Originally Processed With FOIA(s):
S

FOIA Number:
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: Speechwriting, White House Office of
Series: Speech File Backup Files
Subseries: Chron File, 1989-1993

OA/ID Number: 13658
Folder ID Number: 13658-012

Folder Title:
Small Business Legislative Council 3/1/89 [OA 6343] [1]

Stack:	Row:	Section:	Shelf:	Position:
G	26	18	6	6

REMARKS: SMALL BUSINESS LEGISLATIVE COUNCIL
WASHINGTON, D.C.
WEDNESDAY, MARCH 1, 1989

THANK YOU, BOB. IT IS GOOD TO BE WITH YOU THIS AFTERNOON. THIS AFTERNOON YOU'VE HEARD FROM GREGG PETERSMEYER, RICHARD BREEDEN, AND ROBERT MOSBACHER -- THREE KEY MEMBERS OF THE TEAM HERE IN WASHINGTON.

AND NOW THAT YOU HAVE A FEELING FOR THEIR IDEAS AND PRIORITIES, LET ME ENCOURAGE YOU TO WORK WITH THEM. TELL THEM WHAT YOU'RE THINKING. THEY KNOW HOW TO WORK WITH THE PRIVATE SECTOR -- AND THEY ARE LOOKING FOR WAYS TO MAKE THIS A RESPONSIVE GOVERNMENT, A GOVERNMENT BY AND FOR THE PEOPLE.

WHILE I WAS IN ASIA, I HAD A CHANCE TO THINK SERIOUSLY ABOUT WHAT SETS OUR TRADING PARTNERS APART FROM US.

I REALIZED THAT WE MAY HAVE ERECTED A BARRIER TO OUR OWN SUCCESS -- AND DEPRIVED OURSELVES OF VITAL LONG-TERM INVESTMENT THAT OUR COMPETITORS HAVE ALWAYS ENJOYED.

IN A FEW MINUTES, I'M GOING TO HAVE A SUGGESTION FOR THOSE WHO ARGUE IN FAVOR OF PROTECTIONIST INTERVENTION.

YOU KNOW, THERE ARE SOME WHO SAY THAT ASIA COULD BECOME THE ECONOMIC CENTER OF THE WORLD.

SOME EVEN SUGGEST THAT AMERICA'S POWER IS ON THE WANE. WELL, FOR THEM, I HAVE NEWS. THE 21ST CENTURY CAN BE THE NEXT AMERICAN CENTURY -- IF WE UNDERSTAND THE CHALLENGES BEFORE US, AND MOVE TO MEET THEM TOGETHER.

MORE THAN EVER, THE WORLD IS INTERCONNECTED; INTERDEPENDENT; AND CHANGING RAPIDLY. MORE THAN AT ANY POINT IN HUMAN HISTORY, OUR SOCIETIES AND ECONOMIES RELY ONE UPON THE OTHER.

SO COMPETITIVENESS -- WHICH IS ON EVERYBODY'S MIND THESE DAYS -- TAKES ON A CHALLENGING NEW ANGLE. IT MEANS MORE THAN JUST MARKET SHARE AND EARNED INCOME. AND IT'S MORE THAN A ZERO-SUM, WINNER-TAKE-ALL GAME.

SINCE 1980, WORLD TRADE VOLUME IS UP NEARLY 40 PERCENT. ALMOST A FIFTH OF OUR INDUSTRIAL PRODUCTION IS NOW IN EXPORTS. GOODS AND SERVICES CIRCLE THE GLOBE OVERNIGHT. CAPITAL CHANGES HANDS IN SECONDS.

IN A WORLD LIKE THAT, ALL NATIONS STAND TO BENEFIT FROM THE GROWTH OF THEIR TRADING PARTNERS -- AS LONG AS MARKETS ARE FREE AND OPEN. SO I HAVE TWO KEY PRIORITIES: TO PROMOTE ECONOMIC GROWTH THROUGH LOW TAX RATES; AND TO ENCOURAGE THE KIND OF FREE TRADE THAT MAKES ALL NATIONS BETTER OFF.

YOU SEE, THE GOAL OF COMPETITIVENESS IS NOT SIMPLY TO DISADVANTAGE THE COMPETITION.

IT IS TO BETTER DEPLOY THE ADVANTAGES WE HAVE -- AND TO CREATE NEW ONES.

AND THAT IS WHY THE WORK YOU DO IS SO IMPORTANT. AMERICAN SMALL BUSINESS HAS ALWAYS BEEN OUR MOST CREATIVE SOURCE OF INNOVATION AND ECONOMIC GROWTH.

WE'VE CREATED 19 MILLION NEW JOBS IN THIS COUNTRY SINCE THE RECOVERY BEGAN. RELATIVE TO POPULATION, THAT'S MORE THAN TWICE THE NUMBER OF JOBS CREATED IN JAPAN.

IN THE U.S. PRIVATE SECTOR, SMALL BUSINESSES ARE RESPONSIBLE FOR TWO OUT OF THREE JOBS CREATED. BUSINESSES LIKE YOURS MAKE AMERICA WORK.

BY CREATING JOBS, YOU CREATE OPPORTUNITY. AND WHILE I'M PRESIDENT, GOVERNMENT WON'T INTERFERE WITH THAT. WE WILL ASSURE THAT YOU HAVE THE FREEDOM YOU NEED, TO DO WHAT YOU DO BEST. WE WILL HOLD THE LINE ON TAXES.

BECAUSE IF THE EXPERIENCE OF THE LAST EIGHT YEARS HAS PROVEN ANYTHING, LOWER TAXES MEAN A STRONGER ECONOMY.

COMPETITIVENESS DEMANDS TWO THINGS: FLEXIBILITY IN THE MARKETPLACE, AND THE RIGHT KIND OF INVESTMENT AT HOME.

SO WE WANT TO GIVE EMPLOYERS AND EMPLOYEES THE FLEXIBILITY TO WORK OUT THEIR OWN SOLUTIONS, ON ISSUES LIKE PARENTAL LEAVE AND HEALTH INSURANCE.

AND WE INTEND TO PROMOTE THE KIND OF INVESTMENT THAT WILL ALLOW EVERY AMERICAN TO SHARE IN PROSPERITY, AND HELP TO CREATE MORE OF IT.

THAT'S THE IDEA BEHIND A NEW PROPOSAL OF MINE. I BELIEVE THAT, WITH THE PROPER INCENTIVES, SMALL BUSINESS CAN LEAD AMERICA'S URBAN RENEWAL. SO TO THE ENTREPRENEUR, I SAY THIS: START YOUR BUSINESS IN THE INNER CITY, WHERE THE NEED FOR JOBS IS GREATEST -- AND WE WILL CUT YOUR FEDERAL TAX RATES.

AFTER ALL, YOU'LL BE SAVING THE GOVERNMENT MONEY BY REDUCING THE NEED FOR ITEMS LIKE WELFARE AND SUBSIDIZED HOUSING. AND YOU WILL HELP US BRING URBAN ENTERPRISE ZONES TO LIFE IN CITIES ACROSS THE COUNTRY.

DECISIONS MADE -- AND ACTIONS TAKEN -- AT THE LOCAL LEVEL VERY OFTEN BETTER SERVE THE INTERESTS OF THOSE INVOLVED. WHAT I'M TALKING ABOUT, HERE, IS A FUNDAMENTAL AMERICAN FREEDOM: THE FREEDOM TO CHOOSE.

THAT'S THE DRIVING PRINCIPLE BEHIND OUR PROPOSAL ON CHILD CARE. WE WANT TO ESTABLISH A NEW, REFUNDABLE CHILDREN'S TAX CREDIT FOR LOW-INCOME PARENTS -- AND MAKE THE EXISTING CHILD CARE TAX CREDIT REFUNDABLE AS WELL. WE MEAN TO AVOID BURDENSOME FEDERAL STANDARDS AND REGULATION THAT WOULD LIMIT FAMILY, CHURCH, AND COMMUNITY-BASED CARE. WE WILL EXAMINE THE LIABILITY INSURANCE BARRIERS FOR BUSINESSES INTERESTED IN PROVIDING CHILD CARE OPTIONS.

WE WOULD LIKE TO PUT SOLUTIONS -- AND DOLLARS -- IN THE HANDS OF PARENTS. WE INTEND TO PROMOTE CHOICE IN CHILDCARE.

FLEXIBILITY CAN ALSO PROMOTE RISK-TAKING. IT'S ALWAYS BEEN THE BASIS FOR REAL ACHIEVEMENTS IN BUSINESS. SO WE NEED TO FIND NEW WAYS TO ENCOURAGE MEN AND WOMEN TO TAKE RISKS. WE NEED ENTREPRENEURS WHO WILL INVEST THEIR TIME, TALENTS, AND RESOURCES TO BUILD BUSINESSES.

UNLOCK NEW MARKETS. UNLEASH NEW TECHNOLOGIES. AND CREATE NEW JOBS. PEOPLE WHO BRING TO THE MARKETPLACE COMPETITIVE PRODUCTS AND QUALITY SERVICES THAT ARE SECOND TO NONE IN THE WORLD.

YOU KNOW WHAT THE CHALLENGES ARE.

LAST YEAR A LARGE SURVEY OF CEOS SUGGESTED THAT WHILE AMERICAN BUSINESS LEADERS ARE INHERENTLY OPTIMISTIC, THEY'RE AWARE THAT WE HAVE NEW AND IMPORTANT WORK TO DO.

NINETY PERCENT OF THEM SAID THAT AMERICAN BUSINESS IS STILL TOO SHORT-TERM ORIENTED.

I'VE HELPED BUILD A BUSINESS FROM SCRATCH. I KNOW HOW TOUGH IT CAN BE. I UNDERSTAND THE PRESSURES YOU FACE. YOU DON'T NEED A LECTURE ON THE IMPORTANCE OF SAVINGS AND LONG-TERM INVESTMENT. YOU NEED GOVERNMENT THAT ENABLES YOU TO DO WHAT'S GOOD FOR BUSINESS, AND GOOD FOR AMERICA.

COMPETITIVENESS DEMANDS THE RIGHT KIND OF INVESTMENT, YES. FOR A LONG TIME NOW I HAVE BEEN SAYING THAT WE MUST HAVE A COMPETITIVE CAPITAL GAINS TAX RATE. IF WE ARE TO RETAIN THE AMERICAN EDGE, WE MUST GIVE ENTREPRENEURS AND SMALL BUSINESSPEOPLE THE INCENTIVE TO KEEP DREAMING, KEEP RISKING -- AND KEEP CREATING GOOD JOBS FOR AMERICANS.

I SEE A CAPITAL GAINS RATE CUT AS AN IMPORTANT WAY TO FREE UP AMERICAN BUSINESSES, WITHOUT DISTORTING WORLD MARKETS. THE ECONOMIES OF THE PACIFIC RIM -- THE "FOUR DRAGONS" OF HONG KONG, SINGAPORE, TAIWAN, AND SOUTH KOREA -- ALL EXEMPT LONG-TERM CAPITAL GAINS FROM TAX. JAPAN ALSO HAD NO TAX ON CAPITAL GAINS DURING ITS METEORIC RISE TO ECONOMIC POWER.

I CALL ON ANYONE WHO TALKS ABOUT PROTECTIONISM TO CONSIDER THIS:

BY TAXING CAPITAL GAINS, WE IMPEDE OUR OWN PROGRESS -- AND WE TURN THE PLAYING FIELD INTO AN UPHILL CLIMB.

RESTORING THE CAPITAL GAINS DIFFERENTIAL WOULD BE A POWERFUL INCENTIVE FOR BUSINESSES TO INVEST, TO INNOVATE, TO GROW, AND TO CREATE JOBS. THE TREASURY ESTIMATES THAT THIS CUT WILL ADD $4.8 BILLION PER YEAR TO THE REVENUE SIDE OF THE LEDGER THIS YEAR.

FOR MANAGERS, IT WOULD EASE SOME OF THE RELENTLESS PRESSURE OF QUARTERLY REPORTING -- AND ALLOW THEM TO FOCUS ON LONGER-TERM GOALS AND OPERATIONS, GET A LEG UP IN NEW MARKETS, AND APPLY NEW TECHNIQUES AND TECHNOLOGIES. FOR WORKERS, IT MEANS MORE JOBS, AT BETTER WAGES. FOR ALL AMERICANS, IT MEANS A REAL, COMPETITIVE DIFFERENCE IN THE WORLD MARKETPLACE.

I AM COMMITTED TO GOVERNMENT POLICIES THAT WILL ALLOW BUSINESS TO INVEST WITH AN EYE TOWARD THE LONG TERM TO ASSURE OUR COMPETITIVE FUTURE.

IN MY BUDGET, I HAVE PROPOSED A 13 PERCENT INCREASE FOR SCIENCE AND TECHNOLOGY PROGRAMS IN 1990. AND WE INTEND TO STAY ON TRACK IN OUR EFFORT TO DOUBLE THE NATIONAL SCIENCE FOUNDATION'S BUDGET BY 1993, TO DEVELOP ENGINEERING AND SCIENTIFIC COMPUTING RESEARCH

CENTERS -- AND TO BUILD THE RIGHT LINKS BETWEEN UNIVERSITY, GOVERNMENT, AND INDUSTRY LABS.

WE ARE RECOMMENDING A PERMANENT EXTENSION OF THE RESEARCH AND EXPERIMENTATION (OR R&E) TAX CREDIT, TO KEEP US AT THE FOREFRONT OF TECHNOLOGICAL INNOVATION -- ESPECIALLY IN BASIC RESEARCH.

AND WE WANT TO ENCOURAGE MORE DOMESTIC RESEARCH BY MULTINATIONALS, BY STABILIZING THE R&E EXPENSE ALLOCATION RULES.

THE UNCERTAINTY BROUGHT ON BY EXPIRING TEMPORARY RULES HAS GONE ON FOR TWO DECADES. BUSINESSES SHOULD BE ABLE TO MAKE LONG-TERM RESEARCH PLANS IN A STABLE CLIMATE. CREATING THAT CLIMATE IS SOMETHING GOVERNMENT CAN -- SHOULD -- AND WILL DO.

WE ARE DETERMINED TO BRING THE DEFICIT DOWN -- WITH NO NEW TAXES. WE HAVE PROPOSED A MAJOR BUDGET REFORM TO PUT OUR FISCAL POLICY ON A SOUND FOOTING ONCE AND FOR ALL.

WE NEED TO DO AWAY WITH THE WONDERLAND CONCEPT OF "CURRENT SERVICES BUDGETING" -- A LAND OF EXPANDING BASELINES, WHERE PROGRAMS ARE ASSUMED IMMORTAL, AND "CUTS" ARE ACTUALLY INCREASES. FEDERAL POLICY SHOULD NOT START OUT WITH THE PRESUMPTION THAT GOVERNMENT SPENDING SHOULD GO UP AND UP.

WARREN RUDMAN HAS DESCRIBED THE WASHINGTON WONDERLAND VERY WELL.

HE'S SAID THAT "WASHINGTON IS THE ONLY CITY I'VE EVER SEEN WHERE A FELLOW'S MAKING $20,000, GOES TO HIS BOSS AND ASKS FOR A $10,000 RAISE -- THE BOSS SAYS NO, YOU CAN HAVE A $5,000 RAISE, AND THE GUY SAYS HE GOT A $5,000 CUT."

BUT THE MOST IMPORTANT INVESTMENT WE CAN MAKE, TO ASSURE A COMPETITIVE FUTURE, IS IN TRAINING AND EDUCATION.

JOBS ARE BECOMING MORE DEMANDING.

THE COMPETITION IS GETTING TOUGHER. LABOR MARKETS ARE GETTING TIGHTER. SO WE'LL NEED TO DO MORE TO DEVELOP A HIGHLY-SKILLED, MOTIVATED, EDUCATED WORKFORCE.

YOU KNOW, WHEN I WAS IN THE OIL BUSINESS, WE INVESTED HEAVILY IN WHAT WAS THEN A NEW TECHNOLOGY -- OFF-SHORE DRILLING. EARLY ON, WE LOST A DRILLING RIG TO A STORM OFF THE COAST OF TEXAS. I KNEW THAT WHENEVER YOU CONSIDER AN INVESTMENT, YOU RIGHTLY TEND TO FOCUS ON THE RISKS INVOLVED.

BUT WHERE TRAINING AND EDUCATION ARE CONCERNED, THE BIGGEST RISK IS TO <u>NOT</u> GET INVOLVED.

AMERICAN PUBLIC EDUCATION NEEDS MORE OF OUR SUPPORT. ALL OF US -- TEACHERS, PARENTS, ADMINISTRATORS, LOCAL OFFICIALS, PRIVATE INDUSTRY -- ALL OF US HAVE A RESPONSIBILITY TO ENSURE THAT OUR EDUCATIONAL SYSTEM IS SECOND TO NONE.

WE SHOULD LOOK TO THE VITALITY OF OUR SYSTEM -- AND WORK TO BUILD STRENGTH THROUGH DIVERSITY.

SUCCESSFUL SCHOOLS HAPPEN EVERYWHERE -- FROM RURAL COMMUNITIES TO INNER CITY NEIGHBORHOODS. THEY ARE SHAPED BY PEOPLE WITH HIGH EXPECTATIONS, FROM BOTH THE PUBLIC AND PRIVATE SECTOR, WHO WORK WITHIN THE SCHOOLS TO BRING ABOUT NEEDED IMPROVEMENTS.

THIS WAY OF LOOKING AT IT MEANS THAT WE ARE ALL ACCOUNTABLE FOR THE QUALITY OF OUR SCHOOLS. WE NEED TO STRENGTHEN INCENTIVES TO DO BETTER -- AND WE HAVE A MANDATE TO DO JUST THAT.

WE WILL EXPAND HEAD START, REWARD SCHOOLS THAT IMPROVE, AND RECOGNIZE OUTSTANDING TEACHERS. WE WILL ESTABLISH A NATIONAL SCIENCE SCHOLARS PROGRAM. WE WILL WORK TO FREE OUR SCHOOLS FROM THE PESTILENCE OF DRUGS.

AND WE WILL BE LOOKING TO YOU FOR HELP AND GUIDANCE -- BECAUSE GOOD SCHOOLS ARE GOOD FOR BUSINESS. MANY OF YOU ARE ALREADY INVOLVED WITH LOCAL SCHOOLS, DOING IMPORTANT WORK FOR THE FUTURE OF YOUR COMMUNITIES, AND YOUR COUNTRY. MORE CAN BE DONE.

AND I KNOW YOU'LL BE THERE WHEN WE NEED YOU.

TO COMPETE SUCCESSFULLY ABROAD, MANY OF YOU WILL FIND YOURSELVES COMPETING FOR WORKERS AT HOME. I KNOW MANAGERS WHO ARE SERIOUSLY STARTING TO WORRY ABOUT SHORTAGES OF TALENTED PEOPLE.

THERE IS A LARGER, UNTAPPED SOURCE OF TALENT IN THIS COUNTRY. SUCH PEOPLE ARE TO BE FOUND AND FOSTERED AMONG THE YOUNG AND UNDERSKILLED, WHO NEED TRAINING. THE OLDER AND MORE EXPERIENCED, WHO NEED RE-TRAINING.

THE DISADVANTAGED, WHOSE LIVES CAN BE TURNED TO ADVANTAGE. DISABLED WORKERS, WHO ASK ONLY FOR A CHANCE TO PROVE THEIR ABILITY. DUAL CAREER FAMILIES, WHO NEED OPTIONS.

OPPORTUNITY DOESN'T NECESSARILY KNOCK ON THE DOOR. IT MAY BE LEANING AGAINST THE WALL OR STANDING ON THE STREETCORNER, NEEDING ONLY TO BE SEEN FOR WHAT IT IS.

IN THIS, WE NEED YOUR LEADERSHIP.

THE VERY HEART OF OUR ABILITY TO COMPETE MAY DEPEND ON HOW WELL WE ENLIST THOSE WHO HAVE, UNTIL NOW, BEEN ON THE OUTSKIRTS OF ECONOMIC GROWTH. THEY WILL BE NEEDED.

TOGETHER WE CAN BUILD BUSINESSES THAT OUTWIT, OUTMANEUVER, OUTPRODUCE, AND OUTPERFORM THE COMPETITION.

WE CAN ACHIEVE THE KIND OF COMPETITIVE ADVANTAGE THAT COMES FROM COLLECTIVE WILL.

