury bill rates have declined from 9.10 to 7.89 percent; 10-year Treasury bond rates from 9.53 to 8.15, 30-year Treasury bond rates from 9.31 to 8.16; and conventional mortgage rates from 10.93 to 10.04.



I believe that our strong arguments to the Fed, made during private meetings, have had a positive effect and should be continued. Public criticism of the Fed serves up the administration and the President to the press, and is counter-productive, because it makes the Fed defensive and challenges their institutional independence. We should keep up our efforts to make clear the importance of avoiding an unnecessary recession. Let's hope that Greenspan's goal, as indicated by the turnaround in the figures, continues in that direction.

The Washington Times THURSDAY, AUGUST 17, 1989

Fed hysteria!

Just as some people feel an oncoming snowstorm through a throbbing big toe, America's economic community anticipates meetings of the Federal Reserve Board Open Market Committee with wild fluctuations in stock and bond prices. Sure enough, the markets have gone loopy this week. Bond prices have fallen precipitously, and stocks have backed briefly away from their assault on an all-time Dow Jones index high. The FOMC, which sets Fed policy, will gather next week.

At the root of the problem is the fact that the Fed, originally created as a lender of last resort to failing banks, somehow has been transformed into the protector of America's economy. It fulfills this role chiefly by setting "targets" for such important abstractions as aggregate demand, economic growth, money supply, monetary base, discount rates and so on.

This expansion of the Fed's role naturally has made the Fed a target of politicians with things other than monetary stability on their minds. When politicians succeed in turning the Fed into a fourth branch of government, bad things often happen. The market collapse nearly two years ago was set off, for instance, by the Reagan administration's "talking down" the dollar in order to appease flabby industries, such as automaking and steel manufacturing. Those industries figured that a cheaper dollar would help them improve their export performance while increasing the price of imports sold in the United States. Many investors promptly sold off their American stocks and invested in potentially more profitable properties in other markets, here and abroad.

The same thing happened last weekend, when Richard Darman, director of the Office of Management and Budget, declared that the Fed had spent enough time keeping tight control over money supply. Some investors interpreted this as a veiled attempt to talk the dollar down again, at a time when the greenback was gaining real strength against foreign currencies. Treasury futures plunged, the Dow Jones Industrial Index fell 30 points and the dollar softened against other major currencies the following day. The markets have regained their breath, in part because White House press secretary Marlin Fitzwater and to a certain extent President Bush himself assured the public that Mr. Darman was speaking for himself.

The moral here is that the United States has created an economic monster at the Fed. Until Congress screws up the courage to clarify the Fed's role and insist that economic decisions now rendered by the FOMC be made publicly on the basis of defined criteria, the needlessly costly phenomenon of Fed hysteria will plague us month after month, year after year.

The Fed hates this subject for obvious reasons. Maybe it makes them pay more attention to political worries; more likely it makes them ~~[illegible]~~ stubborn about what we want.

THE WASHINGTON POST TUESDAY, AUGUST 15, 1989

Mr. Darman on the Fed

INTEREST RATES, the administration suggests, are too high. Once again it has begun publicly needling the Federal Reserve Board with heavy suggestions to loosen up. This time they come from the president's director of management and budget, Richard G. Darman. Interviewed on "Meet the Press," he urged the Federal Reserve to "be more attentive to the need to avoid tipping this economy into a recession."

It's a curious attack. When the White House wants the Federal Reserve to shift course, it generally argues its case in private. Public pressure makes it difficult for the Federal Reserve to respond without setting off an avalanche of rumor and speculation that it is caving in to the president and setting up an election-year boom with a wave of inflation to follow. Possibly the Bush administration thinks that a recession is already on its way and wants to be sure that the blame falls elsewhere.

But is a recession coming? While the economy is emitting mixed messages, they don't add up to a clear warning of trouble ahead—or anything close to it. On the contrary, the labor market is quite tight and as late as last month was getting tighter. A lot of people in the bond market, those merchants of gloom, apparently believe that there may shortly be a recession. But the stock market, by nature more cheerful, sees nothing ahead but higher sales, higher profits and more growth.

Speaking of mixed messages, Mr. Darman, who was calling for lower interest rates on Sunday, last month criticized the national descent into a juvenile "now-now-ism"—"our wish to buy now, pay later—or, more accurately, buy now and let others pay later." To push down interest rates in the face of the present high inflation is to encourage more borrowing and less saving.

Inflation—along with a well-justified fear of it—is at the center of this debate. In the first half of this year inflation was running at an annual rate of 6 percent—too high to be healthy. A lot of people think that it will fall in the second half of the year. But the chief reason they think so is that the Federal Reserve has a tight grip on the money supply. That tight grip, as the Federal Reserve itself recently warned, does indeed carry a risk of a mild recession at some point down the road. But relaxing that grip now would make higher inflation more than probable, and that's the greater danger.

