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Chronology of Significant Events in S&L Deregulation

o Prior to 1989, Congress had provided that every major regulator except the Comptroller of the Currency would be an "independent" agency:

Federal Home Loan Bank Board
Federal Reserve Board
Federal Deposit Insurance Corporation
Federal Savings and Loan Insurance Corporation
Securities and Exchange Commission
Commodities Futures Trading Corporation
National Credit Union Administration

o During the 1970's, money market mutual funds offering market interest rates began drawing funds away from banks and thrifts where interest rates were capped at low levels under "Regulation Q." Because of the very high inflation and interest rates during the Carter Administration, this "disintermediation" accelerated dramatically during the late 70's.

o In 1980, President Carter proposed, and a Democratic Congress passed, the Depository Institutions Deregulation and Monetary Control Act (DIDMCA). Principal features:

- o Provided for the phased deregulation of interest rates in savings and checking accounts
- o Provided S&Ls with greater discretion in making loans, holding commercial paper, and offering credit cards
- o Increased deposit insurance from \$40,000 to \$100,000 per account (this provision was added in Conference, without the scrutiny of the usual legislative process)
[Note: The possibility of reducing insurance limits is a very sensitive issue on which the Bush Administration has not taken a position]

At the signing ceremony, President Carter said: "[I]t's another important step in a long but extremely important move toward deregulation of the private enterprise system of our country."

o Also in 1980, the independent Federal Home Loan Bank Board loosened restrictions on thrifts' use of brokered deposits.

o In 1982, Congress passed the Garn-St. Germain Depository Institutions Act. Building on the Carter Administration's DIDMCA initiative, the new law expanded the ability of thrifts to make commercial loans and increase their consumer lending. In addition, the new law fully deregulated interest rates on savings and checking accounts.

o In 1982, the independent Home Loan Bank Board adopted new regulatory accounting rules that concealed the insolvency of many

thrifts. In 1982 and 1983, the Board also eased or eliminated many restrictions on the ability of thrifts to invest directly in real estate and to engage in commercial lending.

o In 1984, the Bush Task Group on Regulation of Financial Services recommended a comprehensive reform of the regulatory apparatus. Highlights included:

- o More effective regulation through the elimination of archaic and overlapping regulatory structures
- o Uniform capital and accounting standards to end low capital levels and phony accounting standards in the thrift industry - the Report noted that low capital levels encouraged insured institutions to engage in high-risk speculative activities
- o Authorizing the FDIC to institute risk-based insurance premiums - the Report noted that the current system forced prudently managed institutions to subsidize high risk institutions

In early 1985, a working group of President Reagan's Cabinet Council on Economic Affairs published a report adopting the main elements of the Bush Task Group recommendation. In early 1987, legislation to implement the Task Group proposals was introduced by the Administration, but the Democratic Congress refused to move the legislation.

o By late 1984, FSLIC was experiencing high rates of staff turnover at Federal civil service pay scales. In July 1985, the Bank Board solved this problem by delegating examining responsibility to the district Federal Home Loan Banks (which could pay examiners competitive salaries).

o In early 1986, the Reagan Administration asked Congress for \$15 billion to recapitalize FSLIC, which was insolvent. The request encountered strong opposition, especially from Speaker Jim Wright. More than two years later, Congress finally enacted a bill providing:

- o only \$10.8 billion in recapitalization (28% less than the Administration had requested 2 years earlier)
- o "statutory forbearance" provisions not sought by the Administration -- these provisions required the use of phony "regulatory accounting" and permitted thrifts in "depressed areas" to operate with capital of less than one-half of one percent of assets

The delay in recapitalizing FSLIC prevented regulators from closing insolvent institutions before their losses ballooned. The "statutory forbearance" provisions had similar effects.

Note: The House of Representatives' Special Outside Counsel who investigated Speaker Wright found that Wright:

- o on at least one occasion took the FSLIC recapitalization bill off the House calendar in order to pressure the Bank Board into altering its position on a matter affecting a major Dallas real estate syndicator
- o sought to have at least two federal regulators removed from office
- o intervened on behalf of a Democratic Party official who had been banned from the thrift industry for engaging in regulatory violations and unsound practices.

The House ethics committee did not regard any of this as evidence of undue influence because: "The assertion that the exercise of undue influence can arise based upon a legislator's expressions of interest jeopardizes the ability of Members effectively to represent persons and organizations having concern with the activities of executive agencies."

o In 1989, President Bush proposed the legislation that became FIRREA. The President also asked for an immediate supplemental appropriation for DOJ bank fraud investigations, but the Democratic Congress refused to act on this request.

THE WHITE HOUSE
WASHINGTON

SEPTEMBER 25, 1990

MEMORANDUM FOR DAVID DEMAREST
THE 9:30 GROUP
SPEECHWRITING AND RESEARCH

FROM: DEB AMEND *DA*

RE: LATEST SAVINGS AND LOAN STATISTICS FROM JUSTICE

David Runkel of the Justice Department sent over their latest S & L press release as well as a recent speech on the subject by the Attorney General. These are attached for your information.



Department of Justice

FOR IMMEDIATE RELEASE
THURSDAY, SEPTEMBER 6, 1990

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SAVINGS AND LOAN PROSECUTION UPDATE

The Department of Justice today issued the following information describing activity in "major" savings and loan prosecutions from October 1, 1988 through August 29, 1990.

Informations/Indictments:	274
S&Ls Victimized:	340
Estimated S&L Losses	\$3.443 billion
Defendants Charged:	403
Defendants Convicted:	316
Defendants Acquitted:	13*
Prison Sentences:	629 years
Sentenced to prison:	176 (77%)
Awaiting sentence:	101
Sentenced w/o prison or suspended:	54
Fines Imposed:	\$3.607 million
Restitution Ordered:	\$201.119 million

NOTE: All numbers are approximate.

"Major" is defined as (a) the amount of fraud or loss was \$100,000 or more, or (b) the defendant was an officer, director, or owner (including shareholder), or (c) the schemes involved convictions of multiple borrowers in the same institution.