AND WE CAN MAKE SURE THE WORDS "MADE IN THE U.S.A." SIMPLY MEAN "THE BEST THERE IS."

THANK YOU. AND GOD BLESS YOU.

(Lange)
February 23, 1989
4:30 p.m.

PRESIDENTIAL REMARKS: SMALL BUSINESS LEGISLATIVE COUNCIL
WASHINGTON, D.C.
WEDNESDAY, MARCH 1, 1989

Thank you, [Bob]. It is good to be with you this afternoon. As you may have heard, I just finished a tour through several countries in the Pacific Rim.

They say that travel teaches tolerance. And it is true -- my hosts abroad were certainly tolerant of my experiments with their language.

I think one of my toasts might as well have been translated by the interpreter as: "Laugh politely at the peculiar American humor."

Maybe I should have asked **them** to read my lips.

This afternoon you've heard from Gregg Petersmeyer, Richard Breeden, and [~~Elizabeth Dole~~ / Robert Mosbacher] -- three key members of the team here in Washington.

And now that you have a feeling for their ideas and priorities, let me encourage you to work with them. Tell them

what you're thinking. They are civil servants in the truest sense -- and they are looking for ways to make this a responsive government, a government by the people.

While I was in Asia, I had a chance to think seriously about what sets our trading partners apart from us. I realized that, in subtle ways, we may have erected a barrier to our own success -- and deprived ourselves of vital long-term investment that our competitors have always enjoyed.

In a few minutes, I'm going to have a suggestion for those who say that we have to "level the playing field."

You know, there are some who say that the sun is rising in the Far East. Some even suggest that it's setting here at home. Well, for them, I have news. The 21st century can be the **next** American century -- if we understand the challenges before us, and move to meet them together.

More than ever, the world is interconnected; interdependent; and changing rapidly. More than at any point in human history, our societies and economies rely one upon the other.

So competitiveness -- which seems to be on everybody's mind these days -- takes on a challenging new angle. It means more

than just market share and earned income. And it's more than a zero-sum, winner-take-all game.

Since 1980, world trade volume has nearly doubled. Almost a fifth of our industrial production is now in exports. Goods and services circle the globe overnight. Capital changes hands in seconds.

In a world like that, all nations stand to benefit from the growth of their trading partners -- as long as markets are free and open.

This means that the goal of competitiveness is not simply to disadvantage the competition. It is to better deploy the advantages we have -- and to create new ones.

And that is why the work you do is so important. American small business has always been our most creative source of innovation and economic growth.

We've created 19 million new jobs in this country since the recovery began. That's five times the number of jobs created in Japan -- and small businesses are responsible for ~~eight~~ two out of ~~ten of them~~ three. Operations like yours make America work.

By creating jobs, you create opportunity. And while I'm President, government won't interfere with that. We will assure that you have the freedom you need, to do what you do best.

Competitiveness demands two things: flexibility in the marketplace, and the right kind of investment at home.

So we want to give employers and employees the flexibility to work out their **own** solutions, on issues like parental leave and health insurance. And we intend to promote the kind of investment that will allow every American to share in prosperity, and help to create more of it.

Americans are a diverse people. They don't want generic solutions, when a problem is best solved at its source. Government's creed should be to do no harm -- and to act only when there is clear evidence that its interference will make things better for people.

Decisions made -- and actions taken -- at the local level very often better serve the interests of those involved. What I'm talking about, here, is a fundamental American freedom: the freedom to choose.

That's the driving principle behind our proposal on child care. We want to create a system of refundable tax credits,

Building a Better America pp. 101-106

focused particularly on low-income parents. We mean to avoid burdensome federal standards and regulation that would limit family, church, and community-based care. We will examine the liability insurance barriers for businesses interested in providing child care options.

We would like to put solutions -- and dollars -- in the hands of parents. We intend to promote choice in childcare.

Flexibility promotes creativity. It's always been the basis for real achievements in business. So we need to find new ways to encourage men and women to take risks. We need entrepreneurs who will invest their time, talents, and resources to build businesses. Unlock new markets. Unleash new technologies. And create new jobs. People who bring to the marketplace competitive products and quality services that are second to none in the world.

You know what the challenges are.

Last year a large survey of CEOs suggested that while American business leaders are inherently optimistic, they're aware that we have new and important work to do. Ninety percent of them said that American business is still too short-term oriented.

I've built a business. Let me tell you, I know how tough it is. I understand the pressures you face. You don't need a lecture on the importance of savings and long-term investment. You need government that enables you to do what you **know** how to do.

Competitiveness demands the right kind of investment, yes. That's one reason I support a differential in the capital gains tax -- cutting it to 15 percent on investments held for a year or more.

I see this as an important way to free up American businesses, without distorting world markets. The economies of the Pacific Rim -- the "four dragons" of Hong Kong, Singapore, Taiwan, and South Korea ~~-- along with West Germany, the most dynamic country in Europe,~~ -- **all** exempt capital gains entirely from tax. Japan also had no tax on capital gains during its meteoric rise.

I call on anyone who talks about "leveling the playing field" with our trading partners, to consider this:

By taxing capital gains, we impede our own progress -- and we turn the playing field into an uphill climb.

Treasury estimates that this cut will add $4.8 billion per year to the revenue side of the ledger.

$2 billion/yr.

Restoring the capital gains differential would be a powerful incentive for businesses to invest, to innovate, to grow, and to create jobs.

1990 next fiscal year - current budget

Building a Better America p. 32

For managers, it would ease some of the relentless pressure of quarterly reporting -- and allow them to focus on longer-term goals and operations, get a leg up in new markets, and apply new techniques and technologies. For workers, it means more jobs, at better wages. For all Americans, it means a real, competitive difference in the world marketplace.

Building a Better America p. 30

I am committed to a program of careful, systematic investment to assure our competitive future. And our budget is an important first step in that investment.

28% ↑ for OSTP p. 34

BBA

We have proposed a 13 percent increase for science and technology programs in 1990. And we intend to double the National Science Foundation's budget by 1993, to develop engineering and scientific computing research centers -- and to build the right links between university, government, and industry labs.

Building a Better America p. 37

BBA

We are recommending a permanent extension of the R&E tax credit, to keep us at the forefront of technological innovation -- especially in basic research.

Building a Better America p. 36

And we want to encourage more domestic research by multinationals, by stabilizing the R&E expense allocation rules. The uncertainty brought on by expiring temporary rules has gone on for two decades. Businesses should be able to make long-term research plans in a stable climate. Creating that climate is something government can -- should -- and will do.

We are determined to bring the deficit down -- with no new taxes -- by following Gramm-Rudman-Hollings targets and using **actual spending** as a frame of reference. You don't run your operations in a wonderland of perpetually expanding baselines -- and neither should government.

But the most important investment we can make, to assure a competitive future, is in training and education.

Jobs are becoming more demanding. The competition is getting tougher. Labor markets are getting tighter. So we'll need to do more to develop a highly-skilled, motivated, educated workforce.

You know, when I was building an oil business, we invested heavily in what was then a new technology -- off-shore drilling. Early on, we lost a drilling rig to a storm off the coast of Texas. I knew that whenever you consider an investment, you

rightly tend to focus on the risks involved.

But where training and education are concerned, the biggest risk is to **not** get involved.

American public education needs more of our support -- and less of our criticism. It's time to stop blaming the students -- stop blaming the schools -- stop blaming other institutions -- and start getting involved.

We should look to the vitality of our system -- and work to build strength through diversity.

Successful schools happen everywhere -- from rural communities to inner city neighborhoods. They are shaped by people with high expectations, from both the public and private sector, who work within the schools to bring about creative change.

This way of looking at it means that we are **all** accountable for the quality of our schools. We need to strengthen incentives to do better -- and we have a program to do just that.

BBA

We will expand Head Start, reward superior schools, and recognize outstanding teachers. We will establish a National

BBA
p. 103
p. 50
p. 52
p. 54

Science Scholars Program. We will work to free our schools from the pestilence of drugs.

BBA p.69

And we will be looking to you for help and guidance -- because good schools are good for business. Many of you are already involved with local schools, doing important work for the future of your communities, and your country. More can be done. And I know you'll be there when we need you.

To compete successfully abroad, many of you will find yourselves competing for workers at home. I know managers who are seriously starting to worry about shortages of talented people. (focus grp w/Pres-Elect during Transition)

John Sotoga) Pres. SBLC 639-8500

There is a larger, untapped source of talent in this country. Such people are to be found and fostered among the young and underskilled, who need training. The older and more experienced, who need re-training. The disadvantaged, whose lives can be turned to advantage. Disabled workers, who ask only for a chance to prove their ability. Dual career families, who need options.

Opportunity doesn't necessarily knock on the door. It may be leaning against the wall or standing on the streetcorner, needing only to be seen for what it is.

In this, we need your leadership. The very heart of our ability to compete may depend on how well we enlist those who have, until now, been on the outskirts of economic growth. They will be needed.

Together we can build businesses that outwit, outmaneuver, outproduce, and outperform the competition.

We can achieve the kind of competitive advantage that comes from collective will. And we can make sure the words "Made in America" simply mean "the best there is."

Thank you. And God bless you.

Document No. 010588

WHITE HOUSE STAFFING MEMORANDUM

DATE: 2/23/89 ACTION/CONCURRENCE/COMMENT DUE BY: 3:00 PM 2/27/89

SUBJECT: PRESIDENTIAL REMARKS: SMALL BUSINESS LEGISLATIVE COUNCIL

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☑	MCCLURE	☑	☐
SUNUNU	☐	☑	NEWMAN	☐	☐
SCOWCROFT	☑	☐	PORTER	☑	☐
DARMAN	☑	☐	STUDDERT	☑	☐
BATES	☑	☐	UNTERMEYER	☐	☐
BREEDEN	☑	☐	ROGERS	☐	☑
CARD	☐	☑	WINSTON	☐	☑
CICCONI	☐	☑	PINKERTON	☑	☐
DEMAREST	☑	☐	BOSKIN	☐	☐
FITZWATER	☐	☑		☐	☐
GRAY	☑	☐		☐	☐
HAGIN	☐	☐		☐	☐

REMARKS:

Please forward any comments/recommendations to Chriss Winston, Rm. 122, x2930, by 3:00 PM, Monday, February 27, 1989, with an info copy to my office. Thank you.

RESPONSE:

James W. Cicconi
Assistant to the President
and Deputy to the Chief of Staff
Ext. 2702

No mention of: free trade (p. 3)
Urb. ent. zones (p. 4)
— too long — Do they care about science tech? R+E tax credit?

(Lange)
February 23, 1989
4:30 p.m.

PRESIDENTIAL REMARKS: SMALL BUSINESS LEGISLATIVE COUNCIL
WASHINGTON, D.C.
WEDNESDAY, MARCH 1, 1989

Thank you, [Bob]. It is good to be with you this afternoon. As you may have heard, I just finished a tour through several countries in the Pacific Rim.

They say that travel teaches tolerance. And it is true -- my hosts abroad were certainly tolerant of my experiments with their language.

I think one of my toasts might as well have been translated by the interpreter as: "Laugh politely at the peculiar American humor."

Maybe I should have asked them to read my lips.

This afternoon you've heard from Gregg Petersmeyer, Richard Breeden, and [Elizabeth Dole / Robert Mosbacher] -- three key members of the team here in Washington.

And now that you have a feeling for ~~their~~ my ideas and priorities, let me encourage you to work with them. Tell them that they'll be working on

what you're thinking. They are civil servants in the truest sense -- and they are looking for ways to make this a responsive government, a government by the people.

While I was in Asia, I had a chance to think seriously about what sets our trading partners apart from us. I realized that, in subtle ways, we may have erected a barrier to our own success -- and deprived ourselves of vital long-term investment that our competitors have always enjoyed.

In a few minutes, I'm going to have a suggestion for those who say that we have to "level the playing field."

You know, there are some who say that the sun is rising in the Far East. Some even suggest that it's setting here at home. Well, for them, I have news. The 21st century can be the next American century -- if we understand the challenges before us, and move to meet them together.

More than ever, the world is interconnected; interdependent; and changing rapidly. More than at any point in human history, our societies and economies rely one upon the other.

So competitiveness -- which seems to be on everybody's mind these days -- takes on a challenging new angle. It means more

In this world,

than just market share and earned income. And it's more than a zero-sum, winner-take-all game.

Since 1980, world trade volume has nearly doubled. Almost a fifth of our industrial production is now in exports. Goods and services circle the globe overnight. Capital changes hands in seconds. In this world, competitiveness depends on the skills & talents of the people -- & thus on the investments we make today to enhance those skills.

In a world like that, all nations stand to benefit from the growth of their trading partners -- as long as markets are free and open. So the key priority for me is to promote economic growth -- both here and abroad, through low tax rates. And as markets grow, I will work to fight off the protectionists, & encourage the kind of free trade that makes all nations better off. ~~This means that~~ You see, the goal of competitiveness is not simply to disadvantage the competition. It is to better deploy the advantages we have -- and to create new ones.

And that is why the work you do is so important. American small business has always been our most creative source of innovation and economic growth.

We've created 19 million new jobs in this country since the recovery began. That's five times the number of jobs created in Japan -- and small businesses are responsible for eight out of ten of them. Operations like yours make America work.

By creating jobs, you create opportunity. And while I'm President, government won't interfere with that. We will assure that you have the freedom you need, to do what you do best. We will hold the line on taxes -- because if the experience of the last 8 years has proven anything, it is that lower taxes means a stronger economy.

Competitiveness demands two things: flexibility in the marketplace, and the right kind of investment at home.

associate director
David Haun
x 3060

So we want to give employers and employees the flexibility to work out their own solutions, on issues like parental leave and health insurance. And we intend to promote the kind of investment that will allow every American to share in prosperity, and help to create more of it.

That's the idea behind a new proposal of mine -- one I'd like to ask for your help with. For 25 years, social planners thought the way to help our cities was to dump money in them; as a result they created a destructive cycle of dependency that destroyed hope. My idea is different.

Americans are a diverse people. They don't want generic solutions, when a problem is best solved at its source. I believe that, with the proper incentive Government's creed should be to do no harm -- and to act only when there is clear evidence that its ~~interference~~ intervention will make things better for people.

small business can lead America's urban renewal. The well of new ideas of women looking for the chance to try them is as deep as this country. So what I propose is this: say to the entrepreneur start your business in the inner city, where the need for jobs is greatest, and you'll get a break on your federal taxes. After all, you'll be saving the gov't money by reducing the need for welfare, giving [illegible] something else. And [illegible]

Decisions made -- and actions taken -- at the local level very often better serve the interests of those involved. What I'm talking about, here, is a fundamental American freedom: the freedom to choose.

That's the driving principle behind our proposal on child care. We want to create a system of refundable tax credits,

from: [Bob Grady or Janet Hale]
Assoc. Dir.

focused particularly on low-income parents. We mean to avoid burdensome federal standards and regulation that would limit family, church, and community-based care. We will examine the liability insurance barriers for businesses interested in providing child care options.

We would like to put solutions -- and dollars -- in the hands of parents. We intend to promote choice in childcare.

Flexibility promotes creativity. It's always been the basis for real achievements in business. So we need to find new ways to encourage men and women to take risks. We need entrepreneurs who will invest their time, talents, and resources to build businesses. Unlock new markets. Unleash new technologies. And create new jobs. People who bring to the marketplace competitive products and quality services that are second to none in the world.

You know what the challenges are.

Last year a large survey of CEOs suggested that while American business leaders are inherently optimistic, they're aware that we have new and important work to do. Ninety percent of them said that American business is still too short-term oriented.

I've built a business. Let me tell you, I know how tough it is. I understand the pressures you face. You don't need a lecture on the importance of savings and long-term investment. You need government that enables you to do what you know how to do.

Competitiveness demands the right kind of investment, yes. That's one reason I support a differential in the capital gains tax -- cutting it to 15 percent on investments held for a year or more.

Allan
(Paul 5044 rm 262)

I see this as an important way to free up American businesses, without distorting world markets. The economies of the Pacific Rim -- the "four dragons" of Hong Kong, Singapore, Taiwan, and South Korea -- along with West Germany, the most dynamic country in Europe -- all exempt long-term capital gains ~~entirely~~ from tax. Japan also had no tax on capital gains during its meteoric rise.

Should this be "tigers"?

I call on anyone who talks about "leveling the playing field" with our trading partners, to consider this:

By taxing capital gains, we impede our own progress -- and we turn the playing field into an uphill climb.

Restoring the capital gains differential would be a powerful incentive for businesses to invest, to innovate, to grow, and to create jobs.

For managers, it would ease some of the relentless pressure of quarterly reporting -- and allow them to focus on longer-term goals and operations, get a leg up in new markets, and apply new techniques and technologies. For workers, it means more jobs, at better wages. For all Americans, it means a real, competitive difference in the world marketplace.

I am committed to a program of careful, systematic investment to assure our competitive future. And our budget is an important first step in that investment.

We have proposed a 13 percent increase for science and technology programs in 1990. And we intend to double the National Science Foundation's budget by 1993, to develop engineering and scientific computing research centers -- and to build the right links between university, government, and industry labs.

We are recommending a permanent extension of the R&E tax credit, to keep us at the forefront of technological innovation -- especially in basic research.

And we want to encourage more domestic research by multinationals, by stabilizing the R&E expense allocation rules. The uncertainty brought on by expiring temporary rules has gone on for two decades. Businesses should be able to make long-term research plans in a stable climate. Creating that climate is something government can -- should -- and will do.

We are determined to bring the deficit down -- with no new taxes -- by following Gramm-Rudman-Hollings targets and using actual spending as a frame of reference. You don't run your operations in a wonderland of perpetually expanding baselines -- and neither should government.

But the most important investment we can make, to assure a competitive future, is in training and education.

Jobs are becoming more demanding. The competition is getting tougher. Labor markets are getting tighter. So we'll need to do more to develop a highly-skilled, motivated, educated workforce.

You know, when I was building an oil business, we invested heavily in what was then a new technology -- off-shore drilling. Early on, we lost a drilling rig to a storm off the coast of Texas. I knew that whenever you consider an investment, you

rightly tend to focus on the risks involved.

But where training and education are concerned, the biggest risk is to not get involved.

American public education needs more of our support -- and less of our criticism. It's time to stop blaming the students -- stop blaming the schools -- stop blaming other institutions -- and start getting involved.

We should look to the vitality of our system -- and work to build strength through diversity.

Successful schools happen everywhere -- from rural communities to inner city neighborhoods. They are shaped by people with high expectations, from both the public and private sector, who work within the schools to bring about creative change.

This way of looking at it means that we are all accountable for the quality of our schools. We need to strengthen incentives to do better -- and we have a program to do just that.

We will expand Head Start, reward superior schools, and recognize outstanding teachers. We will establish a National

Science Scholars Program. We will work to free our schools from the pestilence of drugs.

And we will be looking to you for help and guidance -- because good schools are good for business. Many of you are already involved with local schools, doing important work for the future of your communities, and your country. More can be done. And I know you'll be there when we need you.

To compete successfully abroad, many of you will find yourselves competing for workers at home. I know managers who are seriously starting to worry about shortages of talented people.

There is a larger, untapped source of talent in this country. Such people are to be found and fostered among the young and underskilled, who need training. The older and more experienced, who need re-training. The disadvantaged, whose lives can be turned to advantage. Disabled workers, who ask only for a chance to prove their ability. Dual career families, who need options.

Opportunity doesn't necessarily knock on the door. It may be leaning against the wall or standing on the streetcorner, needing only to be seen for what it is.

In this, we need your leadership. The very heart of our ability to compete may depend on how well we enlist those who have, until now, been on the outskirts of economic growth. They will be needed.

Together we can build businesses that outwit, outmaneuver, outproduce, and outperform the competition.

We can achieve the kind of competitive advantage that comes from collective will. And we can make sure the words "Made in America" simply mean "the best there is."

Thank you. And God bless you.

American Council for Capital Formation
Center for Policy Research

SPECIAL REPORT

June 1987

CAPITAL GAINS TAXES IN 1987: U.S. VS. THE REST OF THE WORLD

A new Arthur Andersen & Co. study comparing tax rates on portfolio stock investment among eleven major industrialized countries and six Pacific Basin countries reveals that in 1987, U.S. capital gains taxes are higher than those of almost all surveyed countries.