When Talk Is Expensive

Sunday talk shows are a great place to peddle ideas to a large audience, but some care needs to be exercised in dealing with sensitive subjects. Money, for example. Some of us recall that James Baker used one of those Sunday forums in October 1987 to threaten the Germans with a hard-hitting game of competitive devaluation. It may not have been entirely coincidental that the world's stock markets, already nervous about the dollar, promptly crashed.

Last Sunday on "Meet the Press," George Bush's budget director, Richard Darman, offered a few of his own money thoughts. If we go into a recession, he said in effect, the Federal Reserve will deserve the blame. Next day, the Shearson-Lehman-Hutton T-Bond index lost 40 points.

That drop may in fact have been a mere coincidence, but markets do tend to get nervous when politicians appear to be calling for a softer dollar. That is true of bond markets in particular, since the value of bonds is dependent on long-term monetary stability. Some economists also reacted coolly to Mr. Darman's remarks. The AP yesterday quoted Robert Dederick, chief economist of the Northern Trust Co. of Chicago, as follows: "This is a classic situation of setting up the Fed to be the fall guy if something goes wrong."

Mr. Darman's boss, George Bush, said at his press conference yesterday that "I feel very comfortable with his sallying forth. I think I have said the same things in the past." Maybe so, but with the bond markets slipping Monday, the White House had taken some pains to indicate that it was not picking a fight with the Fed.

Now, it could be that the markets had very little interest in what Mr. Darman said. Fed-bashing is not exactly a new game. But there often are resonances to such remarks when markets face uncertainty.

More to the point, Mr. Darman's timing wasn't especially good. The Fed's anti-inflation fight has been going reasonably well. The Consumer Price Index, after rising at a very worrisome 7% annual rate in May, climbed at a more comfortable rate in June. Judging from a sharp drop in growth of the Producer Price Index, further CPI improvement probably is in the cards. Sometimes people forget it, but the main job of the Fed—some might say the only job—is to keep the dollar sound, and that seems to be what Chairman Greenspan is trying to do.

More interestingly, and also not reflective of good timing on Mr. Darman's part, the economy is responding well, not badly, to the anti-inflation effort. While real economic growth slowed in the second quarter as the inflation rate climbed, lately the signals are better. The stock market until the last few days has been strong. Rates on 30-year Treasury bonds in late July dropped below 8% for the first time since early 1987, suggesting some market confidence that the Fed is serious about preserving long-term values. Consumer confidence, as measured by the University of Michigan index, improved in July for the first time in three months. Auto sales in July were up some 8.5% from June. Unemployment fell to 5.2% in July from 5.3% in June.

Indeed, the Fed had already eased short-term interest rates before Mr. Darman's appearance on "Meet the Press." Whether it could safely ease further is worthy of some debate.

But the Sunday talk shows don't always lend themselves to serious debate. Mr. Darman is a talented public official and an articulate exponent of policy. All the more reason for him to keep an eye on his critical reviews.

THE WALL STREET JOURNAL

Friday, 8/18/89

Washington Wire

A Special Weekly Report From The Wall Street Journal's Capital Bureau

DARMAN WARNS the Fed that just averting recession won't be enough.

Some outside observers puzzle over budget chief Darman's Fed-bashing on "Meet the Press," noting that recent data offer few hints of an imminent downturn. But administration officials fear that the Fed will be satisfied with very slow growth, and they decided to go public to underscore their view that a narrow escape from recession is no great victory.

Fed officials are cheered by signs of easing inflation; a mild consumer-price report today would confirm the trend. But they still aren't eager to push interest rates down quickly. Former Fed Governor Gramley says the administration's tactics could backfire by leading Fed policy makers, who meet next week, to delay further easing to avoid appearing to cave in.

Darman, who wanted to be asked about the Fed during his TV appearance, later tells colleagues his words came out harsher than intended.

Why?

Economic Scene | Leonard Silk

The White House Vs. the Fed

NO Federal Reserve chairman is a hero at the White House. President Bush's budget director, Richard G. Darman, has fluttered the dovecotes from Constitution Avenue to Wall Street by maintaining that the Fed has kept interest rates so high that it was risking a recession. And he has the President's backing.

"I can feel very comfortable with his sallying forth and saying that," Mr. Bush said. "I think I've said essentially the same thing in the past."