These numbers are based on reports from the 94 offices of the U.S. Attorneys and from the Dallas Bank Fraud Task Force. The totals of "major" savings and loan prosecutions since October 1, 1988 are higher than last month's totals because of (a) activity between August 1-29, 1990, and (b) previously unreported activity submitted by those offices during the past month.

* One of the 13 defendants was convicted in another case.



Department of Justice

"WHITE COLLAR CRIME: THE NATURE OF THE THREAT"

REMARKS

BY

DICK THORNBURGH
ATTORNEY GENERAL OF THE UNITED STATES

BEFORE THE
ANNUAL LUNCHEON MEETING OF
THE MERCHANTS AND MANUFACTURERS ASSOCIATION

LOS ANGELES, CALIFORNIA
WEDNESDAY, JUNE 27, 1990

Most of you, I'm sure, have seen, if only on TV, one of my favorite Jimmy Stewart movies -- It's A Wonderful Life. Jimmy Stewart plays George Bailey -- president of Bailey Building and Loan -- a reluctant banker, who always plans to leave his hometown of Bedford Falls. But every time he starts to head out of town, he has to turn around and save it again. He even gives up his honeymoon, doling out \$2000 cash in hand to stop a run on the bank. Eventually he reaches a point of despair. His Uncle Billy has mislaid \$8000, and the bank examiner is due the day before Christmas. George is only kept from throwing himself off a bridge by the arrival of his guardian angel -- Clarence. "I wish I'd never been born," George moans. So Clarence -- a pretty bright angel, long overdue for his wings -- actually shows George what Bedford Falls would've been like if he hadn't lived -- a total sinkhole called Pottersville. And we're all very glad to see George rush back home to hug Donna Reed, safe and -- thanks to a basket full of money from the townspeople -- solvent again.

I recall George's banking career to you because -- for all that Forties' romance -- George Bailey is still how we believe bankers ought to behave. Bailey Building and Loan you will recognize as an important community institution. George's job was to help his community grow, in particular, to help families buy new homes. In fact, any sequel would have had George Bailey taking part in a genuine miracle even his guardian angel couldn't have foreseen -- the postwar housing boom. Imagine -- in the last fifty years, 70 million new homes have been built, three

quarters of the existing dwellings in this country. Bankers like George Bailey -- and some of you, I'm sure, here today -- loaned \$2.2 trillion in mortgage money, secured by a national housing stock worth \$4 trillion. The S & Ls underwrote that miracle, which let so many of us live, in reality, a Wonderful Life.

But in contrast, listen to what Shirley Lampel, a widow, had to say after losing \$30,000 -- her whole life savings, which she had been deceived into thinking were insured -- when the Lincoln Savings & Loan went belly up in 1989.

"It used to be that a person puts on a mask and goes in with a gun and robs a bank," said Mrs. Lampel. "Now we go into a bank and we get mugged. When did the bank become the crook?"

When did the bank become the crook?

This is only one of the reverberating questions, raised by the nation's S & L crisis. We know that any number of financial and fiduciary failings contributed to their massive collapse, but today I want to turn your attention to the moral failing, the criminality that also stands revealed. Attorneys from our Department of Justice Fraud Squad talk about an "epidemic of fraud" among the S & L's presently in default. Twenty-five to thirty percent, conservatively, of these "thrift failures" can be laid to wrong-doing by miscreant bank officials.

Only last week, at the Department of Justice President Bush and I assembled our 93 U.S. Attorneys from around the country to a day-long conference on how to step up the pressure upon those perpetrators of what we have come to call "crime in the suites".

The challenge is a substantial one, because these white-collar criminals are different.

They come not as threatening intruders or violent assailants, but in the very good company of those we implicitly trust. There are no gun shots, no blood-stained knives, no wailing police sirens at the scene of their crimes, but white-collar criminals still leave their victims -- such as Mrs. Lampel -- emotionally traumatized as well as economically destitute. Individual financial losses from their thievery far exceed the combined "take" from the more publicized thefts of robbery, larceny, and burglary.

For society as a whole, white-collar criminals undermine our faith in major institutions of business and finance. They can cause job loss, false pricing, deterioration of standards -- and coupled with failure to inspect, to report, to account, as in the case of the S & Ls -- a malaise of public anxiety and cynicism that is the bane of good government itself.

Finally, white-collar crime loads tremendous losses on the country's economy -- most to be borne by consumers and taxpayers. Total losses from the S & L collapse are estimated by some to be as high as \$500 billion. And the direct losses are compounded by an undermining of economic growth, the actual undoing of future chances for that Wonderful Life.

Those are some of the dire results of corrupt practices that too often plagued the nineteen eighties -- as opposed to the honest business done during that decade of unprecedented economic growth. Much activity came from old-fashioned hard work and entrepreneurial ingenuity, but too much of it slipped beyond legitimate risk into White Collar Crime. Our investigations have catalogued seven different and distinct types of white-collar criminals.

In addition to the S & L predators, they include:

- * Defense contractors who lied, bribed, and spied in committing procurement fraud.

- * Investment bankers, brokers, and traders who engaged in insider trading.

- * HUD contractors and consultants seeking to serve "the greedy rather than the needy."

* Money-launderers desperately trying to cleanse the blood stains from illegal drug proceeds.

* Price-fixers and others colluding in restraint of a free market through antitrust violations.

* And, finally, public officials who aid and abet all of the foregoing in their illegal undertakings.

You might notice one peculiar thing, as these white-collar criminals join the line-up. They each leave a lot of paper behind. That is frequently the only way we can catch white-collar criminals -- by picking up the damning paper trail that can corral an embezzler, or expose a penny stock fraud, or unravel a bogus transaction on the falsely balanced books of an S & L.

But this is easier said than done. Having spent a dozen years myself as a corporate lawyer -- before ever trying a criminal case -- I can attest to how complicated even legitimate business transactions can be. When shifty operators start to bend such transactions into illegitimate shape -- to hide fraud, pay-offs, kickbacks, etc. -- that deliberate tangle is even harder to unravel. It takes much more than the police breaking down the doors and seizing the evidence. It requires adept craftsmen who can break open false books to discover hidden

assets. Catching a white-collar criminal still demands the kind of investigative probing Judge Samuel Seabury of New York used in his famous prosecutions of the corrupt in the 1920s. As described by his biographer,

"Seabury's technique was to perform the unspectacular job of research where it hurt: income tax returns, bank deposit slips, savings accounts of the accused's family, brokerage statements, real estate and other filed papers."