The comparison, which is undertaken periodically by Arthur Andersen, shows that among eleven industrialized countries including the U.S., only Australia and the United Kingdom have higher maximum long-term capital gains tax rates on portfolio stock investments. Japan, Germany, and three other industrialized nations exempt all such long-term capital gains from taxation. Among the six Pacific Basin countries surveyed, five, including South Korea and Taiwan, exempt such long-term captial gains from taxation. Of those seventeen surveyed countries, all but three have lower maximum short-term capital gains taxes on portfolio stock investments than the United States.

In the past two years changes elsewere in the world have been toward lower capital gains taxes; in the U.S. the Tax Reform Act of 1986 resulted in the largest capital gains tax rate increase probably since the advent of the federal income tax in 1913. (Source: Prepared by Arthur Andersen & Co. for the Securities Industries Association.)

Comparison of Individual Taxation of Capital Gains on Portfolio Stock Investments in 1987

COUNTRIES INDUSTRIALIZED	Maximum Short-Term Capital Gain Tax Rate*	Maximum Long-Term Capital Gain Tax Rate*	Period to Qualify for Long Term Gain Treatment	Maximum Annual Net Worth Tax Rate
United States (A)	38.5%	28%	> Six Months	None
Australia (B)	50.25%	50.25%	One Year	None
Belgium	Exempt	Exempt	None	None
Canada (C)	17.51%	17.51%	None	None
France (D)	16%	16%	None	None
Germany (E)	56%	Exempt	Six Months	.5%
Italy	Exempt	Exempt	None	None
Japan	Exempt	Exempt	None	None
Netherlands	Exempt	Exempt	None	.8%
Sweden	45%	18%	Two Years	.3%
United Kingdom (F) ...	30%	30%	None	None
PACIFIC BASIN				
Hong Kong	Exempt	Exempt	None	None
Indonesia	35%	35%	None	None
Malaysia	Exempt	Exempt	None	None
Singapore	Exempt	Exempt	None	None
South Korea	Exempt	Exempt	None	None
Taiwan	Exempt	Exempt	None	None

* State, provincial and local tax rates not included.

(A) As of January 1, 1988, the nominal tax rate for long- and short-term capital gains rate is to 28 percent. The marginal rate, however rises to 33 percent for joint returns between $71,900 and $149,250 and for single returns between $43,150 and $89,560.

(B) The above maximum long- and short-term rates are comprised of 1.25% Medicare Levy and 49% Income Tax. Prior to July 1, 1987, the Medicare Levy will remain at 1.145% and the Income Tax will remain at 57.08% (aggregating 58.225%). There is no distinction in rate, however, the one-year holding period is for special exemption and indexing.

(C) Canadian residents are allowed an annual capital gains exemption of Canadian 30,000 ($22,998[1]) subject to a cumulative exemption of up to Canadian 500,000 ($383,300[1]) in 1990.

(D) Gains from proceeds of up to FF 272,000 ($45,288[1]) are exempt from taxation in a given taxable year.

(E) The first DM 1,000 ($554[1]) of short-term capital gains is exempt from tax.

(F) The first £6,300 ($10,096[1]) of annual gain is exempt.

[1] Based on exchange rates as of March 31, 1987.

The ACCF Center for Policy Research is an education and research affiliate of the American Council for Capital Formation. Its mandate is to promote an understanding by the public of the importance of capital formation to the economy. For additional information contact: ACCF Center for Policy Research, 1850 K Street, N.W., Suite 400, Washington D.C., 20006, (202)293-5811.

WORKING PAPER SERIES

THE JAPANESE TAX REFORM AND THE EFFECTIVE RATE OF TAX ON JAPANESE CORPORATE INVESTMENTS

John B. Shoven

Working Paper No. 2791

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

: Research is a private,
on engaged in quantita-
my.

review accorded official
has not been submitted
ctors. It is intended to
ible to other economists
cussion and suggestions

NBER WORKING PAPER SERIES

THE JAPANESE TAX REFORM AND THE EFFECTIVE RATE OF TAX ON JAPANESE CORPORATE INVESTMENTS

Stanford

John B. Shoven

Working Paper No. 2791

NATIONAL BUREAU OF ECONOMIC RESEARCH
1050 Massachusetts Avenue
Cambridge, MA 02138
December 1988

This paper was presented at the third annual NBER conference on "Tax Policy and the Economy" held in Washington, D.C., November 14, 1988. I am indebted to Tatsu Sakai of the Ministry of Finance, to Kazuo Yagi of the Foundation for Advanced Information and Research (FAIR), Japan, and to Shuzo Nakamura, Chief Economist of the Institute of Fiscal and Monetary Policy, Ministry of Finance, Japan for sending me materials regarding the Japanese Tax Reform. I also wish to thank Mervyn King for making his working paper on the subject available. This research is part of NBER's research program in Taxation. Any opinions expressed are those of the author not those of the National Bureau of Economic Research.

NBER Working Paper #2791
December 1988

THE JAPANESE TAX REFORM AND THE EFFECTIVE RATE OF TAX ON JAPANESE CORPORATE INVESTMENTS

ABSTRACT

Japan is in the midst of reforming its national level individual and corporation income tax systems. Last year it abandoned its large system of tax free savings accounts and lowered individual marginal tax rates. A much more radical proposal is currently being advocated by the government and is well along the way towards passage in the Diet. The new proposal would significantly lower the statutory rate for the corporation income tax, lower individual rates further and increase the tax thresholds, tax capital gains on securities for the first time, and introduce a type of value added tax. As a package, this would be the most important change in the Japanese tax system since 1950.

This paper presents a brief summary of the Japanese income tax system and the changes in it that have been enacted or proposed. It also discusses and evaluates the pressures for reform, both domestic and international. Finally, the paper looks at how the taxation of capital income in Japan has changed since 1980 and how it compares to the U.S. taxation of capital income after our 1986 tax reform. One major finding of the paper is that the effective marginal tax rate on corporate capital income in Japan has increased sharply since 1980 from roughly five percent to about 32 percent. This change, which still leaves the marginal taxation on corporate investments somewhat lower in Japan than in the U.S., is due to both changes in the Japanese tax code and the virtual elimination of inflation in Japan.

John B. Shoven
Department of Economics
Stanford University
Stanford, CA 94305

lished in the 1987 reform except
sistance (the elderly, single
[t has been replaced with a flat
source) of 20 percent, with 15
ment and 5 percent for local

nterest income is separate
eived on savings deposits and
nes) was subject to a separate 20
n could be excluded from taxable
ms of interest income (bond
ate it with taxable income or pay
terest income was subject to the
hown in the rate schedule. This
lable if the present reform

eparate taxation of dividend
the dividend recipient from the
or dividends the marginal rate for
ent as long as the recipient owns
equity and as long as the amount
on is less than 500,000 yen
d these limits through
on is unavailable on the
or small dividends, there is even
ives a dividend of less than

100,000 yen ($800) from a company (excluding mutual funds) then he may elect separate taxation at the marginal rate of 20 percent.

In addition to the advantages of separate taxation, dividends are lightly taxed at the individual level due to another feature of the individual tax law. For taxpayers with ordinary taxable income of less than 10 million yen ($81,300), a tax credit amounting to ten percent of dividends received is allowed. For those with higher taxable incomes, the credit is reduced, although it always exceeds five percent. The basic ten percent credit means that the maximum marginal rate of national level taxation of dividends (which occurs under separate taxation) is effectively 25 percent (10 percent for small dividends).

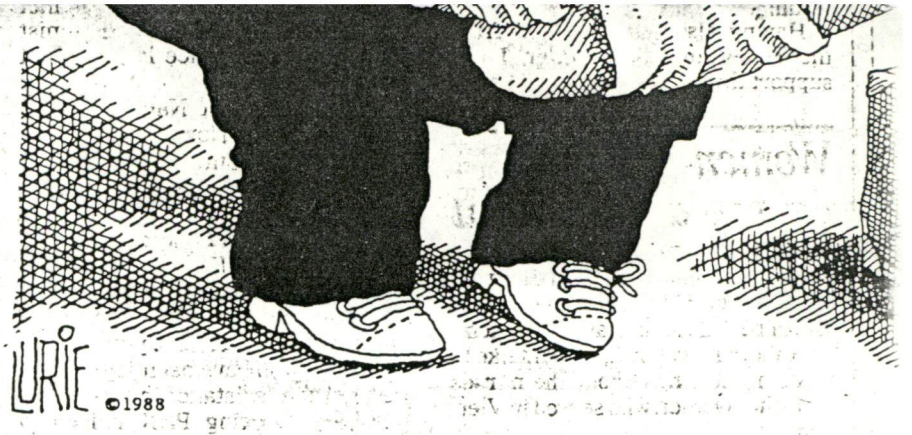
Capital gains on securities are not taxed in Japan, although the current proposal would change this. It would give taxpayers the option of paying a tax equal to one percent of the value of the stock transaction or to pay a separate tax on the actual gain at the rate of twenty percent. The one percent of sales value option implies that capital gains on securities will still be very lightly taxed in Japan relative to their current treatment in the U.S. (fully taxable at ordinary rates upon realization). Capital gains on land and buildings are taxed separately in Japan with the terms depending on the holding period.

Before the 1987 tax reform, corporate capital return was extremely lightly taxed at the personal level in Japan. Most of interest income completely escaped taxation as did all of capital gains on securities. Dividends had the option of separate taxation and thus escaped the marginal rates that went up as high as 70 percent. If the Ministry of Finance proposal is adopted, this will have changed substantially. Almost

At the same time, "trying" when there are no indicators at all of possible success denigrates the power of the moderate and rational groups who would negotiate at the right time. In short, it sets back what it claims to desire.

Such a "policy," moreover — an American secretary of state compulsively setting off to an area where every indicator points to failure — is anti-intellectual and anti-rational. It

Georgie Anne Geyer is a nationally syndicated columnist.



BEN WATTENBERG Wash Times 3/3/88

The competitiveness edge

"Competitiveness" is one of the great issues of the 1988 presidential race. Every candidate is for it; we are told we've got to face up to the threat of foreign competition or the end may be in sight. It is relevant, then, to ask: "How are we doing?"

The old car commercials used to exclaim "Ask the Man Who Owns One." In effect, that is what Business Month magazine (formerly Dun's Review) has done. They commissioned the polling firm of Yankelovich Clancy Shulman to conduct what is probably the most comprehensive survey ever conducted of American chief executive officers. A total of 609 CEOs were interviewed person-to-person for about an hour in their offices, about half before the Oct. 19 crash and half after.

I've examined the poll, and, in fact, wrote an article for Business Month about it. It gives, I think, a fascinating glimpse of the top echelon of corporate America and provides some significant information. The poll shows deep inherent optimism about the future of our businesses, and the good news comes through as tempered and credible, rather than as mere boosterism.

The executives come back again and again to the "competitiveness" question. In a general open-ended question about potential threats to the U.S. economy, the CEOs list "foreign competition" as public enemy No. 1.

If competitiveness is such a problem, why so? The CEOs — 90 percent of them — say American business is too "short-term oriented." Said one CEO, "Everyone is working for the benefit of financial analysts — short-term instead of looking ahead." And another: "The Japanese system is long-term. They back their people 100 percent; we just pull the rug out when we see temporary losses." One specific remedy suggested by the CEOs is to change the Securities and Exchange Commission regulation that demands quarterly financial reports; biannual or annual reporting, they say, would take off some of the short-term pressure.

Ben Wattenberg, a senior fellow at the American Enterprise Institute, is a nationally syndicated columnist.

The long-term response is also positive. Reading the poll results, one gets this impression: The CEOs think we're in trouble, they know what the trouble is, they're acting to remedy it, they will continue at it, and they believe they will prevail. In short: stress and success. Stock market: Take note.

Have the CEOs done anything about this problem? They maintain they have: 69 percent say they are spending more time on strategic long-term planning, 61 percent more on controlling costs and 54 percent more time on marketing.

To a remarkable degree, they have also signed onto the "lean and mean" strategy. In the last two years alone, 39 percent of the CEOs say they have "down-sized" their companies. (Of the larger corporations in the sample, the figure was 48 percent!) The process is by no means over: Of those CEOs who have down-sized, 50 percent say they will do more of it in the next two years.

The CEOs, overwhelmingly Republican, nonetheless want government help to encourage competitiveness: 83 percent say the government isn't doing enough to stimulate research, 67 percent want tax incentives. (By contrast, only 16 percent say the government should spend more on social programs.)

Is the drive for American competitiveness working? Will it work? When asked a general question — "How would you describe your overall confidence in American business to meet the challenges it faces?" — only about half (51 percent) offered up a "most confident" rating ("5" or "6" on a 1 to 6 scale). But, far more relevantly, when asked the same question about their own company, 80 percent gave a "most confident" response.

The long-term response — for all business — is also positive. The question: "In the year 2000 will American business be stronger globally?" Answer: 53 percent of the CEOs said yes, 29 percent said no.

Reading the poll results, one gets this general impression: The CEOs think we're in trouble, they know what the trouble is, they're acting to remedy it, they will continue at it, and they believe they will prevail. In short: stress and success. Stock market: Take note.

Peggy –

FYI, Bobbie Kilberg's briefing paper showed Pfotenhauer, Breeden & Moskacher as attendees, this is a change I believe you may want to double check this be-cause it will be changed in the final draft. Thanks! K

GB
(Lange)
February 28, 1989
10:30 a.m.

PRESIDENTIAL REMARKS: SMALL BUSINESS LEGISLATIVE COUNCIL
WASHINGTON, D.C.
WEDNESDAY, MARCH 1, 1989

Thank you, [Bob]. It is good to be with you this afternoon. As you may know, I just finished a tour through several countries in the Pacific Rim.

They say that travel teaches tolerance. And it is true -- my hosts abroad were certainly tolerant of my experiments with their languages.

I think one of my toasts might as well have been translated by the interpreter as: "Laugh politely at the peculiar American humor."

This afternoon you've heard from Gregg Petersmeyer, Richard Breeden, and [Elizabeth Dole / Robert Mosbacher] -- three key members of the team here in Washington.

And now that you have a feeling for their ideas and priorities, let me encourage you to work with them. Tell them what you're thinking. They know how to work with the private

sector -- and they are looking for ways to make this a responsive government, a government by and for the people.

While I was in Asia, I had a chance to think seriously about what sets our trading partners apart from us. I realized that we may have erected a barrier to our own success -- and deprived ourselves of vital long-term investment that our competitors have always enjoyed.

In a few minutes, I'm going to have a suggestion for those who argue in favor of protectionist intervention, in the name of fair trade.

You know, there are some who say that Asia could become the economic center of the world. Some even suggest that America's power is on the wane. Well, for them, I have news. The 21st century can be the next American century -- if we understand the challenges before us, and move to meet them together.

More than ever, the world is interconnected; interdependent; and changing rapidly. More than at any point in human history, our societies and economies rely one upon the other.

So competitiveness -- which is on everybody's mind these days -- takes on a challenging new angle. It means more than just market share and earned income. And it's more than

a zero-sum, winner-take-all game.

Since 1980, world trade volume has nearly doubled. Almost a fifth of our industrial production is now in exports. Goods and services circle the globe overnight. Capital changes hands in seconds.

In a world like that, all nations stand to benefit from the growth of their trading partners -- as long as markets are free and open.

This means that the goal of competitiveness is not simply to disadvantage the competition. It is to better deploy the advantages we have -- and to create new ones.

And that is why the work you do is so important. American small business has always been our most creative source of innovation and economic growth.

We've created 19 million new jobs in this country since the recovery began. Relative to population, that's more than twice the number of jobs created in Japan. In the U.S. private sector, small businesses are responsible for eight out ten jobs created. Businesses like yours make America work.

By creating jobs, you create opportunity. And while I'm President, government won't interfere with that. We will assure that you have the freedom you need, to do what you do best.

Competitiveness demands two things: flexibility in the marketplace, and the right kind of investment at home.

So we want to give employers and employees the flexibility to work out their <u>own</u> solutions, on issues like parental leave and health insurance. And we intend to promote the kind of investment that will allow every American to share in prosperity, and help to create more of it.

Decisions made -- and actions taken -- at the local level very often better serve the interests of those involved. What I'm talking about, here, is a fundamental American freedom: the freedom to choose.

That's the driving principle behind our proposal on child care. We want to establish a new, refundable Children's Tax Credit for low-income parents -- and make the existing child care tax credit refundable as well. We mean to avoid burdensome federal standards and regulation that would limit family, church, and community-based care. We will examine the liability insurance barriers for businesses interested in providing child care options.

We would like to put solutions -- and dollars -- in the hands of parents. We intend to promote choice in childcare.

Flexibility can also promote risk-taking. It's always been the basis for real achievements in business. So we need to find new ways to encourage men and women to take risks. We need entrepreneurs who will invest their time, talents, and resources to build businesses. Unlock new markets. Unleash new technologies. And create new jobs. People who bring to the marketplace competitive products and quality services that are second to none in the world.

You know what the challenges are.

Last year a large survey of CEOs suggested that while American business leaders are inherently optimistic, they're aware that we have new and important work to do. Ninety percent of them said that American business is still too short-term oriented.

I've built a business. Let me tell you, I know how tough it is. I understand the pressures you face. You don't need a lecture on the importance of savings and long-term investment. You need government that enables you to do what's good for business, and good for America.

Competitiveness demands the right kind of investment, yes. For a long time now I have been saying that we must have a competitive capital gains tax rate. If we are to retain the American edge, we must give entrepreneurs and small businesspeople the incentive to keep dreaming, keep risking -- and keep creating good jobs for Americans.

I see a capital gains cut as an important way to free up American businesses, without distorting world markets. The economies of the Pacific Rim -- the "four dragons" of Hong Kong, Singapore, Taiwan, and South Korea -- <u>all</u> exempt capital gains entirely from tax. Japan also had no tax on capital gains during its meteoric rise to economic power.

I call on anyone who talks about intervention in the name of fair trade, to consider this:

By taxing capital gains, we impede our own progress -- and we turn the playing field into an uphill climb.

Restoring the capital gains differential would be a powerful incentive for businesses to invest, to innovate, to grow, and to create jobs.

For managers, it would ease some of the relentless pressure of quarterly reporting -- and allow them to focus on longer-term goals and operations, get a leg up in new markets, and apply new techniques and technologies. For workers, it means more jobs, at better wages. For all Americans, it means a real, competitive difference in the world marketplace.

I am committed to government policies that will allow business to invest with an eye toward the long term to assure our competitive future.

We have proposed a 13 percent increase for science and technology programs in 1990. And we intend to stay on track in our effort to double the National Science Foundation's budget by 1993, to develop engineering and scientific computing research centers -- and to build the right links between university, government, and industry labs.

We are recommending a permanent extension of the R&D tax credit, to keep us at the forefront of technological innovation -- especially in basic research.

And we want to encourage more domestic research by multinationals, by stabilizing the R&E expense allocation rules. The uncertainty brought on by expiring temporary rules has gone on for two decades. Businesses should be able to make long-term

research plans in a stable climate. Creating that climate is something government can -- should -- and will do.

We are determined to bring the deficit down -- with no new taxes. We have proposed a major budget reform to put our fiscal policy on a sound footing once and for all. We need to do away with the wonderland concept of "current services budgeting" -- a land of expanding baselines, where programs are assumed immortal, and "cuts" are actually increases. Federal policy should not start out with the presumption that government spending should go up and up.

But the most important investment we can make, to assure a competitive future, is in training and education.

Jobs are becoming more demanding. The competition is getting tougher. Labor markets are getting tighter. So we'll need to do more to develop a highly-skilled, motivated, educated workforce.

You know, when I was building an oil business, we invested heavily in what was then a new technology -- off-shore drilling. Early on, we lost a drilling rig to a storm off the coast of Texas. I knew that whenever you consider an investment, you rightly tend to focus on the risks involved.

But where training and education are concerned, the biggest risk is to not get involved.

American public education needs more of our support. All of us -- teachers, parents, administrators, local officials, private industry -- all of us have a responsibility to ensure that our educational system is second to none.

We should look to the vitality of our system -- and work to build strength through diversity.

Successful schools happen everywhere -- from rural communities to inner city neighborhoods. They are shaped by people with high expectations, from both the public and private sector, who work within the schools to bring about needed improvements.

This way of looking at it means that we are all accountable for the quality of our schools. We need to strengthen incentives to do better -- and we have a mandate to do just that.