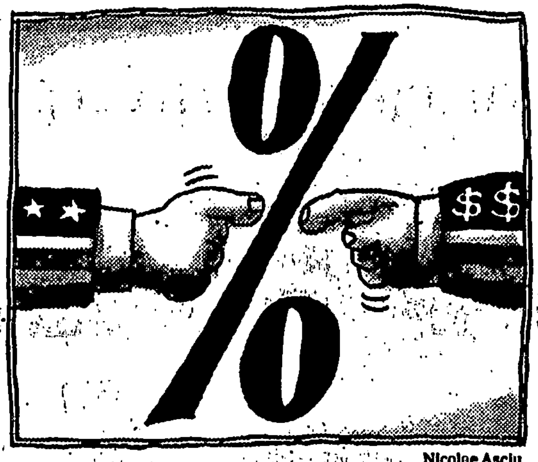
But why this flap at this time? Wall Street — and many economists and investors around the country — think the Fed has done a remarkably adroit job of wheeling policy first against inflation, then against the threat of recession. "They don't know a good thing when they see it," said Roger Kubarych, manager of Henry Kaufman & Company. "Alan Greenspan has a good feel for how the economy develops late in the business cycle."

• • •

There appears to be nothing personal or particularly hostile about the White House's resort to Fed-bashing. It is only a political desire to avoid blame for a recession, should one occur. "They're getting ready to make Greenspan the fall guy," one Republican Senator said.

The unflappable Fed has taken the current flap in stride; it sees it as normal Fed-bashing that goes with the territory, and it made no response. Indeed, clashes between Presidents and the Fed are a staple whenever the central bank raises interest rates to check inflation. Mr. Bush acknowledged as much. "I don't know of any President, now or in the past, who doesn't favor lower interest rates," he said.

There are basic differences in institutional perspective between the White House and the Fed. Presidents, with rare exceptions, have put their



Nicolae Asciu

greatest stress on economic growth as crucial to their popular support and future electoral success. Fed chairmen have put greatest stress on protecting the dollar's stability as vital to serving the long-term interests of banking, business and the public.

But Mr. Greenspan has explicitly tried to narrow the gap between the Administration's and the Fed's conceptions of monetary policy. In his testimony to the Senate Banking Committee earlier this month, Mr. Greenspan defined the fundamental objective of "our policy" as "to maximize sustainable economic growth, which in turn requires the achievement of price stability over time." And President Bush, while supporting the Darman criticism, sought to moderate it by recognizing the Fed's need to keep an anxious eye on inflationary pressures.

Nevertheless, in times like the present, when recession becomes a clear possibility (55 percent of the economists polled this month by Blue Chip Economic Indicators expect a recession to begin this year or next), conflicts over monetary policy between the Administration and the central bank inevitably erupt.

However, while making no direct response to the Darman criticism, the Fed considers that Mr. Greenspan anticipated the criticism and offered the Fed's response in his Aug. 1 testimony, when he indicated that the Fed had already shifted the balance of its policy to respond to the increased risks of a weakening economy and the somewhat lesser risks of inflation.

"It is prudent," he said, "for the Federal Reserve to recognize the risk that such softness conceivably could cumulate and deepen, resulting in a substantial downturn in activity." Fed policy would be aimed at avoiding "an unnecessary and destructive recession," Mr. Greenspan added.

He acknowledged that the balancing act between inflation and recession would be delicate. He could not say the business cycle had been repealed; some day, some event, like an excess accumulation of inventories or an external shock, would end the extraordinary expansion that has prevailed since late 1982. And he could not rule out a policy mistake by the Fed as setting off a downturn. The Fed, he said, "might fail to restrain a speculative surge in the economy or fail to recognize that we were holding reserves too tight for too long."

• • •

The timing of the Darman assault on the Fed baffled Wall Street — not only because of the Fed's shift toward ease but also because of the evidence in the most recent economic data that the agency appears to be succeeding in engineering a soft landing, with the inflation rate coming down and the expansion continuing at a moderate pace or even picking up slightly.

The Labor Department reported that the Producer Price Index had fallen in July for the second straight month, and the decline of four-tenths of 1 percent was the steepest in three years. At the same time, the Federal Reserve index of industrial production rose two-tenths of 1 percent in July, housing starts were up eight-tenths of 1 percent, and retail sales rose nine-tenths of 1 percent.

Apparently the Administration is simply taking out some political insurance in case the present miracle mix of lower inflation and improving growth vanishes and recession occurs after all.

THE PRESIDENT

August 19, 1989
(Kennebunkport, Maine)

Dear Albert,

Many thanks for your thoughtful letter and kind words. I appreciate it.

I am happy to sign the enclosed photo for you and Mitzi. It comes with my very best wishes.

Sincerely,

G Bush

FROM
THE WHITE HOUSE
WASHINGTON, D.C.

Mr. Albert Papoyans
U.S. Properties, Inc.
1200 Soldiers Field Road
Boston, Massachusetts 02134

Jan B.