"Research where it hurts." That is exactly what we have undertaken, for example, against the S & L rip-offs -- the white-collar crime that most concerns the country today. Still searching the paper trail for patterns of fraud, bribery, and corruption in the S & L industry, we continue to winnow carefully through some 21,000 allegations, major and minor, against the troubled institutions of American banking. This search has already allowed us to identify some twenty institutions -- mostly in Texas, or here in Southern California -- that are the top-priority targets in our effort to fix criminal responsibility for the S & L crisis.

So we are embarked on a growing series of investigations to clear up the criminal side of the S & L mess. We are using an additional \$50 million voted us by Congress late last year -- to double Justice Department personnel devoted to prosecuting the S

& L crooks in 27 cities, including Los Angeles, employing the specific model of our highly successful Dallas Bank Fraud Task Force.

That Dallas Task Force has a record, to date, of 77 indictments and 52 convictions, including the entire executive suite of the notorious Vernon S & L. Three quarters of those convicted in Dallas have gone to jail, including Woody Lemons, former Vernon CEO, now serving a 30-year prison term. And earlier this month, Vernon's top man -- Don Dixon -- was indicted on 38 counts for activities surrounding illegal contributions to political candidates. He is alleged to have even bribed a Texas bank official with a Kansas hunting trip. They bagged a brace of pheasant and a bevy of Dallas Million Dollar Saloon dancers.

This is all part of the anti-white-collar-crime drive we now have underway nationwide, thanks to President Bush's budget initiative, during the early weeks of his administration. And we would be further along in this drive, were it not for Congressional delays and funding shortfalls.

Less than three weeks after George Bush's inauguration, I appeared before the Senate Banking Committee to outline the gravity of the S & L situation, and to seek that \$50 million to beef up our anti-fraud efforts during fiscal year 1990. Shortly thereafter, we requested 36.8 million additional dollars to "jump

start" our anti-white-collar-crime drive during 1989. The result? Congress turned down flat our request for the \$36.8 million, and delayed the \$50 million until late last year.

Nonetheless, our drive is up and running. Last year we secured a total of 791 convictions in major -- that is, over \$100,000 -- financial institution fraud cases. And the FBI has 530 failed financial institutions under current investigation. President Bush's admonition to pursue "the cheats, the chiselers, and the charlatans" in the S & L industry will be honored in full by his federal prosecutors within the Department of Justice.

One further observation about the S & L's. We fully understand the deep feelings about hard times in the Southwest -- the economic troubles faced during the collapse of real estate prices -- and we are happy to see that situation start to turn the corner again. But we must be clear that much of the root problem among too many of the S & Ls was not the economy. The problem, in too many cases, was outright criminality, pure and simple.

Falling oil prices, the bad real estate market, the general downturn did not form the criminal intent of the S & L rip-off architects. Like all con artists and swindlers, they fantasized pyramiding riches that would save them from the consequences of their illegal excesses. Profits from wild-cat banking would grow

so large -- even if there were violations of the law -- that they would escape judgment, be seen as pillars of finance. As such future pillars, they surely deserved the best at present -- even if they had to slip themselves the best under the table, with a share to those willing to look the other way.

And that is also why we must exercise more than due diligence against all types of White Collar Crime. In the case of the S & Ls, we must exercise an overdue diligence -- to protect the market integrity, honest enterprise, and fair profits of the greatest free economy on earth.

There are, of course, other such masters of manipulation. Some make the daily headlines or the top of the six o'clock news . . . the Michael Milkens, the Leona Helmsleys, the Jim and Tammy Faye Bakkers. But the more systematic wrong-doers with their nefariously hidden schemes have been our most important targets. To list just a few:

* Insider traders and stock manipulators such as Ivan Boesky, Dennis Levine, Robert Freeman and Paul Bilzerian -- all sentenced to jail terms -- and Drexel, Burnham, Lambert fined a total of \$650 million for illegal trading activities.

* Those fifteen pit traders on the Chicago exchanges,

caught defrauding their customers -- "stung" by undercover FBI agents in Operations Sour Mash and Hedgeclipper.

* "Robin HUD," who illegally diverted \$5.6 million in mortgage settlement funds -- only one of nearly 800 present investigations into HUD Scandals -- sentenced to nearly four years in prison last week.

* Over 7000 federal, state, and local public officials convicted of public corruption -- including twenty-two members of Congress -- prosecuted by the Department's Public Integrity Section, since I started it fourteen years ago as Assistant Attorney General in our Criminal Division.

But in all of this heightened effort to pursue white-collar criminals, one root matter sometimes gets curiously lost: why are we doing it?

There is always the wrong-headed charge that going after white-collar crime is anti-business. Clearly, it is not. In fact, I have always looked upon our actions against White-Collar Crime as pro-business -- designed to forestall actions that could well subvert our free enterprise system. We are seeking to protect the valued institutions of that system when we act against illegal insider-trading, public corruption, or corporate violations.

At the same time, we are also protecting our citizenry. We prosecute white-collar crime for the sake of all our citizens, especially those who are most hard-pressed to pay the prices that are fixed artificially high, or the taxes that go only toward further abuse of the public trust. And in the case of money laundering, most especially those whose very futures are most threatened by high-profit drug-trafficking.

The President has directed that we make this a priority because we -- that is, the Feds, the Department of Justice -- are often the only ones with the investigative manpower and prosecutorial capacity and legal scope to handle the cases. White Collar Crime can't be effectively addressed by private suit or the local constabulary when it involves sophisticated conspiracies to defraud or complicated money laundering schemes reaching across international borders.