We will expand Head Start, reward schools that improve, and recognize outstanding teachers. We will establish a National Science Scholars Program. We will work to free our schools from the pestilence of drugs.

And we will be looking to you for help and guidance -- because good schools are good for business. Many of you are already involved with local schools, doing important work for the future of your communities, and your country. More can be done. And I know you'll be there when we need you.

To compete successfully abroad, many of you will find yourselves competing for workers at home. I know managers who are seriously starting to worry about shortages of talented people.

There is a larger, untapped source of talent in this country. Such people are to be found and fostered among the young and underskilled, who need training. The older and more experienced, who need re-training. The disadvantaged, whose lives can be turned to advantage. Disabled workers, who ask only for a chance to prove their ability. Dual career families, who need options.

Opportunity doesn't necessarily knock on the door. It may be leaning against the wall or standing on the streetcorner, needing only to be seen for what it is.

In this, we need your leadership. The very heart of our ability to compete may depend on how well we enlist those who

have, until now, been on the outskirts of economic growth. They will be needed.

Together we can build businesses that outwit, outmaneuver, outproduce, and outperform the competition.

We can achieve the kind of competitive advantage that comes from collective will. And we can make sure the words "Made in the U.S.A." simply mean "the best there is."

Thank you. And God bless you.

GEORGE BUSH

A BIOGRAPHY

Nicholas King

DODD, MEAD & COMPANY
NEW YORK

copyright 1980

MIDLAND COUNTY PUBLIC LIBRARY
MIDLAND, TEXAS

tation for pioneer drilling in difficult conditions and it gained the respect of the industry.

"You would have had a fight on your hands if you even suggested to one of the rig hands that there was a better drilling company than Zapata," says an engineer who had worked for Zapata.

In August 1958, Zapata Petroleum sold its remaining interest in Zapata Offshore, which then became independent, and its stock was listed on the American Stock Exchange in New York that September when Bush moved company headquarters to Houston. After five years, the firm had a fleet of four rigs, 195 employees, and 2,200 stockholders.

At the beginning of the 1960s drilling prospects in the gulf continued uncertainly, and Zapata concentrated its efforts in foreign waters, in the Caribbean and off South America. It attempted to diversify, somewhat unsuccessfully, by acquiring properties like a plastics company and a gas pipeline company. But by 1963 offshore drilling presented a rosier picture and the future again looked promising. An innovative outrigger-type floating rig began operating for the company, and construction proceeded on the *Maverick,* a new LeTourneau jack-up which cost $5.7 million and inaugurated a new generation of such rigs. It was the biggest rig in the world and could drill in waters 250 feet deep. Zapata Offshore reported a record $1,189,000 net income for 1964, meaning that Bush was getting richer.

The next year looked good too. The big rigs were earning full time and there was talk of a merger with another offshore driller which would have doubled the size of the fleet. However, there was a severe temporary setback when Hurricane Betsy swept along the Gulf Coast in September 1965 and swept the *Maverick* completely away without a trace. Fortunately, there were no lives lost. Bush personally went on a series of exhausting search flights but returned only with tales of the destruction he had seen done to the houses and fishing communities along the Louisiana coast.

By this time, Zapata Offshore had been functioning for a decade and its assets totaled $15.8 million. The offshore drilling business had come a long way since its birth and had played a critical part in supplying oil to an industrial society. This had been George Bush's real success. But he also knew the strain and risk of offshore oil operations and was thinking increasingly of public life: He had been a Republican precinct worker in west Texas during the 1956 Eisenhower campaign and had become Houston County chairman. He was not to sever his ties with the oil business until 1966, but in 1964 he decided to take a leave of absence.

He never forgot or undervalued what he had learned in the oil fields. "The experience of dealing with people helped me enormously [in later public life]," he reflects. "I learned a great deal about leadership, and I learned a lot about the economic system. I had studied in college about supply and demand, risk and reward, profit and loss, the importance of labor and morale. But I didn't realize how all those things work together until I was making decisions that involved life and death, and survival of the business. That training under fire, under economic adversity, was a fantastic experience.

"But I think I learned the most about people. The oil field doesn't get credit for the fiber of its people. In those days, most of the oil field workers didn't have much education. They came from an entirely different background than I. But the way they devoted their lives to their work, their fierce loyalty, competitiveness and spirit were an inspiration. It made a lasting impression on me."

PROPOSED TOWER INSERT (REVISED)
ADDRESS TO THE SMALL BUSINESS LEGISLATIVE COUNCIL
MARCH 1, 1989

BEFORE I BEGIN I'D LIKE TO TAKE THIS OPPORTUNITY TO COMMENT ON AN ISSUE OF PARTICULAR CURRENCY.

THE DEBATE OVER JOHN TOWER'S NOMINATION AS DEFENSE SECRETARY SHOULD BE BASED UPON PRINCIPLE AND POLICY. IT SHOULD NOT BE BASED ON RUMOR AND INNUENDO.

NO ONE DENIES THAT JOHN TOWER IS WELL QUALIFIED, HARD-NOSED, AND TOUGH. NO ONE DENIES THAT HE KNOWS THE PENTAGON AND HE KNOWS THE CONGRESS. THOSE ARE THE FACTS. AMERICANS, WHATEVER THEIR POLITICS, ARE COMMITTED TO FAIR PLAY AND DECENCY. ALL I AM ASKING, IN THE NAME OF FAIRNESS, IS THAT THIS MAN BE JUDGED ON THE FACTS, NOT ON MISPERCEPTION.

I'VE MADE MY DECISION. AND IT'S UNEQUIVOCAL. JOHN TOWER IS THE BEST MAN FOR THE JOB.

PROPOSED TOWER INSERT
ADDRESS TO THE SMALL BUSINESS LEGISLATIVE COUNCIL
MARCH 1, 1989

BEFORE I BEGIN I'D LIKE TO TAKE THIS OPPORTUNITY TO COMMENT ON AN ISSUE OF PARTICULAR CURRENCY.

THE DEBATE OVER JOHN TOWER'S NOMINATION AS DEFENSE SECRETARY SHOULD BE BASED UPON PRINCIPLE AND POLICY, BUT INSTEAD IT HAS BEEN BASED UPON INTRIGUE AND INNUENDO. THIS IS WASHINGTON AT ITS WORST.

NO ONE DENIES THAT JOHN TOWER IS UNIQUELY QUALIFIED. NO ONE DENIES THAT HE'S HARD-NOSED AND TOUGH. NO ONE DENIES THAT HE KNOWS THE PENTAGON AND HE KNOWS THE CONGRESS. THOSE ARE THE UNDISPUTED FACTS. YET THOSE FACTS ARE TAKING A BACKSEAT TO FICTION, AND UNPROVEN SLURS ARE EQUATED WITH TRUTH.

AS EXECUTIVES YOU KNOW THE VALUE OF HAVING COMPETENT MEN AND WOMEN ON YOUR TEAM.

YOU LOOK FOR THOSE SPECIAL QUALITIES IN THE PEOPLE THAT YOU BRING ON BOARD THAT WILL MAKE YOUR ORGANIZATION EFFECTIVE. YOU WEIGH THEIR TALENTS, THEIR CHARACTER, THEIR EXPERIENCE -- THEN YOU MAKE YOUR DECISION. AND THAT'S THAT.

WELL I'VE MADE MY DECISION. AND IT'S UNEQUIVOCAL. JOHN TOWER IS THE BEST MAN FOR THE JOB. NOW IT'S UP TO THE MEN AND WOMEN IN THE SENATE TO GET BEYOND THE RUMOR AND THE RUCKUS, AND LOOK AT THE FACTS.

I GRANT YOU, THAT MAY TAKE SOME COURAGE IN THE CURRENT CLIMATE, BUT TO DO OTHERWISE WOULD GO AGAINST THE TRADITIONS AND PRINCIPLES OUR GOVERNMENT HAS ALWAYS STOOD FOR.

# # #

LOOKING FORWARD

the Row about the inside

le were about to say our
spoke. "Okay," he said
like that. I was braced for
t he made his decision on
on the project as on us.
r. Meyer rolled down the
ood tax proposition?" We
id, "then put my son-in-

as well as we'd hoped,
tors came out ahead. But
d other oil-business deal-
able, all enjoyable.

rbey, 1986

few good deals and a few
the black the entire three
boom began to fade in
ry boom. We were active
e trade in particular you

lived in East Texas, and
t of his Reagan County
agreed, you suggested an
writing. The East Texas
l and "My word is my

patch myth that a hand-
l to forego the exchange of
ft in the mail. Ten days
so you called him again.
ft but sold the property to

Looking Forward

Nash Dowdle instead, for $151.50 an acre. Apparently his "bond" was worth $1.50 an acre.

According to the recent news, our friend Hugh Liedtke is still making oil deals on a handshake; but he seems to make them a bit more profitable.

Bill and Hugh Liedtke still had their licenses to practice law, but their law books, except for the ones on leases and mineral rights, were gathering dust. The Liedtkes had long since abandoned the courthouse for the oil fields, as independent oil operators with offices next door to Bush-Overbey. Then, in 1953, Bill and Hugh suggested we join forces: they'd raise $500,000, Bush-Overbey would raise $500,000, and the two companies would be rolled into one entity. We'd buy producing properties on the oil-payment plan, with the $1 million for equity.

Agreed. Now, what would we call our new company? Late one night, Hugh and I were going over possible names. We wanted something that would attract attention, a company name that would "stand out," as Hugh said, "when somebody opens the phone book."

Deep-voiced, with a pronounced Oklahoma drawl, Hugh was impressive even in his younger days, before he became "Mr. Pennzoil," a legend in the U.S. domestic oil industry.

"It ought to start with either an *A* or a *Z*," he said, "so it comes either first or last in the pages under 'Independent Oil Operators.'" Nothing in between that could be lost in the shuffle—that was Hugh's m.o. right from the start.

The movie *Viva Zapata!*, starring Marlon Brando, was playing in downtown Midland. It was the story of Emiliano Zapata, the Mexican rebel leader who led a revolt for land reform in the early 1900s under the slogan "Tierra y Libertad"—"Land and Liberty." We couldn't afford a public-relations counsel, but if we had one he would have told us that was exactly the corporate image we were looking for.

And that's the way Zapata Petroleum was born. The following year it would spin off Zapata Off-Shore, and in time, under Hugh Liedtke's imaginative management, merge into Pennzoil.

Zapata: There was a winning chemistry about the company. We could sense it.

I was at the Ector County courthouse, twenty miles from Midland, checking land records, when Barbara called. She said Dr. Wyvell wanted to see us, right away. Dorothy Wyvell was the children's doctor. In a town the size of Midland, more than a doctor, she was a warm, personal friend.

When we went into the doctor's office and sat down, all I knew was that Robin had been in for a checkup because she'd been acting listless. But I knew something was seriously wrong before Dr. Wyvell said a word. She was normally a person of great composure, a reassuring presence whenever one of the kids got sick. But that day her eyes were misting, and she was having a hard time putting her thoughts into words.

Some tests had been run to see what was the matter with Robin, the doctor finally said. The results were back. Robin was a very sick child. She had leukemia.

Barbara seemed to understand the full meaning of what the doctor had said, but I didn't at first. When I asked what could be done, the answer stunned me. Nothing, said Dr. Wyvell. The disease was rampant. Robin's case was advanced, and she had only a short time to live. It might be a few weeks; it might be only days. Her deeply felt counsel to us was that we take Robin home, keep her as comfortable as possible, and let nature take its course.

Dr. Wyvell loved Robin. She just didn't want to see any of us hurt any more than necessary.

After we came home from the doctor's office, I called my uncle, Dr. John Walker, in New York City. He was president of Memorial Hospital there and a former cancer specialist. When I told him the news about Robin, he urged us to bring her to New York,

where we should drill, the only question was how good the well would be.

The Jamieson Field wells weren't the most prolific wells in the world, by a long shot. But they were good wells, and as we continued drilling, our income piled up. We now had enough to invest in other productive West Texas oil properties, as well as turn our eyes seaward, to what I felt was the future of domestic oil production, offshore drilling.

THREE-LEGGED MONSTER
NEW DRILLING BARGE
LAUNCHING TUESDAY

Zapata Off-Shore Co.'s new three-legged drilling barge will be commissioned in Galveston Tuesday.

Named the Scorpion, *the barge will have a number of new wrinkles embodied in its mobile unit.*

For one thing, its three legs are a radical departure from the usual multiples of two. Also, its equipment and arrangement are the newest and latest ideas.

It was built for Zapata by R. G. LeTourneau, Inc., at Vicksburg, Miss., and towed to Galveston for outfitting. It weighs 9 million pounds and cost $3,000,000 . . .

The over-all dimensions of the platform are 180 by 150 feet. The three legs or spuds, each 140 feet long, are driven into the Gulf floor and the body pushed above the reach of waves by electric motors.

At Galveston for the ceremonies will be George Bush, Zapata president, of Midland, and a number of visiting oilmen.

From the Houston Chronicle, *March 18, 1956*

No one doubted that offshore drilling represented the future of the business, but what LeTourneau proposed was a giant leap into the future. He'd gone to major offshore companies like Kerr-McGee, and while they were interested in his revolutionary ideas,

they were hesitant to back up their interest with money. Not only was LeTourneau's equipment different, but the man himself was unorthodox.

But we hadn't named our company Zapata in order to be gun-shy about going into revolutionary, high-risk ventures. We listened to R. G. LeTourneau, looked at what he had to offer, and decided to stake our offshore future on his three-legged monster.

That brought us a lot of publicity and some pats on the back for making a bold business move. The only problem was, the darn thing didn't work—at least, not at first. Put out to sea on its first assignment, the *Scorpion's* jacking system failed and the Gulf saltwater got into its gear boxes.

For LeTourneau, it was back to the drawing board. For Zapata, a major decision had to be made—whether to go ahead with another LeTourneau-designed three-legged rig, the *Vinegarroon,* to the tune of $3.5 million.

We took the gamble. Like Eugene Meyer betting on Fred Chambers and me years before, Zapata's management based its decision on our hunch about LeTourneau the man. And in time, LeTourneau's three-legged monsters—first the *Scorpion,* then the *Vinegarroon,* then the $6 million *Maverick*—became the state of the art in offshore drilling rigs.

LeTourneau was gruff, eccentric, a kind of George Patton of engineering. He was the man of action with a mystic touch, a dynamo, a creative genius. He'd come to us with a proposition: he'd build the *Scorpion* at his own expense. We'd advance him $400,000—refundable if the completed rig didn't work; if it did, he'd get an added $550,000 and 38,000 shares of Zapata Off-Shore common stock. Our feeling was that anybody who had that much confidence in himself was worth the gamble.

Despite the disappointment at Galveston, the gamble paid off. LeTourneau didn't go back to the drawing board, he came over the deck itself. We watched incredulously as he looked at his monster's legs, then at the rack-and-pinion gears. Then right there on the steel deck, he pulled out some chalk and sketched the changes that had to be made.

stimulate greater saving, investment, and entrepreneurship, the Administration proposes a lower capital gains tax rate. For gains on qualified assets held long term, the maximum tax rate will be 15 percent for high income taxpayers. Low income taxpayers will be exempt from tax on such gains. Gains on short term holdings will not receive favorable tax treatment.

> *"I think we should cut the capital gains rate to reestablish that differential and create jobs."*
>
> George Bush

PRINCIPLES

- The President is committed to low marginal tax rates that stimulate work, saving, and investment.
- The President believes that lower capital gains rates will stimulate investment and economic growth and create additional jobs for Americans.
- The differentially lower rate for gains on long held assets will help focus investment decisions on long run competitiveness, and profitability.
- Taxpayers are responsive to lower tax rates and will significantly increase their capital gains realizations, particularly in the short-run. Revenues from increased economic growth can be expected in the long-run.
- Restoring the capital gains differential will increase entrepreneurial activity and employment, paving the way for discoveries of new products, processes, and whole new industries.
- Restoring the capital gains differential will roughly correct for the taxation of purely inflationary gains. Many taxpayers find that they pay capital gains taxes on increases in the value of assets which do not even keep pace with inflation.
- Restoring the capital gains differential will reduce the tax bias toward debt finance.
- Most of America's major trading partners tax long-term capital gains lightly, if at all. Reducing our capital gains rate will promote U.S. international competitiveness.
- The capitals gains proposal will gain revenue during the budget period as taxpayers (who otherwise would be locked in to holding their assets, paying no tax) realize capital gains sufficient to offset the lower tax rate. Historical experience indicates that when the capital gains rate has been cut, increased revenues are likely. The last time the capital gains differential was enhanced (the 1978 Steiger Amendment), capital gains revenue increased.

POLICIES

The President proposes restoring a capital gains tax differential on gains from qualified assets sold by individual taxpayers. A 45 percent exclusion will apply to gains on qualified assets; that is, 45 percent of the gain would be excluded from tax, meaning a lower effective capital gains tax rate. A 15 percent maximum tax rate will apply to all qualified gains to prevent high marginal tax rates from interactions with other tax rules. The exclusion and maximum tax rate will apply to both the regular and alternative minimum tax. A 100 percent exclusion will apply to gains on qualified assets of taxpayers who have adjusted gross income below $20,000 and who are not subject to the alternative minimum tax.

The current law definition of a capital asset will be retained. However, gain from the sale or exchange of depreciable property used in a trade or business and certain special types of property in section 1231 of the tax law will not be treated as capital gain eligible for the lower tax rate. "Collectibles" as defined by the eligibility rules for Individual Retirement Accounts will not be eligible for lower capital gains tax rates.

Qualified capital assets will be required to have been held more than 12 months to be eligible for the lower capital gains rate for assets sold in 1989 through 1992; 24 months for assets sold in 1993 and 1994; and 36 months for assets sold in 1995 or later.

The proposal to lower capital gains rates will be effective for qualified capital assets sold after June 30, 1989.

FUNDING SUMMARY

(Revenue change in billions of dollars)

	1989	1990	1991	1992	1993
Capital gains tax differential	+0.7	+4.8	+4.9	+3.5	+2.2

b. Strengthening Federal Science and Technology Policy

OVERVIEW

The President's Science Advisor, who is also the Director of the Office of Science and Technology Policy, is an important source of independent, technical counsel for the President, and plays a key role in the formulation of the national science and technology agenda.

The Administration believes that the private sector should also have an important role in providing science and technology advice. Science and technology form the foundation of economic power. It is the combination of dedicated, skilled people and technological advancement that can improve our standard of living and our competitive position in the global marketplace.

"I will upgrade the President's Science Advisor to Assistant to the President and make him an active member of the Economic Policy Council and our national security planning processes. And I will create a President's Council of Science and Technology Advisors, composed of leading scientists, engineers and distinguished executives from the private sector."

George Bush

PRINCIPLES

- Science and technology are increasingly critical to the Nation's national security and economic health.
- Many government policies and programs have an important scientific and technological component. Informed judgements on these issues are crucial to the President, and thus,

WORKING PAPER SERIES

THE JAPANESE TAX REFORM AND THE EFFECTIVE RATE OF TAX ON JAPANESE CORPORATE INVESTMENTS

John B. Shoven

Working Paper No. 2791

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

shed in the 1987 reform except
stance (the elderly, single
has been replaced with a flat
urce) of 20 percent, with 15
ent and 5 percent for local

terest income is separate
ived on savings deposits and
es) was subject to a separate 20
could be excluded from taxable
s of interest income (bond
te it with taxable income or pay
erest income was subject to the
own in the rate schedule. This
able if the present reform

parate taxation of dividend
ne dividend recipient from the
dividends the marginal rate for
nt as long as the recipient owns
equity and as long as the amount
is less than 500,000 yen
these limits through
n is unavailable on the
r small dividends, there is even
ves a dividend of less than

100,000 yen ($800) from a company (excluding mutual funds) then he may elect separate taxation at the marginal rate of 20 percent.

In addition to the advantages of separate taxation, dividends are lightly taxed at the individual level due to another feature of the individual tax law. For taxpayers with ordinary taxable income of less than 10 million yen ($81,300), a tax credit amounting to ten percent of dividends received is allowed. For those with higher taxable incomes, the credit is reduced, although it always exceeds five percent. The basic ten percent credit means that the maximum marginal rate of national level taxation of dividends (which occurs under separate taxation) is effectively 25 percent (10 percent for small dividends).

Capital gains on securities are not taxed in Japan, although the current proposal would change this. It would give taxpayers the option of paying a tax equal to one percent of the value of the stock transaction or to pay a separate tax on the actual gain at the rate of twenty percent. The one percent of sales value option implies that capital gains on securities will still be very lightly taxed in Japan relative to their current treatment in the U.S. (fully taxable at ordinary rates upon realization). Capital gains on land and buildings are taxed separately in Japan with the terms depending on the holding period.

Before the 1987 tax reform, corporate capital return was extremely lightly taxed at the personal level in Japan. Most of interest income completely escaped taxation as did all of capital gains on securities. Dividends had the option of separate taxation and thus escaped the marginal rates that went up as high as 70 percent. If the Ministry of Finance proposal is adopted, this will have changed substantially. Almost

-593

CIVILIAN EMPLOYMENT TRENDS IN NORTH AMERICA, JAPAN, AND EUROPE FOR SELECTED YEARS, 1970-1988

COUNTRY	CIVILIAN EMPLOYMENT (THOUSANDS)											
	1970	1973	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988
UNITED STATES	78678	85064	85846 +15665	99303	100397	99526	100834	105005	107150	109597	112440	114968
CANADA	7919	8761	9284	10708	11006	10644	10734	11000	11311	11634	11955	12347
JAPAN	50140	51919	51530 +470	54600	55060	55520	56550	56870	57260	57740	58320	59300
OECD EUROPE:	Δ JAPAN + Δ EUROPE (4700) + (4728) = 9428 < Δ U.S. (+15665)											
AUSTRIA	3051	3160	3175 -2	3263	3267	3229	3203	3206	3213	3226	3245	3261
BELGIUM	3658	3738	3737 -62	3743	3664	3615	3577	3579	3607	3645	3645	3681
DENMARK	2315	2385	2332 +199	2460	2369	2374	2388	2457	2522	2630	2659	2659
FINLAND	2115	2154	2211 +112	2318	2343	2367	2380	2403	2427	2421	2414	2430
FRANCE	20270	20840	20850 -240	21330	21200	21240	21170	20980	20920	20950	20990	21090
GERMANY	26100	26350	25240 -220	25750	25560	25140	24750	24800	24960	25220	25400	25530
GREECE	3134	3191	3198 +259	3356	3529	3491	3540	3563	3588	3601	3597	3615
ICELAND	81	90	94 +14	104	110	112	113	114	116	116	117	118
IRELAND	1045	1057	1061 -69	1141	1131	1123	1110	1090	1059	1068	1057	1072
ITALY	19080	18870	19400 +650	20200	20280	20250	20320	20390	20490	20610	20590	20650
LUXEMBOURG	140	151	157 +16	157	158	158	157	158	160	164	168	173
NETHERLANDS[1]	4569	4560	4580 +335	4980	5010	4980	4890	4930	5110	5200	5262	5315
NORWAY	1497	1654	1707 +202	1908	1935	1943	1945	1970	2014	2086	2126	2110
PORTUGAL	3345	3286	3724 +289	3940	3918	3928	4136	4063	4030	4045	4156	4229
SPAIN	12220	12608	12442 +238	11495	11156	11043	10998	10674	10567	10815	11370	11738
SWEDEN	3850	3873	4056 +233	4226	4219	4213	4218	4249	4293	4326	4396	4459
SWITZERLAND	3142	3277	3116 +32	3170	3211	3190	3149	3142	3171	3219	3261	3302
TURKEY	12583	13358	13796 +1901	14531	14668	14802	14912	15111	15290	15632	15992	16152
UNITED KINGDOM	24330	24510	24560 +840	24670	23800	23710	23600	24080	24310	24450	24910	25410
SELECTED GROUPS:												
NORTH AMERICA	86597	93825	95130	110011	111403	110170	111568	116005	118461	121231	124395	127315
OECD EUROPE	146525	149212	149436	152742	151528	150918	150557	150869	151847	153424	155365	157190
HIGH INCOME [2]	114196	115712	115215	118279	117126	116521	115861	116378	117313	118263	119183	120388
LOW INCOME [3]	32327	33500	34221	34463	34402	34397	34696	34491	34534	35161	36182	36802
EUROPEAN COMMUNITY[4]	120206	121646	121281	123222	121775	121062	120637	120674	121323	122398	123814	125350
MAJOR FOUR [5]	89780	90670	90050	91950	90840	90340	89840	90170	90680	91230	91890	92880

MAR 10 '89 11:34 FROM DEPT OF LABOR PAGE.002

Civilian Employment Trends.....continued

[1] BLS series adjusted to U.S. concepts (see note) except that 1970 is estimated based on OECD data.
[2] Countries with real GDP per capita in 1985 equal to 60 percent or more of U.S. level. Comprises OECD Europe except for countries listed in [3] below.
[3] Countries with real GDP per capita in 1985 below 60 percent of the U.S. level. Comprises Greece, Ireland, Portugal, Spain, and Turkey.
[4] European Community countries: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom.
[5] France, Germany, Italy, and the United Kingdom.

Note: Data for the following countries have been adjusted to U.S. concepts by the Bureau of Labor Statistics - United States, Canada, Japan, France, Germany, Italy, the Netherlands, Sweden, and the United Kingdom.

Data for all other countries are from the Organization for Economic Cooperation and Development (OECD), Labour force Statistics, 1966-86 and its quarterly supplements, and OECD estimates for 1987 and 1988 contained in Economic Outlook, December 1988. OECD estimates were in terms of percent changes which were applied by BLS to 1986 data.

Data are preliminary for the United Kingdom from 1982 onward. Data for 1986 are preliminary for Germany and the Netherlands. Data for 1987 are preliminary for all countries except the United States, Canada, Japan, France, Italy, Portugal, and Spain. Data for 1988 are preliminary for all countries except the United States and Canada.

Prepared by:

U.S. Department of Labor
Bureau of Labor Statistics
Office of Productivity & Technology
January 1989.

MAR 10 '89 11:37 FROM DEPT OF LABOR PAGE.003

When the Japanese bombed Pearl Harbor, December 7, 1941, there wasn't any doubt which branch of the service I'd join. My thoughts immediately turned to naval aviation. College was coming up the following fall, but that would have to wait. The sooner I could enlist, the better.

Six months later I got my diploma from Phillips Academy Andover. Secretary of War Henry Stimson came from Washington to deliver the commencement address. He told members of our graduating class the war would be a long one, and even though America needed fighting men, we'd serve our country better by getting more education before getting into uniform.

After the ceremony, in a crowded hallway outside the auditorium, my father had one last question about my future plans. Dad was an imposing presence, six feet four, with deep-set blue-gray eyes and a resonant voice.

"George," he said, "did the Secretary say anything to change your mind?"

"No, sir," I replied. "I'm going in."

Dad nodded and shook my hand.

On my eighteenth birthday, I went to Boston and was sworn into the Navy as a Seaman Second Class. Not long thereafter, I was on a railway coach headed south for Navy preflight training in North Carolina.

I'd joined up to fly, and like the piano student who didn't see why he couldn't begin his lessons playing *Rhapsody in Blue,* I was gung ho to strap on the leather helmet and goggles the day I arrived at Chapel Hill. Because of the pilot shortage, the Navy had trimmed its aviator training course to ten months, but there weren't any shortcuts. It would be months before I'd finally climb into a Stearman N-2S trainer—the Navy's "Yellow Peril," a two-cockpit, open-air special. Even then I got the impression that my instructor thought I was still too fuzz-faced to trust with an expensive piece of Navy equipment.

Looking through old scrapbooks at photos taken at the time, I can't say I blame him. I was younger than the other

trainees—the youngest aviator in the Navy when I got my wings. To make matters worse, I looked younger than I actually was—enough to make me self-conscious. When Barbara came to visit—she was on her way to school in South Carolina—I even asked her to stretch the calendar, add a few months to her age, and tell anybody who asked that she was eighteen, not seventeen.

We'd met six months before, at a Christmas dance. I'm not much at recalling what people wear, but that particular occasion stands out in my memory. The band was playing Glenn Miller tunes when I approached a friend from Rye, New York, Jack Wozencraft, to ask if he knew a girl across the dance floor, the one wearing the green-and-red holiday dress. He said she was Barbara Pierce, that she lived in Rye and went to school in South Carolina. Would I like an introduction? I told him that was the general idea, and he introduced us, just about the time the bandleader decided to change tempos, from fox trot to waltz. Since I didn't waltz, we sat the dance out. And several more after that, talking and getting to know each other.

It was a storybook meeting, though most couples that got serious about each other in those days could say the same about the first time they met. Young people in the late 1930s and early '40s were living with what modern psychologists call heightened awareness, on the edge. It was a time of uncertainty, when every evening brought dramatic radio newscasts—Edward R. Murrow from London, William L. Shirer from Berlin—reporting a war we knew was headed our way.

In the eight months that passed from that first meeting until her visit to Chapel Hill, Barbara and I had progressed from simply being "serious," to meeting and spending time with each other's families—a fairly important step for teenagers in those days. After I got my wings and went into advanced flight training, we took the next important step. In August of 1943, she joined the Bush summer convocation in Maine where, between boating and fishing excursions, we were secretly engaged. Secret, to the extent that the German and Japanese high commands weren't aware of it. That December we went public with our engagement, though we

knew that marriage was years away. My training days were drawing to a close at the Naval Air Station in Charlestown, Rhode Island. In the fall of 1943 I was assigned to VT-51, a torpedo squadron being readied for active duty in the Pacific.

Eight months after V-J Day, *Life* magazine ran a story, "Home to Chichi Jima," telling of the war-crimes trial of two Japanese officers charged with executing American fliers shot down over the Bonin Islands and "even more revolting, of practicing cannibalism on them."

I read the piece as a Yale freshman, not long out of the Navy. It brought back memories of the worst hours I spent during the war.

The date was September 2, 1944. It was the second day of concentrated air strikes on the Bonins by our squadron, VT-51, operating off the *San Jacinto*, one of eight fast carriers in Vice Admiral Marc Mitscher's Task Force 58. My aviator's log book for that day reads: *Crash Landing in Sea —Near Bonin Is.—Enemy action.*

Under the column for *Passengers* were the names *Delaney* and *Lt. (jg) White.* Jack Delaney was the young radioman/tail gunner on my Grumman Avenger torpedo bomber. William G. (Ted) White was the squadron's gunnery officer, filling in that day for Leo Nadeau, our regular turret gunner.

VT-51 had an air complement of twenty-six F6F Hellcats and nine TBM Avengers. The quick, mobile Hellcat fighter kept the skies clear of enemy aircraft. The Avenger had earned a reputation as the biggest, best single-engine bomber around, used for torpedo runs, glide bombing, antisub patrols, and providing air cover during amphibious landings. The TBM carried a three-man crew—aviator, turret gunner, and radioman/tail gunner, or "stinger," along with a 2,000-pound bomb payload.

The target for that day was a radio communications center on Chichi Jima, one of three islands in the Bonin chain. The others were Haha Jima and the best-remembered

Pacific island of World War Two, Iwo Jima. The day before, Delaney, Nadeau, and I had flown a mission targeting gun emplacements on Chichi. We knocked some out, but not enough. The Japanese who were dug in on the island still had a potent antiaircraft reserve.

Delaney, Nadeau, and I had been together since VT-51 was first attached to the *San Jacinto*, back in the States.

We'd flown missions over Wake Island, Palau, Guam, and Saipan, and survived a fair number of close calls, including a ditching operation when our plane sprang a leak while still carrying four depth charges intended for enemy subs. How do you put a TBM Avenger into the water with four 500-pound bombs in its belly? Very carefully, with adrenaline running, a prayer on your lips, and your fingers crossed.

In flight training at Corpus Christi and along the East Coast, we were taught to gauge wind velocity and the height of waves. Given winds at about fifteen knots and a fair chop on the sea, I trimmed the nose of the plane as high as possible without risking a stall. We landed tailfirst and were able to scramble onto the wing, inflate our safety raft, and start paddling, just as the plane went down.

We felt lucky. Within seconds we felt even luckier, when the plane's torpedoes detonated after their safety devices gave way to undersea pressure. Then, about thirty minutes later, came a happy ending: the destroyer U.S.S. *Bronson* sighted our raft and picked us up.

Like most TBM Avenger pilots, I liked the teamwork and camaraderie that went with being part of a three-man crew. I became attached to my plane, nicknaming it "Barbara."

The TBM Avenger wasn't fast—the unofficial Navy line described it as "low and slow." As Leo Nadeau once put it, the TBM "could fall faster than it could fly." Cruising speed was about 140 knots, brought down to less then 95 knots for a carrier landing. But it was sturdy and stable. Sturdy and stable enough to allow for pilot error on even a

ahead. But Eugene Meyer never looked back. We had other oil-business dealings over the years, most of them profitable, all enjoyable.

Excerpt, letter from John Overbey, 1986

Bush-Overbey rocked along and made a few good deals and a few bad ones, but somehow managed to stay in the black the entire three years of its existence. The Scurry County boom began to fade in 1951–52, but was replaced by the Spraberry boom. We were active in the Spraberry boom, and I remember one trade in particular you made for a piece of property there.

You telephoned an absentee owner who lived in East Texas, and after much haggling settled on buying part of his Reagan County royalty for $150 an acre. After you both agreed, you suggested an exchange of telegrams to verify the deal in writing. The East Texas seller demurred, saying a deal was a deal and "My word is my bond."

You, having been indoctrinated in the oil patch myth that a handshake was all the contract you needed, agreed to forego the exchange of telegrams and sent him a deed and a draft in the mail. Ten days passed and you didn't hear from the guy, so you called him again. Yes, he said, he'd received your deed and draft but sold the property to Nash Dowdle instead, for $151.50 an acre. Apparently his "bond" was worth $1.50 an acre.

According to the recent news, our friend Hugh Liedtke is still making oil deals on a handshake; but he seems to make them a bit more profitable.

Bill and Hugh Liedtke still had their licenses to practice law, but their law books, except for the ones on leases and mineral rights, were gathering dust. The Liedtkes had long since abandoned the courthouse for the oil fields, as independent oil operators with offices next door to Bush-Overbey. Then, in 1953, Bill and Hugh suggested we join forces: they'd raise $500,000, Bush-Overbey would raise $500,000, and the two companies would be rolled into one entity. We'd buy producing properties on the oil-payment plan, with the $1 million for equity.

Agreed. Now, what would we call our new company? Late one night, Hugh and I were going over possible names. We wanted something that would attract attention, a company name that would "stand out," as Hugh said, "when somebody opens the phone book."

Deep-voiced, with a pronounced Oklahoma drawl, Hugh was impressive even in his younger days, before he became "Mr. Pennzoil," a legend in the U.S. domestic oil industry.

"It ought to start with either an *A* or a *Z*," he said, "so it comes either first or last in the pages under 'Independent Oil Operators.'" Nothing in between that could be lost in the shuffle—that was Hugh's m.o. right from the start.

The movie *Viva Zapata!*, starring Marlon Brando, was playing in downtown Midland. It was the story of Emiliano Zapata, the Mexican rebel leader who led a revolt for land reform in the early 1900s under the slogan "Tierra y Libertad"—"Land and Liberty." We couldn't afford a public-relations counsel, but if we had one he would have told us that was exactly the corporate image we were looking for.

And that's the way Zapata Petroleum was born. The following year it would spin off Zapata Off-Shore, and in time, under Hugh Liedtke's imaginative management, merge into Pennzoil.

Zapata: There was a winning chemistry about the company. We could sense it.

I was at the Ector County courthouse, twenty miles from Midland, checking land records, when Barbara called. She said Dr. Wyvell wanted to see us, right away. Dorothy Wyvell was the children's doctor. In a town the size of Midland, more than a doctor, she was a warm, personal friend.

When we went into the doctor's office and sat down, all I knew was that Robin had been in for a checkup because she'd been acting listless. But I knew something was seri-

cue, I wrote a letter, later mailed to my parents, that described my feelings at the time:

"I try to think about it as little as possible," I said, "yet I cannot get the thought of those two out of my mind. Oh, I'm O.K.—I want to fly again and I won't be scared of it, but I know I won't be able to shake the memory of this incident and I don't believe I want to completely."

Then there were the better moments spent standing watch on the tower during the midnight to four A.M. shift, when the *Finback* ran on the surface to recharge its batteries. The sub moved like a porpoise, water lapping over its bow, the sea changing colors, first jet black, then sparkling white. It reminded me of home and our family vacations in Maine. The nights were clear and the stars so bright you felt you could touch them. It was hypnotic. There was peace, calm, beauty—God's therapy.

I still don't understand the "logic" of war—why some survive and others are lost in their prime. But that month on the *Finback* gave me time to reflect, to go deep inside myself and search for answers. As you grow older and try to retrace the steps that made you the person you are, the signposts to look for are those special times of insight, even awakening. I remember my days and nights aboard the U.S.S. *Finback* as one of those times—maybe the most important of them all.

I rejoined the *San Jacinto* and VT-51 exactly eight weeks after being shot down, in time to take part in strikes against enemy positions and shipping in the Philippines. In October 1944 American troops had landed at Leyte; in November our squadron was in action at Manila Bay and in the Luzon area. We also got news that over one hundred B-29s, taking off from Saipan, had bombed Tokyo. Three years after it had begun, the war in the Pacific was coming full circle, a noose tightening around the Japanese home islands.

In December VT-51 was replaced by a new squadron, and after flying fifty-eight combat missions I was ordered home. No reunion could have been scripted more perfectly.

I arrived Christmas Eve. There were tears, laughs, hugs, joy, the love and warmth of family in a holiday setting.

Barbara and I were married two weeks later, January 6, 1945, at the First Presbyterian Church in her hometown, Rye, New York, with a close friend from VT-51, Milt Moore, as a member of the wedding party.

A few months later I was reassigned to VT-153, a Navy torpedo bomber group being readied for the invasion of Japan. Everything I'd experienced in my year and a half of combat in the Pacific told me it was going to be the bloodiest, most prolonged battle of the war. Japan's war leaders were unfazed by massive raids on Tokyo. They seemed bent on national suicide, regardless of the cost in human life.

Now, years later, whenever I hear anyone criticize President Truman's decision to drop the atomic bomb on Hiroshima and Nagasaki, I wonder whether the critic remembers those days and has really considered the alternative: millions of fighting men killed on both sides, possibly tens of millions of Japanese civilians. Harry Truman's decision wasn't just courageous, it was far-sighted. He spared the world and the Japanese people an unimaginable holocaust.

I was stationed at Oceana Naval Air Station, Virginia, on the mid-August day when the President announced that the Japanese had sued for peace. Barbara and I were living in Virginia Beach. The announcement came at seven P.M. Within minutes our neighborhood streets were filled with sailors, aviators, their wives and families celebrating late into the night. We joined in the celebration, then, before going home, went to a nearby church filled with others giving thanks and remembering those lost in the war. After four years it was finally over.

We were still young, life lay ahead of us, and the world was at peace. It was the best of times.

YALE'S HITTING BIG FACTOR
IN TEAM'S DIAMOND SUCCESS

The ability of the Yale Baseball team to back up some mighty impressive pitching on the part of

I'm a good listener. That's not a boast, it's something I learned about myself at a young age. It was reinforced after I came to Washington. Like most people in politics, I like to hear myself talk, but I like getting another point of view, especially when it comes from a keen analytical or innovative mind.

Bill Steiger had that kind of mind. At twenty-eight, Bill was one of the youngest members of Congress, but he had a razor-sharp intelligence that cut through to the core of things and the intellectual honesty to follow wherever logic led him—even if it ran counter to whatever cant or conventional wisdom was going the Washington rounds.*

Bill and Janet Steiger, along with Supreme Court Justice Potter Stewart and his wife, Mary Ann, were regulars at the informal Sunday barbecues Barbara and I had on the patio of our home on Hillbrook Lane in northwest Washington. We'd bought the place sight unseen, over the telephone, from retiring Senator Milward Simpson (current Senator Alan Simpson's father). Old Milward was a good trader. We sold the house in less than two years at a loss—possibly the only people to achieve that distinction in Washington's booming real-estate market.

We then moved to Palisade Lane, an ideal home and location for our family needs. It was comfortable, and convenient to the kids' schools.

The barbecues were one way Barbara and I had of holding onto the lifestyle we—and our children—knew back in Houston. George was twenty, but the other kids were still in various stages of preadolescence; Jeb was thirteen; Neil had just turned twelve; Marvin was ten; and our youngest, Doro, was seven.