Our responsibility to prosecute White-Collar Crime is especially awesome during a time when so many elsewhere -- in Russia, and Eastern Europe, and indeed, the world over -- are looking to the United States for institutional wisdom. How can we advise others how to move toward democracy and free-market capitalism if we do not make every effort ourselves to preserve our institutions from reckless subornation? We must bolster and secure our system and the world's most exemplary exchange -- our

free marketplace -- against any depredation by those who would subvert their integrity.

In other words, even globally, we are in this for all the right Jimmy-Stewart reasons. We believe in George Bailey's approach to the banking business. Even more, we believe in protecting the values of institutions like Bailey Building and Loan, protecting them from fraud and manipulation and looting -- that serial run of white-collar crimes -- because upon such values depends the integrity of the whole system. We are helping protect George Bailey's customers, his depositors, his mortgage-holders, so that they too can enjoy the full fruits of their labor, the honest increment of their savings, and the real prospect for a Wonderful Life.

What I've really described for you today are Seven Deadly White-Collar Crimes -- much like the seven deadly sins of old -- though these slip by in more modern guise, more dissembling of purpose. I've given you their lineup for the last decade -- the 1980s. For this decade ahead -- the 1990s -- I can assure you they will be the focus of a renewed and aggressive federal law enforcement effort to help preserve prospects for that Wonderful Life for all Americans.

with the Commission's [Quadrennial Commission on Executive, Legislative, and Judicial Salaries] recommendation, and because of the way it works on Congress—and the ball is clearly in their court—it leaves us with either the Commission recommendation or nothing. And so, seeing the problems as I do, I still feel that I should not go about undoing the Reagan decision.

Yes, Helen [Helen Thomas, United Press International].

Savings and Loan Crisis

Q. Mr. President, your trial balloon on the S&L's taxing savings and checking accounts has fallen like a lead balloon. Are you dropping that plan? Do you have any other plans in the works?

The President. First place, I think it's a little absurd to be commenting on a facet, a possible facet, of solving a problem when it hasn't even come to me. You're talking about speculating on something that hasn't even reached the desk of the President even as an option—say nothing of its being a proposal.

Q. Well, it certainly has come from your people.

The President. Well, as an option, not as a proposal. And I think you're right. There seems to be some controversy around it. But that doesn't mean that any thinking along those lines should cease. But I'm going to reserve comment until I actually have it presented to me. And I expect this is the first of many such things that's going to happen of this nature. I will say this: that the savings and loans deposits are backed by the full faith and credit of the Government. And they are sound; they are good—dollar good. And I just want to assure the American people of that, and nothing is going to change in that regard. But in terms of this one idea, let them float around. It doesn't bother me for a lot of ideas to be considered and debated.

Q. The reaction is very negative—the public reaction, congressional reaction. Will that enter into your decision?

The President. Anything I do on savings and loans or when we get into this budget deficit reduction program—look, I don't expect it's all going to be sweetness and harmony and light. The minute we get those proposals up there on February 9th, I

expect we're going to have other firestorms swirling around. But I have not made decisions on this one. I'll wait until I get all the facts, call them as I see them, and hope that we can convince the American people that that's the way to go.

Q. Mr. President, you've set a tone of high-mindedness and propriety this week with your emphasis on ethics, also of bipartisanship in your discussions with Congress. Beyond those matters of process and tone, sir, what would you like the country and the world to say is the message of your first week in office as to what your administration is about?

Relations With Congress and Government Ethics

The President. Reaching out to the Congress. I really am serious about this trying to get more of a bipartisan foreign policy, for example. And though we haven't addressed that specifically in terms of issues, I have addressed it in broad terms to the Members of Congress with whom I've met here and with whom I met over in the Residence. And so, I'd like to signal an era of real openness with Congress.

Look, I know we're going to have conflicts; Brit [Brit Hume, ABC News]. And I know we're going to run up against each other. But I want to start with that approach. And we're in a broad review—as you've heard from my various nominees as they appear before the Senate—on specific areas of foreign policy. A message would be taking steps to make clear to the congressional leadership that that's what I want to do. The other one, as I mentioned, is trying to set a tone in terms of conflict of interest that I hope will serve us in good stead.

The President's Visit to China

Q. What signal do you think it may send the world, sir, that you're making your first visit to China—after, of course, the ceremonial trip to Tokyo—while Soviet leader Gorbachev, having asked for early talks, is still waiting for a response?

The President. Well, I don't know what signal it sends in that regard. But let me just remind you that I'm the one who does not believe in "playing the Soviet card" or "playing the China card." We have a strong bilateral relationship with the People's Re-

whom I have full confidence, is not a Cabinet member, but I think we have a very strong Chief of Staff setup.

Over here, way up in the window—innovative standing.

Monetary Policy

Q. You just touched on the issue of Third World debt. There are many experts who are saying that if there's any danger for the U.S. economy it's in how greatly leveraged it is, both in terms of corporated indebtedness and Third World debt. And they say that the S&L crisis, for example, is simply a subsumed feature of this. Do you see this as a real problem that you're going to address aggressively, and what kind of steps would you take to overcome the high proportionality of debt to equity that exists in the U.S. economy now?

The President. The question of corporate debt—on that one, the role of the White House and the role of the Federal Government ought to be to do its level best to keep a strong economy. And I don't believe that it's the government role to assign levels beyond which a corporation can't borrow. In terms of Third World debt, we do have a responsibility, and a lot of that's going to be working with the private banks and others. And again, we'll have some recommendations; we have to have them pretty soon on that question.

I'm not sure I got to the substance of your question—separating out these two things.

Q. Try another one.

Q. —reported differences that you have with Alan Greenspan's [Chairman of the Board of Governors of the Federal Reserve System] testimony in Congress earlier this week with regard to interest rates and monetary policy.

The President. I'll be honest with you. I don't think I'm far apart from Chairman Greenspan at all—far apart. There may be some differences. Because of plant capacity utilization, he is more concerned about inflationary pressures than I am right now. Seems to me, there's an area of difference. But basically and generally speaking, I think we're fairly close together.

Government Ethics

Q. Mr. President, by spending your first week dwelling as you have on ethics, aren't you voicing an implicit criticism of the Reagan administration's ethical record?

The President. No.