Barbara was the mainstay, of course, the parent who was always there to help solve the daily problems and emergencies of teen and preteen life. But it was understood at my

* Bill Steiger seemed destined for leadership in Congress and the national scene, but his life was tragically cut short by illness on December 4, 1978. I am godfather to his son, Bill, Jr., who at a young age shows the same qualities of mind and spirit his father had.

office—and still is—that when any of the kids called, no matter what I was doing, they should be put through. On weekends we worked things out so that I'd be able to get together with them individually.

These were the most important hours I spent during the week. Life in Washington can put tremendous pressure on even a freshman congressman's family. It can be a trap. You go into public life hoping to secure the future for your children and the next generation. Then somewhere along the way, unless you're careful, you can overlook the fact that your first responsibility as a parent is to be there *now*, when your kids need you, while they're growing. Barbara and I were determined when we moved to Washington that we weren't going to forget our number one priority as parents.

A congressman is only as good as his staff, and in addition to bringing my Texas team, including Jim Allison, Pete Roussel, and Aleene Smith to Washington, one of my smartest moves after being elected to Congress was in hiring Rose Zamaria to manage my office in the Longworth Building. Rose had worked for Albert Thomas, a retired senior Texas congressman from Houston. She not only knew my constituency but understood the way things operated on Capitol Hill—the mechanics and nuances (some might say tribal customs) that make Congress a unique institution.

Was I looking for cosponsors to a resolution? "Talk to Congressman A," Rose would advise, "he's always been interested in that issue. But don't bother taking it up with Congressman B, because if it doesn't have anything to do with his district he's not interested. And when you talk to Congressman C about it, don't mention Congressman D's name, because they just had it out at a closed committee hearing and won't even agree on the day of the month."

Rose also had great sensitivity about doing the right thing at the right time. The best example of this came on Inauguration Day, January 20, 1969. Thanks in large part to the efficient way my office staff took care of constituent needs, I'd been re-elected without opposition. A special

3. ENHANCING PARENTAL CHOICE IN CHILD CARE

SUMMARY

Child care is one of the most important issues facing the Nation. Business, labor, nonprofit organizations, and State and local governments all can play important roles in helping families meet the challenges of a changing America. So, too, can the Federal Government.

President Bush is dedicated to a bold new approach to child care which empowers parents, especially low-income parents, to make the critical decisions about their children's care. Meeting the competing demands of work and family life—often a trying task under the best of circumstances—can be especially difficult for low-income families with young children.

Federal child care policies should enable families—not the Government—to determine their child care arrangements for themselves. In this way, children, their parents and the Nation as a whole will benefit. The children will benefit from being cared for in the way that their parents believe best suits their needs; and parents, having chosen the most appropriate child care arrangement for the family, will lead more fulfilling lives. The result for the Nation will be a more productive workforce and a generation of children raised in an environment that reflects strong family values.

> *"My philosophy with respect to child care is to put choice in the hands of parents, and not in the hands of the State. . . . I will build a policy around parental choice. Particularly we must find a way to put a greater range of choices in the hands of low-income parents—because they face the greatest difficulty in meeting the demands of work and family."*
>
> George Bush

The Federal Government currently provides over $5.7 billion in support for child care and an additional $1.2 billion for the Head Start early childhood development program. The largest sources of Federal support for child care now are the Dependent Care Tax Credit, the Title XX Social Services Block Grant, and the Child Care Food program. Significant additional funding for child care is also provided under the recently enacted welfare reform, the Family Support Act. Under that Act, welfare recipients will be provided with child care while they participate in employment and training activities, and those who leave the welfare rolls to work will be provided with 12 months of free or low cost child care to ease the transition from welfare to work. The budget reflects current law funding for Title XX, the Child Care Food program, and the child care components of the Family Support Act.

The President's budget also reflects four child care initiatives: a new refundable Child Tax Credit of up to $1,000 per child under age four in low-income working families, a proposal to make the current Child and Dependent Care Tax Credit refundable, a $250 million expansion in Head Start, and a study of liability insurance by the Department of Labor. These initiatives reflect the President's commitment to enhancing parental choice in child care and the special obligation to first provide additional assistance to families most in need. They are described in the pages that follow.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Tax Credits:				
Revenue Effect	—	–5	–5	n.a.
Outlays*	—	182	182	n.a.
Head Start:				
Budget Authority	1,235	1,485	+250	+20.2
Outlays	1,202	1,351	+149	+12.4

* The outlays result from the refundable feature of the tax credit.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Tax Credits:					
Revenue Effect	—	–5	–46	–48	–52
Outlays*	—	182	1,847	2,163	2,430
Head Start:					
Budget Authority	1,235	1,485	1,534	1,577	1,613
Outlays	1,202	1,351	1,485	1,546	1,589

* The outlays result from the refundable feature of the tax credit.

a. Expanding Child Care Assistance to Low-Income Families Through Tax Code Changes

OVERVIEW

There is no such thing as "one size fits all" child care. In balancing the competing demands of work and family life, parents need choices which allow them to make the child care arrangements that best meet their families' needs.

Low-income families can be especially hard-pressed in making the child care arrangements they prefer. The President is committed to ensuring that these families benefit first from increased Federal support for child care.

"Parents work during the day and at night, swing shifts and part time. Some parents want caregivers to be relatives or neighbors or at school or at church. Or they want only after school care or care for special children. They want caregivers to share their values. . . . I will build a policy around parental choice."

George Bush

PRINCIPLES

- The President is committed to helping families meet their child care needs.
- Additional assistance should first be provided to low-income families with young children. New initiatives will help these families obtain the care that they believe best suits their children's needs.
- The President believes that Federal assistance should not discriminate among different child care arrangements. Care by the parents themselves, by relatives or neighbors, at religious institutions, at family day care homes, and at child care centers should all be accommodated.
- Federal policy should broaden rather than limit child care alternatives for parents and children by avoiding Federal standards that restrict parental choice or raise costs. Parents should continue to have the responsibility and prerogative to judge which child care arrangements best serve their children's needs.

POLICIES

The President proposes a new tax credit of up to $1,000 for each child under age four in low-income working families. This credit, available to families in which at least one parent works, would be provided to very low-income families in tax year 1990 and expanded to include additional families in subsequent years. For each child under the age of four, families could receive a credit equal to 14 percent of wages, with a maximum credit equal to $1,000 per child. In 1990, the credit would be phased out between $8,000 and $13,000 in income. This phase-out range would increase to between $15,000 and $20,000 by 1994.

The credit would be refundable. That is, if the credit due exceeded a family's Federal income tax liability, the difference would be paid to the family. Families would have the option of receiving the refund in advance through a payment added to their paycheck.

The existing Dependent Care Tax Credit also would be modified. Under current law, parents are allowed a credit for the child care costs incurred in order to obtain or maintain employment. The credit currently applies only to families with sufficient income to pay Federal income taxes. This credit would be made refundable. Families that meet eligibility criteria for both the Dependent Care Tax Credit and the new Child Credit could claim whichever credit best suits their needs and circumstances for each child.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Revenue Effect	n.a.	–5	–46	–48	–52
Outlays	n.a.	182	1,847	2,163	2,430

b. Expanding Head Start

OVERVIEW

Head Start helps poor families meet their child care needs, but it also does much more. Through a comprehensive approach that provides educational, medical, nutritional, and social

services to children at risk of falling behind, it gives poor children a better start in life. With its emphasis on parental and community involvement, Head Start also benefits poor parents and affords concerned Americans the opportunity to devote time and effort to improving the lives of some of our most vulnerable citizens. The President is committed to expanding enrollment in Head Start.

"Give any American kid an equal place at the starting line, and just watch what that kid can do. But too many kids are denied that equal chance, particularly if they are black and poor. Head Start helps kids get that equal place at the starting line. It's a Federal program that works. But it doesn't reach all the kids it should."

George Bush

PRINCIPLES

- Head Start should serve more poor, four year old children.
- Increasing enrollment in Head Start not only expands the range of child care choices available to poor families, it represents an investment by Government, parents, and concerned citizens in our Nation's most valuable asset: our children.
- In a period of constrained resources, new Federal assistance must first be provided to those most in need. The poor children and families eligible to participate in Head Start are among the most needy.

POLICIES

The President's budget provides a $250 million increase for Head Start funding in 1990.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	1,235	1,485	+250	+20.2
Outlays	1,202	1,351	+149	+12.4

These additional funds would be used to expand enrollment of poor, four year old children in Head Start. Up to 95,000 additional four year olds would participate in the program, benefiting from Head Start's comprehensive activities and increasing by a third the number of poor children in this age group served.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	1,235	1,485	1,534	1,577	1,613
Outlays	1,202	1,351	1,485	1,546	1,589

c. Examining Barriers to Liability Insurance

OVERVIEW

Employers in substantial numbers are finding that it is simply good business practice to establish policies that help their employees meet their child care responsibilities. A recent Department of Labor survey indicates that almost two-thirds of workplaces with 10 or more employees help employees with child care. Flexible work schedules and leave policies, as well as counseling, information and referral services, are the most common forms of assistance. Employer-sponsored child care on or near the work site is relatively rare, offered by only a little over two percent. There is concern that lack of access to liability insurance may be deterring some employers from offering this form of care.

"I would encourage employer-sponsored child care, flexible work schedules and benefit plans which allow workers to choose the benefits they need. Employers must demonstrate more flexibility and sensitivity to family needs.

"Employers have a major role in helping parents find needed child care but I do not believe in give-aways of taxpayer dollars to get business to recognize what it already knows: that it must provide assistance for more and better child care. Workers demand it; productivity demands it; a business' bottom line demands it."

George Bush

PRINCIPLES

- Insurance regulation is predominantly a State responsibility, but federally sponsored research can inform State policies and practices.
- If market barriers are preventing employers from obtaining liability insurance so they can provide child care at or near the worksite, strategies should be developed to facilitate their removal.

POLICIES

The President has directed the Secretary of Labor to conduct a study to determine whether market barriers or failures are preventing employers from obtaining liability insurance necessary to provide child care on or near their employees' worksites.

The study will examine commercial liability insurance, self-insurance, State-facilitated market assistance plans (centralized insurance information systems in which insurers volun-

tarily participate), joint underwriting agreements (under which States require insurers to participate in providing insurance), and other arrangements relevant to this issue.

The Secretary will develop a timetable for the study which allows it to be completed no later than the end of this year.

The Reagan Record

March 21, 1988
paper # 5

HOMELESS

"Four to six million homeless people...."
--- Rev. Jackson
Atlanta debate, 2/27/88

"What's going on here? This is the most affluent nation on the face of this earth. We didn't have a homeless problem eight or nine years ago. What's happened is we have walked away from our commitment to provide decent and affordable housing."
--- Gov. Dukakis
St. Petersburg Times, 1/9/88

Number of Homeless

- Homelessness is a longstanding problem. In 1983, a National Governors Association task force traced homelessness back 50 years, although it is likely the problem goes back even further.

- In 1984, the U.S. Department of Housing and Urban Development estimated there were 250,000 to 350,000 homeless nationwide on any given night.

- In 1986, a Harvard University study confirmed the HUD figure, estimating the number of homeless between 343,000 and 363,000.

- Between two-thirds and three-fourths of the homeless are men; 20 to 25 percent of the homeless are families -- primarily single mothers with 1 or 2 children. Families become homeless because of divorce, domestic violence or other personal crises, or because they leave a "doubled up" (multifamily) living arrangement. Most families tend to be homeless for a shorter time than are single homeless.

- Over 50 percent of the homeless have mental illness, alcohol or drug abuse problems.

Federal Housing Programs -- The Real Story

- Over the past eight years, the number of low-income families being served by Federal housing programs has increased by 36 percent, from 4.2 million in FY 1980 to 5.7 million in FY 1988.

- Spending for those programs expanded 30 percent over the same period (from $12.5 billion to $16.2 billion).

- To provide families the option of choosing where to live, the Reagan Administration has begun emphasizing housing vouchers to subsidize rental payments. Since FY 1985, more than 100,000 families have used housing vouchers which are good for a 5-year period, and can be renewed. For FY 1989, the Administration has requested an additional 127,500 vouchers.

Other Reagan Administration Actions

- President Reagan established an Interagency Council on the Homeless to ensure that Federal and private sector assistance is coordinated and effective.

- In July 1987, President Reagan signed into law the McKinney Act, which established several new programs for the homeless. Federal agencies have acted swiftly to implement the new law. For example, HUD allocated $165 million by December 1987 to states, cities, and non-profit organizations providing shelter to the homeless.

- Over a two-year period, in FY 1987 and FY 1988, the Federal Government provided more than $900 million in aid specifically targeted to the homeless.

- The President's FY 1989 budget proposes $390 million in aid to the homeless, a 4.3 percent increase over the FY 1988 level ($374 million). Included in the President's proposal are funds for emergency food and shelter programs; permanent housing for the mentally ill and handicapped homeless; and programs for runaway and homeless young people.

- Federal agencies are addressing the needs of the homeless through a variety of Federal programs.

  -- The Federal Emergency Management Agency has provided over $500 million for food and shelter operations since 1983.

  -- Department of Agriculture provides assistance through its food stamp program and has donated over 1.1 billion pounds of surplus food to soup kitchens and shelters.

  -- Health and Human Services provides funds for mental health, alcohol and drug abuse services; provides income support through AFDC and Supplemental Security Income for the elderly poor.

  -- Department of Defense provides bedding and other supplies to shelters and provides buildings where available.

- Bear in mind that the Federal Government does not operate homeless shelters. Ninety-four percent of shelters for the homeless are operated by non-profit, private organizations. The remainder are run by city or county governments.

BBA

The President proposes a selected group of carefully defined initiatives to support these principles and to demonstrate his personal leadership of the national movement to improve the quality of American education. These initiatives would: reward schools that make substantial progress in educational achievement; reward excellent teachers; provide scholarships for the best science and mathematics students; provide new funding for magnet schools to enhance educational excellence; encourage States to broaden access to teacher and school principal positions; provide more endowment matching funds for Historically Black Colleges and Universities; support more experimentation for achieving better educational results; and incorporate policies and procedures for accountability into Federal programs.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	—	411	+411	n.a.
Outlays	—	58	+58	n.a.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	411	501	606	651
Outlays	—	58	345	492	593

a. Rewarding Successful Schools

OVERVIEW

Helping schools develop the skills and abilities of our children to their maximum potential is one of the Administration's major goals. In the highly decentralized world of American education, some schools consistently reach this goal; others do so for some students, but leave many others behind.

Achievable standards of excellence can and should be set for all students, for all teachers, and for every school. Our children deserve no less; our economic future demands it.

Helping children develop their potential can present special challenges for schools with large numbers or proportions of low-income children. The Federal Government provides billions annually for supplementary services for educationally disadvantaged children in these schools.

The Federal Government should serve as a catalyst in this effort, providing to successful schools the national recognition and financial rewards that clearly demonstrate the significance of school improvement.

> *"We should demand more from students [by imposing] higher academic standards. We should make sure students are learning what they should. We should demand more from teachers. We should demand more from principals. We should demand more from parents. In demanding more performance, we are providing more opportunity to all students, but particularly to those who have the furthest to go—because the poor are not served by meaningless diplomas."*
>
> George Bush

PRINCIPLES

- Educating all students to their full potential should be a basic goal of all schools.
- Demonstrated school-wide progress in achieving excellence deserves public recognition and support.
- Financial incentives can spur schools with especially difficult problems to significantly improve their educational achievement.

POLICIES

The President will propose legislation and a 1990 appropriation of $250 million for a new initiative to reward schools whose students demonstrate substantial educational progress. Funding for the initiative will increase each year until an annual funding level of $500 million is reached.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	—	250	+250	n.a.
Outlays	—	30	+30	n.a.

Guidelines will be established for the objective measurement of school improvement, emphasizing improved educational performance, a safe and drug-free environment, and fewer dropouts.

Elementary, secondary, and middle schools throughout the country will compete annually within each State for recognition as Presidential Merit Schools. States will add to the national criteria specific selection standards that reflect the mix of students and educational conditions within each State.

Certificates of Recognition and grants will be awarded, with special emphasis on schools participating in the Federal compensatory education program ("Chapter 1"), and any others that enroll substantial numbers or proportions of children from low-income families.

Criteria for Chapter 1 Merit Schools will take into account the Chapter 1 Program Improvement criteria set by each State.

Awards will be scaled to demonstrated improvement and school size.

A school that receives a cash award may use the money for any purpose that furthers its educational programs. Support from other Federal, State or local sources may not be reduced because of the award.

The Secretary of Education's Blue Ribbon School recognition program, which addresses a variety of school characteristics in addition to student achievement, will remain in place for 1990, as another important way schools can gain national notice for achieving excellence.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	250	350	450	500
Outlays	—	30	212	337	434

b. Recognizing Superior Teachers

OVERVIEW

Hope for improvement in the schools depends most heavily on teachers, those now in the system and those who will enter in the years to come.

Teachers work every day with every child. When teachers are highly motivated and committed to excellence, children know it and are challenged to meet high standards of performance. If teachers are not highly motivated, they do not transmit the essential message of how exciting and important schooling is and how critical are the early years of effort to the child's future performance as a citizen and in the workforce.

The educational reform movement recognizes this central role for teachers. Teacher training is under rigorous review, teacher pay is rising, and more and more school systems are linking financial rewards to excellence in the classroom.

Excellent teachers love their work and believe in what they do. Their success deserves tangible recognition on a national level.

"We should provide merit pay and special recognition to reward good teachers—and the vast majority are good teachers, who really love their kids and their profession."

George Bush

PRINCIPLES

- School systems should develop standards of excellence for teachers, and effective and fair procedures for measuring success.
- In return for their efforts and their willingness to be held to high standards of excellence, teachers deserve public recognition, respect, and appropriate financial rewards.

POLICIES

The President proposes new legislation and $8 million in annual appropriations to establish the President's Award for Excellence in Education.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	—	8	+8	n.a.
Outlays	—	6	+6	n.a.

Award competitions would be held annually in each State. All elementary and secondary school teachers, in public and private schools, teaching any academic subject, could compete for recognition and awards.

The number of teachers receiving awards in each State would vary with the size of the State. Each award would be $5,000.

The award would go to the individual teacher and be available for his or her use for any purpose.

Appropriate ceremonies and events would be held following the selection of each year's award winners.

The National Science Foundation program that recognizes excellent teachers in mathematics and the sciences only, and provides awards to their schools, would remain a separate program of special recognition in these selected fields.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	8	8	8	8
Outlays	—	6	8	8	8

c. Establishing a National Science Scholars Program

OVERVIEW

A key factor in the competitiveness of American business in world markets today and in the future is the ability to develop new technology.

America needs talented scientists, mathematicians, and engineers to discover and apply new knowledge as well as to perform in those workplaces where high technology is already central. High school students must be well prepared in mathematics and the sciences and committed to further academic study to expand their knowledge and increase their skills.

Students need encouragement to take more courses in the sciences and mathematics, to apply themselves to their studies, and to excel.

> *"Our greatest single strength for the future is . . . our ability to expand the limits of our knowledge. From that will flow the scientific and technological advances that will enable us to compete and to raise the living standards of all the nations of the world."*
>
> George Bush

PRINCIPLES

- The national interest requires a greater commitment to science and mathematics.
- Schools should challenge all students to take more science and mathematics courses.
- The best students in every part of the country should know that in addition to the personal satisfaction they will gain from excellent performance in these fields, and the career options that will open to them, there are tangible rewards for excellence if they pursue the study of mathematics or the sciences at a college or university.

POLICIES

The President proposes to seek legislative authority to establish a National Science Scholars Program. An appropriation of $5 million will be requested for the first year, rising to $20 million per year by the fourth year.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	—	5	+5	n.a.
Outlays	—	4	+4	n.a.

National standards of excellence for high school seniors' achievement in the sciences and mathematics would be set for annual competitions for the National Science Scholarships.

One student would be nominated by each Member and Delegate in the House of Representatives, one by each Senator, and 30 by the President, for a total of 570 scholars each year.

The scholarships would be for four years for up to $10,000 per year.

Scholarships would be available for use at any accredited institution of higher education to which the student is admitted. Students would be required to major in the sciences, mathematics or engineering and show continuing excellent performance.

Awards for a student who qualifies for other Federal need-based aid or receives other scholarship aid would not result in total aid in excess of the cost of education at the student's school.

Students would have opportunities for summer jobs in Federal science laboratories.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	5	10	15	20
Outlays	—	4	9	14	19

d. Fostering Magnet Schools of Excellence

OVERVIEW

Magnet schools—schools with a special curriculum emphasis or other set of characteristics—offer parents an essential choice for their children. Children who go to magnet schools learn more. Magnet school strategies have been successful across the country.

No single method of education is best suited to all children. No single way of organizing schools (elementary, middle or secondary) and school systems is the best for every area or for every mix of students. One of the most encouraging features of the educational reform movement is the willingness of schools and school systems to experiment with alternative approaches and especially to open the school selection process to parents.

229-645 O - 3 - 89 - QL3

BBA

1. EDUCATING THE YOUNG: DRUG PREVENTION

OVERVIEW

For a decade, President Bush has stressed the importance of educating our children and young adults on the dangers of drugs and has called repeatedly for the Federal government to work with parents, teachers, churches and other community groups to develop a comprehensive drug education program.

> *"Fundamentally, the drug problem in America is not one of supply, but of demand. As much as we do to bust the smugglers and the dealers, as much as we do to eradicate crops and stop the flow of drugs into this country, as long as Americans are willing to pay billions of dollars for illegal drugs, somebody somewhere in the world will provide them.*
>
> *"I will do everything I can as President to help with the best information, the best research, and the strongest effort possible to get the message to our young people to 'just say no' to drugs."*
>
> George Bush

The first front in the fight against drug abuse is to get our children to realize the fearful threat to their health, their future and their lives. As they become aware of the devastating effects of drugs, they will stop buying them and put the suppliers out of business.

PRINCIPLES

- All schools, from kindergarten to college, should develop and implement anti-drug programs for the classroom.
- Schools should challenge students to get involved in ending drug use among their peers.
- Schools and colleges should adopt tough "no use" disciplinary policies and prove to students by aggressive enforcement that drug use will not be tolerated.

POLICIES

- The Administration is requesting nearly $1.1 billion for drug prevention activities, a 16 percent increase over 1989. This funding includes both ongoing programs and new initiatives.
- The Administration requests $367 million for the Drug-Free Schools and Communities program, a $12 million increase over 1989. These programs: provide grants to States for drug prevention education and to institutions of higher education to implement drug prevention education programs on campus; train teachers in the implementation of drug prevention education techniques; and fund a variety of other activities, including enforcement, to help young people understand why they must reject drugs.
- In addition, the Administration proposes $25 million for a new drug prevention initiative: Urban Emergency Grants. These grants will award funds to a number of city school systems with the worst drug problems. Schools will have maximum flexibility to propose a mix of education, security, parent and student involvement and special programs for children with known drug problems.

- The Administration also requests $35 million for a new program of community partnership grants for drug abuse prevention. This program, administered by the Department of Health and Human Services, will make grants to community organizations to stimulate local drug prevention efforts involving parents, schools, academia, businesses and youth and other high risk individuals. Emphasis will be placed on substantial voluntary participation by the community and grants will be made to communities based on need and innovative approaches.
- Approximately $45 million of the Department of Justice's $150 million drug grant program to local governments will be devoted to drug prevention activities. These additional resources will enable such successful programs as the Crime Prevention Campaign's "McGruff the Crime Dog" to continue and expand to more schools.
- In order to ensure that we are getting the best return on our investments, the President will ask his Drug Policy Director to support research in connection with the review, formulation and implementation of the drug control effort, both on the demand and supply side. Additional funding of $5 million is requested for this purpose.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	941	1,087	+146	+16
Outlays	681	969	+288	+42

2. INVESTING IN PEOPLE: EDUCATION

SUMMARY

Building a better America requires a well-educated America. Greater educational achievement for all children promotes sustained economic growth, enhances the Nation's competitive position in world markets, increases productivity and leads to higher incomes for everyone. The Nation must invest in its young people, giving them the knowledge, skills, and values to compete successfully in the marketplace and to build a better America.

> *"The challenge of the future is not just to make education more available, but to make it more worthwhile. . . . I believe the best thing we can do is invest in our young people. . . . Education is critical to our future, both individually and as a nation. If we are to improve our standard of living, protect and defend our democratic freedoms, and strengthen our moral character as a nation, nothing is more important than education."*
>
> George Bush

Providing quality education is fundamentally a state and local responsibility. When it comes to better schools, almost all of the wisdom, good answers, and money to pay the bills come from outside Washington, D.C. Federal leadership and funding, however, can make a difference.

Several underlying principles govern the President's education policy and initiatives.

First, the Administration will reward excellence and success in education: Federal incentives, in the form of public recognition and financial awards, will provide new catalysts for educational achievement.

Second, the Administration will target Federal dollars to help those most in need—where support can make a difference. Education is the key to opportunity; inadequate education denies a child the chance to compete. Federal programs help States provide that chance.

Next, the Administration will promote choice and flexibility—for families, students, teachers, and principals—to encourage competition and help provide the means and the incentives to achieve educational excellence. This Administration is committed to the principle of more choice at the local level—for students and parents to choose the schools that best meet students' needs; for teachers to experiment with techniques and ideas to help students learn better. The Administration will provide incentives to States to adopt flexible approaches to recruiting the best qualified teachers for their classrooms and principals for their schools.

Finally, the Administration will work to assure that students are actually receiving the highest quality education, by promoting greater accountability at all levels of the educational system. This Administration is committed to objective measurement and reward of progress toward quality education. The Nation invests annually more than $330 billion in education, an enormous commitment. Federal, State, and local authorities must assure that the funds they spend and the programs they manage accomplish their goals—as measured by student learning and achievement.

BBA

PRINCIPLES

- The President is committed to helping families meet their child care needs.
- Additional assistance should first be provided to low-income families with young children. New initiatives will help these families obtain the care that they believe best suits their children's needs.
- The President believes that Federal assistance should not discriminate among different child care arrangements. Care by the parents themselves, by relatives or neighbors, at religious institutions, at family day care homes, and at child care centers should all be accommodated.
- Federal policy should broaden rather than limit child care alternatives for parents and children by avoiding Federal standards that restrict parental choice or raise costs. Parents should continue to have the responsibility and prerogative to judge which child care arrangements best serve their children's needs.

POLICIES

The President proposes a new tax credit of up to $1,000 for each child under age four in low-income working families. This credit, available to families in which at least one parent works, would be provided to very low-income families in tax year 1990 and expanded to include additional families in subsequent years. For each child under the age of four, families could receive a credit equal to 14 percent of wages, with a maximum credit equal to $1,000 per child. In 1990, the credit would be phased out between $8,000 and $13,000 in income. This phase-out range would increase to between $15,000 and $20,000 by 1994.

The credit would be refundable. That is, if the credit due exceeded a family's Federal income tax liability, the difference would be paid to the family. Families would have the option of receiving the refund in advance through a payment added to their paycheck.

The existing Dependent Care Tax Credit also would be modified. Under current law, parents are allowed a credit for the child care costs incurred in order to obtain or maintain employment. The credit currently applies only to families with sufficient income to pay Federal income taxes. This credit would be made refundable. Families that meet eligibility criteria for both the Dependent Care Tax Credit and the new Child Credit could claim whichever credit best suits their needs and circumstances for each child.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Revenue Effect	n.a.	−5	−46	−48	−52
Outlays	n.a.	182	1,847	2,163	2,430

b. Expanding Head Start

OVERVIEW

Head Start helps poor families meet their child care needs, but it also does much more. Through a comprehensive approach that provides educational, medical, nutritional, and social

services to children at risk of falling behind, it gives poor children a better start in life. With its emphasis on parental and community involvement, Head Start also benefits poor parents and affords concerned Americans the opportunity to devote time and effort to improving the lives of some of our most vulnerable citizens. The President is committed to expanding enrollment in Head Start.

> *"Give any American kid an equal place at the starting line, and just watch what that kid can do. But too many kids are denied that equal chance, particularly if they are black and poor. Head Start helps kids get that equal place at the starting line. It's a Federal program that works. But it doesn't reach all the kids it should."*
>
> George Bush

PRINCIPLES

- Head Start should serve more poor, four year old children.
- Increasing enrollment in Head Start not only expands the range of child care choices available to poor families, it represents an investment by Government, parents, and concerned citizens in our Nation's most valuable asset: our children.
- In a period of constrained resources, new Federal assistance must first be provided to those most in need. The poor children and families eligible to participate in Head Start are among the most needy.

POLICIES

The President's budget provides a $250 million increase for Head Start funding in 1990.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	1,235	1,485	+250	+20.2
Outlays	1,202	1,351	+149	+12.4

These additional funds would be used to expand enrollment of poor, four year old children in Head Start. Up to 95,000 additional four year olds would participate in the program, benefiting from Head Start's comprehensive activities and increasing by a third the number of poor children in this age group served.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	1,235	1,485	1,534	1,577	1,613
Outlays	1,202	1,351	1,485	1,546	1,589

c. Examining Barriers to Liability Insurance

OVERVIEW

Employers in substantial numbers are finding that it is simply good business practice to establish policies that help their employees meet their child care responsibilities. A recent Department of Labor survey indicates that almost two-thirds of workplaces with 10 or more employees help employees with child care. Flexible work schedules and leave policies, as well as counseling, information and referral services, are the most common forms of assistance. Employer-sponsored child care on or near the work site is relatively rare, offered by only a little over two percent. There is concern that lack of access to liability insurance may be deterring some employers from offering this form of care.

"I would encourage employer-sponsored child care, flexible work schedules and benefit plans which allow workers to choose the benefits they need. Employers must demonstrate more flexibility and sensitivity to family needs.

"Employers have a major role in helping parents find needed child care but I do not believe in give-aways of taxpayer dollars to get business to recognize what it already knows: that it must provide assistance for more and better child care. Workers demand it; productivity demands it; a business' bottom line demands it."

George Bush

PRINCIPLES

- Insurance regulation is predominantly a State responsibility, but federally sponsored research can inform State policies and practices.
- If market barriers are preventing employers from obtaining liability insurance so they can provide child care at or near the worksite, strategies should be developed to facilitate their removal.

POLICIES

The President has directed the Secretary of Labor to conduct a study to determine whether market barriers or failures are preventing employers from obtaining liability insurance necessary to provide child care on or near their employees' worksites.

The study will examine commercial liability insurance, self-insurance, State-facilitated market assistance plans (centralized insurance information systems in which insurers volun-

This Administration has one overarching economic policy goal: to encourage further economic growth and extend the record-breaking economic expansion that we have enjoyed for the past six years. That will require both holding the line on taxes and reducing the Federal budget deficit.

The Federal deficit absorbs too much of America's savings. Partly as a result of the deficit, the national saving rate has been undesirably low. Americans are now saving, net, only about 2-1/2 percent of their collective income. Greater savings are a key to higher productivity in the American economy. A higher national saving rate does not by itself guarantee faster productivity growth, but without more saving, substantially faster productivity growth is unlikely. Higher productivity is essential if America's standard of living is to increase in the future as rapidly as in the past.

No other single measure open to the Federal Government is more likely to raise the national saving rate, and promote productivity growth, than a substantial reduction in the budget deficit.

> *"Our job won't be complete until we get Federal spending under control."*
>
> George Bush

Net investment in America has been partially cushioned from the effects of Federal borrowing by a large inflow of foreign investment funds, as overseas investors have wanted to share in our economic growth and prosperity. But even with the foreign funds, investment in the United States remains lower as a share of GNP than in most of our major industrial competitors.

Another burden from the budget deficit is high and mounting interest costs. Interest payments amount to 3 percent of our gross national product, or 14 percent of Federal Government spending. While these costs have stabilized during the economic expansion, they are still unacceptably high.

Ultimately, Federal deficits have moral as well as economic consequences. To the extent that an increase in Federal debt is not used to finance productive investment that will benefit America in the future, then we are taking resources from our children to pay for our current consumption. That is not just economically unsound, it is morally wrong.

Progress in controlling the deficit requires both procedural reforms and policy changes. The President believes that changes in the budget process will help make it possible to curb unnecessary spending. In addition, it will be necessary to make difficult choices among Federal priorities. But higher taxes, as the President has said repeatedly, are not the solution to the deficit problem.

The President's budget plan meets the Nation's most important defense and domestic priorities; it proposes to increase expenditures which help to enhance the productivity of the American economy, while at the same time meeting our obligations to the less fortunate, the sick, and the elderly. This can be done within the Gramm-Rudman-Hollings deficit limits by freezing other Government programs that serve less urgent national needs.

Building a Better America

2. ORDERING BUDGET PRIORITIES: ALLOCATING THE BENEFITS OF GROWTH

INTRODUCTION: PUTTING AN END TO WONDERLAND BUDGETING

A curious Wonderland quality has taken over the habit of mind that governs Federal budgeting. This habit is described by a phrase that is common among Washington budgeteers: *"current services baseline" budgeting.*

To the extent that it is comprehensible, the phrase sounds reasonable enough. And for some analytical purposes, it *is* reasonable. But as a habit of mind, budgeting from a "current services baseline" has unfortunate and misleading effects.

The "current services" approach suggests that programs funded in the past must be funded at at least equivalent service levels in the future—with a built-in upward adjustment for inflation and other factors. In a sense, it treats spending programs as immortal. And it treats inflation as an acceptable given.

If a program is preserved and increased, but not quite as fast as inflation—if it grows, say, from $100 million to $103 million—then in the terminology of the current services Wonderland, it is said to be "cut." And political leaders in the Executive Branch and the Congress often take credit for "cutting" the deficit as they thus increase spending. What they cut is the "current services" deficit, while the actual deficit continues to rise.

In ordinary life, 103 is not a "cut" relative to 100. But in the world of "current services," things are different. It is a Wonderland phenomenon: a "cut" is really an increase; a deficit said to be going "down" is really going up.

If the real world deficit is to be reduced, programs must not be assumed to be immortal. Inflation must not be built in as given. And last year's level of service in every program must not be treated as the presumed minimum acceptable level for next year.

One might think of this in personal terms: If one buys a new car and a new dishwasher in 1989, one does not plan one's budget for 1990 by assuming first that one will need yet another new car and dishwasher in 1990—with pricetags adjusted up! But that's just the kind of thinking that the "current services" habit of mind tends to encourage.

If the deficit is to be reduced, the frame of reference must be made more common-sensical. Next year's budget must be framed in relation to last year's actual spending—and in relation to available resources and deficit targets—*not* in relation to some hypothetical, perpetually expanding "current services" baseline.

A COMMON SENSE APPROACH

How then to proceed? Common sense suggests a straightforward eight-step approach:

Step (1): Determine Available Revenues

One of the many benefits of sustained economic growth is that Federal revenues continue to rise with the growth in gross national product. Relative to 1989, the Administration projects 1990 receipts to rise by $81.5 billion.

Under current law, the Administration forecasts receipt increases for 1990, 1991, 1992, and 1993 that would total $774.6 billion, with the 1993 level of receipts reaching $1,279.9

229-645 0 - 2 - 89 - QL3

The Vice President will chair the Council, which will be comprised of the heads of agencies including NASA, Defense, State, Commerce, Transportation, the Office of Management and Budget, and others.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	10,898	13,274	14,364	15,670	16,318
Outlays	10,596	12,597	14,021	15,088	15,858

d. Increasing Investment in Basic Research

OVERVIEW

America's greatest single strength and opportunity for the future is the ability to expand the limits of our knowledge. As the Nation moves into the 1990's and the 21st century, the Administration believes that America's economic success and national security depend to an ever greater extent on our scientific and technological progress. The Nation must be prepared to step up to the challenge.

The Federal investment in R&E should focus on basic research and allow the private sector—which is also a tremendous source of R&E spending—to decide which technologies will have the most potential in the marketplace. The economy must provide a climate which encourages businesses to take risks and invest in new, bold technologies.

"Scientific and technological advancement have always been at the very heart of our nation's pioneer spirit, pushing the boundaries of our knowledge, creating economic opportunity, and increasing our standard of living.

George Bush

PRINCIPLES

- Federal investments in research and development should be increased even beyond the current strong levels. Such investments should focus on basic research.
- Mathematics and science education should be improved so as to develop and nurture "human capital", the well-qualified scientists and engineers of the future, who will expand the frontiers of knowledge in the coming decades.
- Increased investment in research and development by industry and State and local governments should be encouraged.
- Research partnerships between government laboratories, the private sector, and universities should be encouraged and facilitated to take better advantage of fundamental scientific advances.

Building A Better America

- International negotiations to ensure that American intellectual property rights are protected should be pursued.

POLICIES

The President proposes to provide an increase of $361 million, or 13 percent, over the 1989 enacted level for science and technology programs in 1990. These programs include the National Science Foundation and the general science programs of the Department of Energy (except for the Superconducting Super Collider).

PROPOSED CHANGE
(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	2,707	3,068	+361	+13
Outlays	2,613	2,905	+292	+11

This increase will continue the progress toward doubling NSF's budget by 1993, and will allow NSF to support the Engineering Research Centers, Advanced Scientific Computing Centers, and the 11 interdisciplinary Science and Technology Centers established in 1989. These centers provide important linkages between universities, industry and government labs to swiftly transfer the research from the lab to the marketplace.

The NSF budget for 1990 will also support thousands of individual researchers at universities and colleges, and the training of the scientists and engineers of the future at all levels of education, including improved math and science instruction in the public schools. NSF will continue to support and manage the U.S. Antarctic Program, which provides the U.S. with an active and influential presence in that important region.

The increase for the DOE general science programs will continue funding for existing nuclear and particle physics accelerators required to carry out research at the cutting edge of these fields. It will also provide for initiation of a major upgrade to the linear accelerator at Fermilab, currently the world's foremost experimental high-energy physics facility.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	2,707	3,068	3,394	3,712	4,102
Outlays	2,613	2,905	3,212	3,521	3,885

e. Making Permanent the R&E Tax Credit

OVERVIEW

Research spending is essential to fostering technological innovation, which is a major source of growth in productivity. The Administration is committed to encouraging continued growth of private, domestic research activities by establishing a permanent tax credit for research and experimentation (R&E).

> *"Here is my vision: America's low-tax, high opportunity policies [are] leading the world into a new era of economic growth. . . . I want a permanent extension of the R&D credit."*
>
> George Bush

PRINCIPLES

- A permanent R&E tax credit will help to keep America in the forefront of innovation.
- Stable tax laws that encourage research allow taxpayers to undertake research with greater assurance of tax consequences, permitting them to establish and expand research facilities without the fear that tax rules will suddenly change.
- Tax incentives are needed to encourage research activity, because the dissemination of technological knowledge makes it impossible for investors to capture the full return to their investment in research. In addition, the risk inherent in certain research activities may discourage firms from undertaking specific research projects. This is especially true of basic research, as opposed to product development. As a result, in the absence of Government support, investors will spend less for research than is desirable from society's point of view.

POLICIES

The President proposes a permanent R&E tax credit. The proposed credit would modify the structure of the current credit to increase its incentive effect and availability to firms that undertake research.

The current research and experimentation credit expires at the end of 1989. It is equal to 20 percent of the excess of current qualified R&E expenditures over the base amount. The base amount is equal to the average of the previous 3 years' R&E expenditures. The base is subject to the limitation that it never be less than 50 percent of current qualified expenditures. The credit is available only for research expenditures paid or incurred in carrying on the trade or business of the taxpayer. Deductions against taxable income for research expenditures must be reduced by 50 percent of the credit taken.

The President's proposal would retain the incremental feature of the present credit and its 20 percent rate, but would make the credit permanent and modify the calculation of the base amount. The new base would be a fixed historical base equal to the average of the firm's qualified R&E expenditures for the years 1983–1987, indexed to GNP growth. Firms would have the option of a separate credit equal to 7 percent of the excess over 75 percent of this new base. Deductions for R&E expenditures would be reduced by the full amount of the credit taken. The trade or business test also would be liberalized to allow new firms and firms entering new lines of business to claim the credit.

FUNDING SUMMARY

(Revenue change in millions of dollars)

	1989	1990	1991	1992	1993
Permanent R&E credit	n.a.	–387	–688	–963	–1,150

f. Improving the R&E Expense Allocation Rules

OVERVIEW

One of the President's priorities is the encouragement of domestic research and development. One obstacle to research conducted by American multinational corporations in recent years has involved taxation—specifically the allocation of the deduction for R&E expenses between domestic and foreign income. It is important to end the uncertainty and create a climate in which long-term research plans can be made with some assurance that the rules of the game will not change.