Q. Why else was it necessary to declare National Ethics Week, so to speak?

The President. Because I feel strongly about it.

Q. Can I follow on that line, sir?

The President. No, she's in first, and then you. Need to cool off on that one. [Laughter]

Savings and Loan Crisis

Q. Mr. President, given your strong anti-tax ban in the campaign, why are you allowing Mr. Brady [Secretary of the Treasury-designate] to consider as an option for the S&L's a tax increase?

The President. I'm not. He has thrown out a lot of different possibilities in discussions we've had. We have people that are experts on what a tax is. I would refer you to Richard Darman, who is the head of the OMB. And he's the guy that defined that very well up there with the duck test on the Hill and—

Q. So, you're not thinking of a tax?

The President. Well, I'm just saying I'm not prepared to say what I think on it right now till I hear from it, because the more I discuss it, the more you all go out and say this is something that I'm considering when I'm not. It hasn't come to me yet. But I've been around for a long time, and I don't remember hearing people talk about the fee that went into covering the FDIC [Federal Deposit Insurance Corporation] or FSLIC [Federal Savings and Loan Insurance Corporation] as a tax. I don't remember people writing that before. But—not trying to get into the fight anymore right now. I'll be back.

Government Ethics

Q. You've mentioned ethics in a number of ways, and you've talked about the value of service this year. The last 2 days we've picked up the headlines in the papers, and they've read President Reagan has a \$5 million book deal. He's got a \$50,000 a speech deal. With all respect for the office and the

llantry. He is
l in the Army
orn December
five children,

From 1984 to 1986, he was Vice Chairman of the Commission on Civil Rights. He served as a member of the President's Commission for Study of Ethics in Medicine and Biomedicine and Behavioral Research, 1979-1983, and Chairman of the Moreland Act Commission on Nursing Homes and Residential Facilities, 1975-1976. From 1968 to 1970, Mr. Abram was president of Brandeis University in Waltham, MA.

Mr. Abram graduated from the University of Georgia (A.B., 1938), the University of Chicago (J.D., 1940), Oxford University (Rhodes Scholar) (B.A., 1948; M.A., 1953), and Davidson College (LL.D., 1972). He was born June 19, 1918. He is married and has five children.

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Remarks on the Savings and Loan Crisis During a Meeting With Congressional Leaders
February 3, 1989

The President. While we have the quick exposure here, let me just thank you all, Mr. Speaker, Leader Mitchell, Dole, Bob Michel, for coming down here. This is a listening session. We've got a big problem in this savings and loan. There are no easy answers and no worrying about the blame—plenty to go around. I want to see the problem solved. We've had a lot of consultation up on the Hill, and good consultation. And Treasury will come, I think, to meet with me tomorrow to present their views, but they're not being presented here with this stacked deck. We need ideas. And if we're overlooking something, we want to know what it is.

But I think we all agree that it's time to get on with the problem. And so, what I want to do this morning is simply ask your advice and listen. And whatever we come up with will not be popular. And I expect that whatever you come up with will not be popular. But we've got to get on and get the problem solved. And I appreciate your coming down here early to discuss this today, and then I'll be meeting, as I say, some more today. And then tomorrow I think we have more final recommendations. I'll go out with it publicly probably early

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next week—I think that's the plan—and see where we go from there.

But, Speaker, if you can talk, you're entitled a rebuttal. [Laughter]

Speaker Wright. I'm not sure, Mr. President, that any rebuttal is necessary. We're here to listen, and we're here to join with you in trying to find some creative solution to a very serious problem.

Majority Leader Mitchell. I think the Speaker has expressed it for all of us, Mr. President. We want to work with you. This is a serious problem for the country; it's not just for us. We've got to do the best we can to come up with the fairest, most efficient way to solve it.

The President. Before we break up here to start on our consultations, let me say—and I think for everybody here—that the safety of those deposits is guaranteed, will continue to be guaranteed, and that there should be no feeling around the country that some solution will do anything to diminish the credit of the United States being behind the deposits in the FSLIC [Federal Savings and Loan Insurance Corporation], FDIC [Federal Deposit Insurance Corporation], whatever it is. And I thought I'd just take this occasion to make that statement. Thank you very much.

Note: The President spoke at 8:04 a.m. in the Cabinet Room at the White House. In his opening remarks, the President referred to Jim Wright, Speaker of the House of Representatives; George J. Mitchell and Robert Dole, Majority and Minority Leaders of the Senate, respectively; and Robert H. Michel, ranking minority member of the House of Representatives. A tape was not available for verification of the content of these remarks.

Remarks at the Swearing-In Ceremony for Robert A. Mosbacher as Secretary of Commerce
February 3, 1989

The President. Thank you for that warm welcome. This is a very special occasion for me because, as most—I'd say please be seated, but—[laughter]—I don't think that

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nontraditional job as a labor-line handler and as a single parent with three daughters, she gives freely of her time to numerous volunteer efforts.

Donald Simonds of the FAA [Federal Aviation Administration] is a full-performance-level air traffic controller and has been actively involved in the recruitment of minority candidates for that critical job.

Anthony A. Schiavone, Superintendent of the James River Reserve Fleet at the Maritime Administration, maintains custody of approximately 125 oceangoing merchant-type vessels that are on ready reserve for national defense purposes.

Susan Hedgepeth, Chief of the Exemption Branch in the Office of Hazardous Materials Transportation, develops special requirements for the transportation of hazardous materials.

Sondra F. Talbert, of the Federal Railroad Administration, moved into the Department's Upward Mobility Training Program in 1975 and is the first female inspector at the Interstate Commerce Commission in the Federal Railroad Administration.

United States Coast Guard Petty Officer Kelly M. Mogk, was recently awarded the Coast Guard Air Medal for heroic achievement in aerial flight while serving as a helicopter rescue swimmer on January 2, 1989.

Let's give these outstanding employees a round of applause. [Applause]

Mr. President, these individuals' achievements reflect the spirit of this Department. They are our unsung heroes, the dedicated public servants who serve the American traveler, the pilot, the truck driver, the boater, and the commuter.

The Department's team faces many challenges. We must be in the forefront in the fight against terrorism. We must do everything we can to stop the flow of drugs into this country. We must keep our aviation system both safe and competitive. And we must maintain our significant and important presence in the maritime industry. We must also continue to build and maintain our infrastructure. And I want to acknowledge—as I look on the next step—are Congressman Martin, are Congressman Mineta, Congressman Coughlin. We must work with Congress, and I will work with Congress to develop a visionary and comprehensive transportation policy for the 21st century, a

policy that recognizes the transportation system is the essential lifeblood of our economy and also for our defense.

These goals cannot be achieved without the energy and commitment of thousands of team players like those you have met today. I know already from my brief introduction to this Department that this team is ready, willing, and able to do this important job. The American people have selected you as their President, and you have asked me to be your wing man. I am humbled by your offer. I accept, and I am ready to roll up my sleeves and get the job done.

Thank you very much.

Note: The President spoke at 2:42 p.m. in the Federal Aviation Administration auditorium. Secretary Skinner was sworn in by U.S. District Judge Joel M. Flaum.

The President's News Conference February 6, 1989

Savings and Loan Crisis

The President. Well, for the more than half a century, the U.S. has operated a deposit insurance program that provides direct government protection to the savings of our citizens. This program has enabled tens of millions of Americans to save with confidence. In all the time since creation of the deposit insurance, savers have not lost \$1 of insured deposits, and I am determined that they never will.

Deposit insurance has always been intended to be self-funded. And this means that the banks, the savings and loans, and credit unions that are insured pay a small amount of their assets each year into a fund that's used to protect depositors. In every case, these funds are spent to protect the depositors, not the institutions that fail.

For the last 20 years, conditions in our financial markets have grown steadily more complex, and a portion of the savings and loan industry has encountered steadily growing problems. These financial difficulties have led to a continuous erosion of the strength of the Federal Savings and Loan Insurance Corporation, FSLIC. Economic conditions have played a major role in this

situation. However, unconscionable risktaking, fraud, and outright criminality have also been factors. Because of the accumulation of losses at hundreds of these thrift institutions, additional resources must be devoted to cleaning up this problem. We intend to restore our entire deposit insurance system to complete health.

While the issues are complex and the difficulties manifold, we will make the hard choices, not run from them. We will see that the guarantee to depositors is forever honored. And we will see to it that the system is reformed comprehensively so that the situation is not repeated again. To do this, I am today announcing a comprehensive and wide-ranging set of proposals. The Secretary of the Treasury, Nicholas Brady, will describe these proposals to you in detail in a few minutes. However, I think it's important to summarize some of the major points.

The proposals include four major elements. First, currently insolvent savings institutions will be placed under the joint management of the FDIC [Federal Deposit Insurance Corporation] and FSLIC pursuant to existing law. This will enable us to control future risktaking and to begin reducing ongoing losses. Second, the regulatory mechanism will be substantially overhauled to enable it to more effectively limit risktaking. The FDIC would become the insurance agency for both banks and thrifts under this system, although there's no commingling of funds. The insurer will have the authority to set minimum standards for capital and accounting. Uniform disclosure standards will also be implemented. The chartering agency for thrifts would come under the general oversight of the Secretary of the Treasury. Third, we will create a financing corporation to issue \$50 billion in bonds to finance the cost of resolving failed institutions, which will supplement approximately \$40 billion that has already been spent. All of the principal of these bonds and a portion of the interest on them will be paid from industry sources. However, the balance would be paid from on-budget outlays of general revenues. Hopefully, some of these revenues will be recovered in the future through sale of assets and recovery of funds from the wrongdoers. Fourth, we plan to increase the budget of the Jus-

tice Department by approximately \$50 million to enable it to create a nationwide program to seek out and punish those that have committed wrongdoing in the management of these failed institutions. These funds will result in almost doubling the personnel devoted to the apprehension and prosecution of individuals committing fraud in our financial markets.

As you can see, these proposals are based upon several overriding principles. First, I will not support any new fee on depositors. Second, we should preserve the overall Federal budget structure and not allow the misdeeds and the wrongdoings of savings and loan executives and the inadequacy of their regulation to significantly alter our overall budget priorities. And third, I have concluded that this proposal, if promptly enacted, will enable our system to prevent any repetition of this situation. And fourth, I have decided to attack this problem head-on with every available resource of our government because it is a national problem. I have directed that the combined resources of our Federal agencies be brought together in a team effort to resolve the problem. And fifth, I believe that banks and thrifts should pay the real cost of providing the deposit insurance protection. The price the FDIC charges banks for their insurance has not been increased since 1935. We propose to increase the bank insurance premium by less than 7 cents per \$100 of insurance protection that they receive. Every penny collected would be used to strengthen the FDIC so that the taxpayers will not be called on to rescue it a few years from now.

And I make you a solemn pledge that we will make every effort to recover assets diverted from these institutions and to place behind bars those who have caused losses through criminal behavior. Let those who would take advantage of the public trust and put at risk the savings of American families anticipate that we will seek them out, pursue them, and demand the most severe penalties.

In closing, I want to just say a word to the small savers of America. Across this great land, families and individuals work and save, and we hope to encourage even greater rates of savings to promote a brighter future for our children. Your government

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has stood behind the safety of insured deposits before, it does today, and it will do so at all times in the future. Every insured deposit will be backed by the full faith and credit of the United States of America, which means that it will be absolutely protected.

For the future, we will seek to achieve a safe, sound, and profitable banking system. However, integrity and prudence must share an equal position with competition in our financial markets. Clean markets are an absolute prerequisite to a free economy and to the public confidence that is its most important ingredient.

I've determined to face this problem squarely and to ask for your support in putting it behind us. I have ordered that the resources of the executive branch be brought to bear on cleaning up this problem. I have personally met with the leadership of Congress on this issue. My administration will work cooperatively with Congress as the legislation that we will submit in a few days' time is considered. I call on the Congress to join me in a determined effort to resolve this threat to the American financial system permanently, and to do so without the delay.

I welcome the leaders that are with me here on this platform. I think their support says a lot about the efficacy of our proposal. And now I propose to take just a few questions. On the technical aspects, I will defer to these people, and then I'll be glad to turn this over to Secretary Brady. I believe we start with Helen [Helen Thomas, United Press International] and then Terry [Terrence Hunt, Associated Press], and then get going—

Q. Mr. President, are you guaranteeing that the extra costs—premiums, increases, and so forth—will not be passed on to the depositors and taxpayers? And also, what is your responsibility in this debacle—I mean, the Reagan-Bush zeal for deregulation of business and banking?

The President. On the first place, we're not guaranteeing that. I would hope that wouldn't happen, but there is no guarantee what the institutions will do. Secondly, there is enough to be said for everybody in this together trying to solve this problem, so I can't equate any personal—not inclined to go into any personal blame, simply to say

that we've got to solve this problem and we're on the path to doing that.

Federal Pay Raise

Q. Mr. President, the House votes tomorrow on that controversial pay raise plan, and the Senate has already voted against it. Would you sign a bill that vetoes the pay raise not only for the Members of Congress but also for Federal judges and other high officials in the government?

The President. I've said I support it.

Savings and Loan Crisis

Q. Mr. President, there is a feeling that part of this problem is attributable to deregulation of the financial industry. In retrospect, do you think that deregulation might have gone too far in the last 10 years or so? And in the future, is your marching order to your administration to be a little more careful in regulating this particular industry?

The President. Jerry [Gerald Boyd, New York Times], I don't know the answer. I'd be most interested to know what our experts here feel about how much of the problem could be attributed to deregulation. I just don't know the answer to your question, so I can't reply.

Government Ethics

Q. Mr. President, you have placed considerable stress in these early days of your Presidency on ethics and propriety, yet in recent days there has been controversy on Capitol Hill concerning the propriety of some of Tower's [Secretary of Defense-designate] alleged behavior; questions raised over the weekend about the financial investments on the private funds of the man in charge of ethics, your counsel, Boyden Gray; and other questions involving members of the administration, or members-to-be of the administration. And I wonder, sir, what's happened here? Is it too harsh behavior on our part, too lax behavior on your part? What?

The President. I don't think anything has happened. I learned long ago in public life not to make judgments based on allegations. But having said that, I want to have my administration aspire to the highest possible ethical standards. And we have appointed a commission to go out there now and try to

detail what these standards should be. And we are in a new era on these matters. Matters that might have been approved and looked at one way may have a different perception today. And so, what I want to do is finalize our standards and then urge everybody in all branches of government to aspire to those standards. But I do think, Brit [Brit Hume, ABC News], that it's fair that we not reach judgment on Senate hearings before the Senate hearings are concluded because it's very hard to filter out fact from fiction, spurious allegations from fact. And I am not about to make a judgment based on a sensationalized newspaper story. I'm simply not going to do that. That wouldn't be fair, and I'm not sure how ethical it would be. So, let's wait and see this—you're referring to the Tower matter up there. That matter has been looked at by the FBI. The committee now has that. They have the responsibility to make determinations, and I'll be very interested to see what they say. But I am not going to jump to conclusions based on stories that may or may not have any validity at all.

Secretary of Defense-Designate John Tower

Q. Mr. President, even if, as your spokesman says you do, you continue to back Senator Tower for the position, there are those you've heard who say that the best thing he could do for you is to step aside because even if confirmed he then would become damaged goods, weaker in administering a very, very tough job on your behalf. How do you respond to that suggestion?

The President. Well, I think people would not want a person to step aside in a rumor, particularly if the rumor is baseless. And the process is taking a little longer than I would like. And yet I think the Senate has got to do what they're doing: looking at these allegations very carefully. But you know, as I said here at this same podium a while back, the American people are basically fair. And if these allegations prove to be allegations without fact behind them, I think the people are going to say: Wait a minute. What went on here? How come it was all this? We read this one day, and then kind of a puff of smoke the next. And so, I don't think—in your substantive question, though—that if the Senate committee gives

its endorsement to the Senator, particularly after all of these allegations, that there is any danger at all of damage to his credibility or his ability to do the job.

Q. Mr. President, there are new and substantive allegations that Senator Tower lost control over the highly classified security documents and computer disks that were used in Geneva under his watch. If those allegations prove to be founded, would you then withdraw his nomination?

The President. I would not answer hypothetical questions of that nature. You're telling me something that I haven't heard before. And we did have access to FBI reports. So, if this matter is now before the Congress, let them investigate it. But I can't go into a hypothesis. All I would be doing would be adding to, I think, speculation that is not helpful at this juncture.

Q. But, sir, will you pursue these allegations in the executive branch? Are you going to track what the FBI is looking into? Are you going to personally surveil these kinds of allegations yourself?

The President. Every rumor and every innuendo? No. But if there's some substantive allegation of this nature, of course, it would concern me.

Savings and Loan Crisis

Q. Mr. President, back to S&L's if we might. Millions of—[laughter]—millions of Americans save alternatively. That is they save in mutual funds, stocks, and that kind of thing. As I read it, you've now outlined a plan that places a lot of the S&L bailout on the backs of the general treasury. How fair is that?

The President. We've got a major problem, and something has to be done. And this is the fairest system that the best minds in this administration can come up with. And so, I again would ask you to ask the specifics of the treasury burden to the Chairman of the Federal Reserve [Alan Greenspan] or the Secretary of the Treasury [Nicholas F. Brady]. Ask how they see that. But look, as I've said, there is no easy answer to this. All I want to do is make a sound proposal, work to put it into effect, and have that proposal such that the country won't have to face this problem again.

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hypothetical as to not even be a possibility of any kind.

Yes, Charles [Charles Bierbauer, Cable Network News]? And then I do have to run.

Savings and Loan Crisis

Q. Mr. President, we still don't know what the taxpayers' burden is in here out of this \$40 billion. It says first from S&L funds and the shortfall from Treasury funds. How big is it; and have you, in going through your budget, had to knock out some things to pay for this?

The President. We've had to knock out a lot of things on the overall budget for a lot of different reasons. But I'd like to leave this for Dick [Richard G. Darman, Director of the Office of Management and Budget], for the questioning, to give the specific amounts. It is shared, as I've indicated, and he can give you the amounts that are involved.

Listen, thank you all very much, and now I'm going to turn this over to Secretary Brady. And then in order, I guess they'll refer to each of these others.

Q. Mr. President, one more word for the small—

Q. —seats back here, Mr. President?

The President. What was that substantive question? [Laughter]

Q. In the back—we didn't see you get back in this area.

The President. We didn't get that far back, no. But if there's been an egregious offense to those in the back benches, I will take one parting question. And inasmuch as you raised it, fire away.

Government Ethics

Q. Thank you very much, sir. Back on the ethics issue, a couple of—

The President. Mindful that the last question always does get you in great trouble—[laughter]—go ahead.

Q. One of your perspective nominees and your Counsel have just recently changed their minds on matters that would have violated the ethics rules under the Reagan administration. Did you have difficulty in getting the word out that times would be tougher under your administration?

The President. No. I don't think so. For example, if you're referring to the Boyden Gray [Counsel to the President] matter,

which I think you are, that matter was reviewed every single year by the Office of Government Ethics, and he was deemed in compliance every single year. But now we've got a new ballgame here. He's the General Counsel here in the White House, and I'm the President. And I've set out rhetorically the highest possible standards, and we're trying to back that up by findings from this Commission. And so, I do think that we've got to be very careful about perceptions of impropriety when it comes to conflict of interest—not rumors or innuendos of one sort or another. I don't think I should deal in those things. But when it comes to perceived conflicts of interest, I'd like our people to bend over backwards.

And I think that's what has happened in both the question of Lou Sullivan [Secretary of Health and Human Services-designate]. All he did was ask: Am I entitled to continue these arrangements with this small university? And all Boyden did, in my view now, is to try to go a step beyond what the Government Ethics Office has said to avoid the perception of impropriety. So, I think it might be different now. I have to approach it differently as President. Not that you have lower standards. But I just think that, again, this whole question of perception—we've got to look at it very, very carefully.

But I want to be fair. I do not want to have the loudest charge, no matter how irresponsible, be that that sets the standards. We've got to achieve more objective standards. And that's why I'm putting a lot of faith in the—hope to put a lot of faith in the findings of Judge Wilkey and former Attorney General Griffin Bell. And they will be looking at all these matters in terms of reality, and then, to some degree I'm sure, in terms of perception. So, what might be legal and might be perfectly sound ethically might have to be altered, given this new approach because of perception. It's a delicate one.

I don't want to have the standards set in such an irresponsible way that good people just throw up their hands and say: Look, who needs that kind of grief, who needs it? Why should I have to give up all my whatever it is—a health plan from the XYZ company. And yet on the other hand, we're in a different time now. We're in a time when

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We have a moral contract with our senior citizens. And in this budget, Social Security is fully funded, including a full cost-of-living adjustment. We must honor our contract.

We must care about those in the shadow of life, and I, like many Americans, am deeply troubled by the plight of the homeless. The causes of homelessness are many; the history is long. But the moral imperative to act is clear. Thanks to the deep well of generosity in this great land, many organizations already contribute. But we in government cannot stand on the sidelines. In my budget, I ask for greater support for emergency food and shelter, for health services and measures to prevent substance abuse, and for clinics for the mentally ill. And I propose a new initiative involving the full range of government agencies. We must confront this national shame.

There's another issue that I've decided to mention here tonight. I've long believed that the people of Puerto Rico should have the right to determine their own political future. Personally, I strongly favor statehood. But I urge the Congress to take the necessary steps to allow the people to decide in a referendum.

Certain problems, the result of decades of unwise practices, threaten the health and security of our people. Left unattended, they will only get worse. But we can act now to put them behind us.

Earlier this week, I announced my support for a plan to restore the financial and moral integrity of our savings system. I ask Congress to enact our reform proposals within 45 days. We must not let this situation fester. We owe it to the savers in this country to solve this problem. Certainly, the savings of Americans must remain secure. Let me be clear. Insured depositors will continue to be fully protected. But any plan to refinance the system must be accompanied by major reform. Our proposals will prevent such a crisis from recurring. The best answer is to make sure that a mess like this will never happen again. The majority of thrifts in communities across the Nation have been honest. They've played a major role in helping families achieve the dream of home ownership. But make no mistake, those who are corrupt, those who break the law, must be kicked out of the business; and they should go to jail.

We face a massive task in cleaning up the waste left from decades of environmental neglect at America's nuclear weapons plants. Clearly, we must modernize these plants and operate them safely. That's not at issue; our national security depends on it. But beyond that, we must clean up the old mess that's been left behind. And I propose in this budget to more than double our current effort to do so. This will allow us to identify the exact nature of the various problems so we can clean them up, and clean them up we will.

We've been fortunate during these past 8 years. America is a stronger nation than it was in 1980. Morale in our Armed Forces has been restored. Our resolve has been shown. Our readiness has been improved. And we are at peace. There can no longer be any doubt that peace has been made more secure through strength. And when America is stronger, the world is safer.

Most people don't realize that after the successful restoration of our strength, the Pentagon budget has actually been reduced in real terms for each of the last 4 years. We cannot tolerate continued real reduction in defense. In light of the compelling need to reduce the deficit, however, I support a 1-year freeze in the military budget, something I proposed last fall in my flexible freeze plan. And this freeze will apply for only 1 year, and after that, increases above inflation will be required. I will not sacrifice American preparedness, and I will not compromise American strength.

I should be clear on the conditions attached to my recommendation for the coming year: The savings must be allocated to those priorities for investing in our future that I've spoken about tonight. This defense freeze must be a part of a comprehensive budget agreement which meets the targets spelled out in Gramm-Rudman-Hollings law without raising taxes and which incorporates reforms in the budget process.

I've directed the National Security Council to review our national security and defense policies and report back to me within 90 days to ensure that our capabilities and resources meet our commitments and strategies. I'm also charging the Department of Defense with the task of developing a plan to improve the defense procurement proc-