PRINCIPLES

- Technological innovation, particularly through U.S.-based research, is essential to maintain our competitive position in the world economy.
- The Administration strongly believes that permanent rules for allocating and apportioning deductions for R&E expense between foreign and domestic source income can properly serve to encourage private domestic R&E.
- The controversy concerning the allocation of R&E expense is now well into its second decade. The uncertainty generated by the continued expiration of temporary rules has made for an unstable tax environment for domestic research activity.

POLICIES

The President proposes the adoption of permanent research and experimentation expense allocation rules.

The most recent R&E allocation rules generally expired on May 1, 1988. Under those rules, domestic firms were allowed to allocate 64 percent of their expenses for research performed in the United States to U.S. source income. The remaining expenses were allocated on the basis of gross sales or (subject to a limitation) gross income.

The President advocates a permanent and more beneficial R&E allocation formula. The proposed rules would permit a 67 percent R&E expense allocation to U.S. source income. The remaining portion would be allocated on the basis of gross sales or gross income, with no limitation on the use of the gross income method.

U.S. taxpayers generally receive greater foreign tax credit benefits to the extent that their expenses can be allocated to U.S. source income rather than to foreign source income. Both the increase of the permanent allocation percentage to 67 percent and the removal of limitations on the use of the gross income method result in a greater allocation of R&E expenses to U.S. source income. These permanent allocation rules will provide a significant incentive for conducting R&E and for locating that activity within the United States.

Science Scholars Program. We will work to free our schools from the pestilence of drugs.

BBA p.69

And we will be looking to you for help and guidance -- because good schools are good for business. Many of you are already involved with local schools, doing important work for the future of your communities, and your country. More can be done. And I know you'll be there when we need you.

individual businesses are doing it on there own

To compete successfully abroad, many of you will find yourselves competing for workers at home. I know managers who are seriously starting to worry about shortages of talented people.

brought up in focus grp during transition ← even beyond talented people, just

There is a larger, untapped source of talent in this country. Such people are to be found and fostered among the young and underskilled, who need training. The older and more experienced, who need re-training. The disadvantaged, whose lives can be turned to advantage. Disabled workers, who ask only for a chance to prove their ability. Dual career families, who need options.

Opportunity doesn't necessarily knock on the door. It may be leaning against the wall or standing on the streetcorner, needing only to be seen for what it is.

(Lange)
February 23, 1989
4:30 p.m.

PRESIDENTIAL REMARKS: SMALL BUSINESS LEGISLATIVE COUNCIL
WASHINGTON, D.C.
WEDNESDAY, MARCH 1, 1989

Thank you, [Bob]. It is good to be with you this afternoon. As you may have heard, I just finished a tour through several countries in the Pacific Rim.

They say that travel teaches tolerance. And it is true -- my hosts abroad were certainly tolerant of my experiments with their language.

I think one of my toasts might as well have been translated by the interpreter as: "Laugh politely at the peculiar American humor."

~~Maybe I should have asked them to read my lips~~.

This afternoon you've heard from Gregg Petersmeyer, Richard Breeden, and [Elizabeth Dole / Robert Mosbacher] -- three key members of the team here in Washington.

And now that you have a feeling for their ideas and priorities, let me encourage you to work with them. Tell them

what you're thinking. They know how to work with the private sector -- and they are looking for ways to make this a responsive government, a government by and for the people.

While I was in Asia, I had a chance to think seriously about what sets our trading partners apart from us. I realized that we may have erected a barrier to our own success -- and deprived ourselves of vital long-term investment that our competitors have always enjoyed.

In a few minutes, I'm going to have a suggestion for those who argue in favor of protectionist intervention, in the name of fair trade.

You know, there are some who say that the sun is rising in the Far East. Some even suggest that it's setting here at home. Well, for them, I have news. The 21st century can be the next American century -- if we understand the challenges before us, and move to meet them together.

More than ever, the world is interconnected; interdependent; and changing rapidly. More than at any point in human history, our societies and economies rely one upon the other.

So the notion of competitiveness -- which is on everybody's mind these days -- takes on a challenging new angle. It means more

than just market share and earned income. And it's more than a zero-sum, winner-take-all game.

Since 1980, world trade volume has nearly doubled. Almost a fifth of our industrial production is now in exports. Goods and services circle the globe overnight. Capital changes hands in seconds.

In a world like that, all nations stand to benefit from the growth of their trading partners -- as long as markets are free and open.

This means that the goal of competitiveness is not simply to disadvantage the competition. It is to better deploy the advantages we have -- and to create new ones.

And that is why the work you do is so important. American small business has always been our most creative source of innovation and economic growth.

We've created 19 million new jobs in this country since the recovery began. That's five times the number of jobs created in Japan -- and small businesses are responsible for eight out of ten of them. Operations like yours make America work.

By creating jobs, you create opportunity. And while I'm President, government won't interfere with that. We will assure that you have the freedom you need, to do what you do best.

Competitiveness demands two things: flexibility in the marketplace, and the right kind of investment at home.

So we want to give employers and employees the flexibility to work out their own solutions, on issues like parental leave and health insurance. And we intend to promote the kind of investment that will allow every American to share in prosperity, and help to create more of it.

Americans are a diverse people. They don't want generic solutions, when a problem is best solved at its source. Government's creed should be to do no harm -- and to act only when there is clear evidence that its interference will make things better for people.

Decisions made -- and actions taken -- at the local level very often better serve the interests of those involved. What I'm talking about, here, is a fundamental American freedom: the freedom to choose.

That's the driving principle behind our proposal on child care. We ~~want to create~~ have proposed a new system ~~of~~ refundable tax credits,

focused particularly on low-income parents. We mean to avoid burdensome federal standards and regulation that would limit family, church, and community-based care. We will examine the liability insurance barriers for businesses interested in providing child care options.

We would like to put solutions -- and dollars -- in the hands of parents. We intend to promote choice in childcare.

Flexibility can also promotes ~~creativity.~~ risk taking. It's always been the basis for real achievements in business. So we need to find new ways to encourage men and women to take risks. We need entrepreneurs who will invest their time, talents, and resources to build businesses. Unlock new markets. Unleash new technologies. And create new jobs. People who bring to the marketplace competitive products and quality services that are second to none in the world.

You know what the challenges are.

Last year a large survey of CEOs suggested that while American business leaders are inherently optimistic, they're aware that we have new and important work to do. Ninety percent of them said that American business is still too short-term oriented.

I've built a business. Let me tell you, I know how tough it is. I understand the pressures you face. You don't need a lecture on the importance of savings and long-term investment. You need government that enables you to do what ~~you know how to~~ good for bus & good for Am do.

Competitiveness demands the right kind of investment, yes. For a long time now I have been saying that we must have a competitive capital gains tax rate. If we are to retain the American edge, we must give entrepreneurs and small businesspeople the incentive to keep dreaming, keep risking -- and keep creating good jobs for Americans.

~~the Great Am~~

I see a capital gains cut as an important way to free up American businesses, without distorting world markets. The economies of the Pacific Rim -- the "four dragons" of Hong Kong, Singapore, Taiwan, and South Korea -- along with West Germany, the most dynamic economy in Europe -- all exempt capital gains entirely from tax. Japan also had no tax on capital gains during its meteoric rise. — to economic power

I call on anyone who talks about intervention in the name of fair trade, to consider this:

By taxing capital gains, we impede our own progress -- and we turn the playing field into an uphill climb.

Restoring the capital gains differential would be a powerful incentive for businesses to invest, to innovate, to grow, and to create jobs.

For managers, it would ease some of the relentless pressure of quarterly reporting -- and allow them to focus on longer-term goals and operations, get a leg up in new markets, and apply new techniques and technologies. For workers, it means more jobs, at better wages. For all Americans, it means a real, competitive difference in the world marketplace.

I am committed to government policies that will allow business to invest with an eye toward the long term to assure our competitive future.

We have proposed a 13 percent increase for science and technology programs in 1990. And we intend to stay on track in our effort to double the National Science Foundation's budget by 1993, to develop engineering and scientific computing research centers -- and to build the right links between university, government, and industry labs.

We are recommending a permanent extension of the ~~R&E~~ research and development tax credit, to keep us at the forefront of technological innovation -- especially in basic research. [CHECK W/ POLICY]

And we want to encourage more domestic research by multinationals, by stabilizing the R&E expense allocation rules. The uncertainty brought on by expiring temporary rules has gone on for two decades. Businesses should be able to make long-term research plans in a stable climate. Creating that climate is something government can -- should -- and will do.

We are determined to bring the deficit down -- with no new taxes. We have proposed a major budget reform to put our fiscal policy on a sound footing once and for all. We need to do away with the wonderland concept of "current services budgeting." Federal policy should not start out with the presumption that government spending should go up and up.

explain -- a kind of expanding Baseline

But the most important investment we can make, to assure a competitive future, is in training and education.

Jobs are becoming more demanding. The competition is getting tougher. Labor markets are getting tighter. So we'll need to do more to develop a highly-skilled, motivated, educated workforce.

You know, when I was building an oil business, we invested heavily in what was then a new technology -- off-shore drilling.

Early on, we lost a drilling rig to a storm off the coast of Texas. I knew that whenever you consider an investment, you rightly tend to focus on the risks involved.

But where training and education are concerned, the biggest risk is to not get involved.

American public education needs more of our support. -- and less of our criticism. It's time to stop blaming the students -- stop blaming the schools -- stop blaming other institutions -- and start getting involved.

We should look to the vitality of our system -- and work to build strength through diversity.

Successful schools happen everywhere -- from rural communities to inner city neighborhoods. They are shaped by people with high expectations, from both the public and private sector, who work within the schools to bring about creative change.

This way of looking at it means that we are all accountable for the quality of our schools. We need to strengthen incentives to do better -- and we have a program to do just that.

[check w/ policy]

that improve,

We will expand Head Start, reward ~~superior~~ schools, and recognize outstanding teachers. We will establish a National Science Scholars Program. We will work to free our schools from the pestilence of drugs.

And we will be looking to you for help and guidance -- because good schools are good for business. Many of you are already involved with local schools, doing important work for the future of your communities, and your country. More can be done. And I know you'll be there when we need you.

To compete successfully abroad, many of you will find yourselves competing for workers at home. I know managers who are seriously starting to worry about shortages of talented people.

There is a larger, untapped source of talent in this country. Such people are to be found and fostered among the young and underskilled, who need training. The older and more experienced, who need re-training. The disadvantaged, whose lives can be turned to advantage. Disabled workers, who ask only for a chance to prove their ability. Dual career families, who need options.

Opportunity doesn't necessarily knock on the door. It may be leaning against the wall or standing on the streetcorner, needing only to be seen for what it is.

In this, we need your leadership. The very heart of our ability to compete may depend on how well we enlist those who have, until now, been on the outskirts of economic growth. They will be needed.

Together we can build businesses that outwit, outmaneuver, outproduce, and outperform the competition.

We can achieve the kind of competitive advantage that comes from collective will. And we can make sure the words "Made in the U.S.A." ~~America~~" simply mean "the best there is."

Thank you. And God bless you.

quarters offices moved to the Houston Club Building, and the company marked its fifth anniversary with a fleet of four rigs, 195 employees, and 2,200 stockholders.

Excerpted from VIVA, *bimonthly publication of employees of Zapata Corporation world-wide, twenty-fifth-anniversary issue*

The Bushes moved to Houston after Zapata split into separate entities, Hugh and Bill Liedtke concentrating on drilling-and-production, my interest being the offshore drilling-and-contracting end of the business. A psychologist might trace it to my younger days and conclude that it had something to do with my first love, the sea. Running an offshore drilling company would mean days spent on or over water; not only the Gulf of Mexico but oceans and seas the world over, wherever there was oil or the prospect of oil.

Dividing the business was all very amicable, done over a lunch. As Midland friend Jim Ritchie recalls the occasion, the Liedtkes would say, "Okay, you take this, we'll take that," and I'd say, "Fine, you get this, we get that." We started as friends and parted as friends, richer in more ways than one.

The start came with our buying 8,100 acres in the West Jamieson Field in Coke County. By the end of 1954 we had 71 wells producing an average of 1,250 barrels a day.

Hugh Liedtke recalls that before that play ran out it totaled 127 productive wells drilled, without a dry hole. People outside the business might view that as an incredible run of luck, like shooting sevens at a dice table. Actually, it was less luck than basic geology.

Our 127 wells were drilled under blanket-sand conditions. We knew there was oil in the area before going into the deal. It was a farm out, in partnership with the Perkins-Prothro Company, a major outfit in Wichita Falls. There was a risk, but not a wildcatter's all-or-nothing risk. Once the geologists and engineers decided

where we should drill, the only question was how good the well would be.

The Jamieson Field wells weren't the most prolific wells in the world, by a long shot. But they were good wells, and as we continued drilling, our income piled up. We now had enough to invest in other productive West Texas oil properties, as well as turn our eyes seaward, to what I felt was the future of domestic oil production, offshore drilling.

THREE-LEGGED MONSTER
NEW DRILLING BARGE
LAUNCHING TUESDAY

Zapata Off-Shore Co.'s new three-legged drilling barge will be commissioned in Galveston Tuesday.

Named the Scorpion, *the barge will have a number of new wrinkles embodied in its mobile unit.*

For one thing, its three legs are a radical departure from the usual multiples of two. Also, its equipment and arrangement are the newest and latest ideas.

It was built for Zapata by R. G. LeTourneau, Inc., at Vicksburg, Miss., and towed to Galveston for outfitting. It weighs 9 million pounds and cost $3,000,000 . . .

The over-all dimensions of the platform are 180 by 150 feet. The three legs or spuds, each 140 feet long, are driven into the Gulf floor and the body pushed above the reach of waves by electric motors.

At Galveston for the ceremonies will be George Bush, Zapata president, of Midland, and a number of visiting oilmen.

From the Houston Chronicle, *March 18, 1956*

No one doubted that offshore drilling represented the future of the business, but what LeTourneau proposed was a giant leap into the future. He'd gone to major offshore companies like Kerr-McGee, and while they were interested in his revolutionary ideas,

they were hesitant to back up their interest with money. Not only was LeTourneau's equipment different, but the man himself was unorthodox.

But we hadn't named our company Zapata in order to be gun-shy about going into revolutionary, high-risk ventures. We listened to R. G. LeTourneau, looked at what he had to offer, and decided to stake our offshore future on his three-legged monster.

That brought us a lot of publicity and some pats on the back for making a bold business move. The only problem was, the darn thing didn't work—at least, not at first. Put out to sea on its first assignment, the *Scorpion's* jacking system failed and the Gulf saltwater got into its gear boxes.

For LeTourneau, it was back to the drawing board. For Zapata, a major decision had to be made—whether to go ahead with another LeTourneau-designed three-legged rig, the *Vinegarroon,* to the tune of $3.5 million.

We took the gamble. Like Eugene Meyer betting on Fred Chambers and me years before, Zapata's management based its decision on our hunch about LeTourneau the man. And in time, LeTourneau's three-legged monsters—first the *Scorpion,* then the *Vinegarroon,* then the $6 million *Maverick*—became the state of the art in offshore drilling rigs.

LeTourneau was gruff, eccentric, a kind of George Patton of engineering. He was the man of action with a mystic touch, a dynamo, a creative genius. He'd come to us with a proposition: he'd build the *Scorpion* at his own expense. We'd advance him $400,000—refundable if the completed rig didn't work; if it did, he'd get an added $550,000 and 38,000 shares of Zapata Off-Shore common stock. Our feeling was that anybody who had that much confidence in himself was worth the gamble.

Despite the disappointment at Galveston, the gamble paid off. LeTourneau didn't go back to the drawing board, he came over the deck itself. We watched incredulously as he looked at his monster's legs, then at the rack-and-pinion gears. Then right there on the steel deck, he pulled out some chalk and sketched the changes that had to be made.

rest with money. Not only
but the man himself was

Zapata in order to be gun-
igh-risk ventures. We lis-
what he had to offer, and
his three-legged monster.
ınd some pats on the back
nly problem was, the darn
Put out to sea on its first
em failed and the Gulf

drawing board. For Zapata,
ther to go ahead with an-
l rig, the *Vinegarroon,* to the

ɜ Meyer betting on Fred
ɜ's management based its
au the man. And in time,
irst the *Scorpion,* then the
—became the state of the

kind of George Patton of
ı with a mystic touch, a
to us with a proposition:
ense. We'd advance him
rig didn't work; if it did,
ıares of Zapata Off-Shore
body who had that much
nble.
ston, the gamble paid off.
g board, he came over the
he looked at his monster's
Then right there on the
sketched the changes that

No engineer's drawings, not even a slide rule. But it worked. Redesigned, the *Scorpion* was back in the water, drilling for oil, within a month after its original failure. We signed on for the *Vinegarroon,* LeTourneau's second monster, in March 1957. It had an improved design, one strong enough to stand up to Hurricane Audrey, with hundred-mile-an-hour winds, its first time out. The paint was stripped off, but the rig kept pumping.

So you wanted some of the romance of Emiliano Zapata to rub off on you?

HUGH LIEDTKE: *It rubbed both ways. The shareholders that got in early and had a profitable investment, well, they thought Zapata was a patriot. But those that got in at one of the top swings in the market, and then the market fell, they thought Zapata was a bandit. We were lucky that the overall investment in Zapata turned out well.*

Did your experience in Zapata help you in your public life?

GEORGE BUSH: *The experience of dealing with people helped me enormously. I learned a great deal about leadership, and I learned about the economic system. I had studied in college about supply and demand, risk and reward, profit and loss, the importance of labor and morale. But I didn't realize how all those things work together until I was making decisions that involved life and death, and survival of the business . . .*

But I think I learned the most about people. The oil field doesn't get credit for the fiber of its people. In those days, most of the oil-field workers didn't have much education. They came from an entirely different background than I did. But the way they devoted their lives to their work, their fierce loyalty, competitiveness, and spirit, were an inspiration. It made a lasting impression on me.

From VIVA, *twenty-fifth-anniversary issue, excerpt of interview with Hugh Liedtke and George Bush (1979)*

n the Row about the inside

Ve were about to say our
it spoke. "Okay," he said
t like that. I was braced for
ut he made his decision on
1 on the project as on us.
Mr. Meyer rolled down the
good tax proposition?" We
aid, "then put my son-in-

o as well as we'd hoped,
stors came out ahead. But
ad other oil-business deal-
table, all enjoyable.

erbey, 1986

few good deals and a few
the black the entire three
y boom began to fade in
rry boom. We were active
ne trade in particular you

lived in East Texas, and
rt of his Reagan County
agreed, you suggested an
writing. The East Texas
il and "My word is my

l patch myth that a hand-
d to forego the exchange of
ft in the mail. Ten days
so you called him again.
aft but sold the property to

Looking Forward

Nash Dowdle instead, for $151.50 an acre. Apparently his "bond" was worth $1.50 an acre.

According to the recent news, our friend Hugh Liedtke is still making oil deals on a handshake; but he seems to make them a bit more profitable.

Bill and Hugh Liedtke still had their licenses to practice law, but their law books, except for the ones on leases and mineral rights, were gathering dust. The Liedtkes had long since abandoned the courthouse for the oil fields, as independent oil operators with offices next door to Bush-Overbey. Then, in 1953, Bill and Hugh suggested we join forces: they'd raise $500,000, Bush-Overbey would raise $500,000, and the two companies would be rolled into one entity. We'd buy producing properties on the oil-payment plan, with the $1 million for equity.

Agreed. Now, what would we call our new company? Late one night, Hugh and I were going over possible names. We wanted something that would attract attention, a company name that would "stand out," as Hugh said, "when somebody opens the phone book."

Deep-voiced, with a pronounced Oklahoma drawl, Hugh was impressive even in his younger days, before he became "Mr. Pennzoil," a legend in the U.S. domestic oil industry.

"It ought to start with either an *A* or a *Z*," he said, "so it comes either first or last in the pages under 'Independent Oil Operators.'" Nothing in between that could be lost in the shuffle—that was Hugh's m.o. right from the start.

The movie *Viva Zapata!*, starring Marlon Brando, was playing in downtown Midland. It was the story of Emiliano Zapata, the Mexican rebel leader who led a revolt for land reform in the early 1900s under the slogan "Tierra y Libertad"—"Land and Liberty." We couldn't afford a public-relations counsel, but if we had one he would have told us that was exactly the corporate image we were looking for.

And that's the way Zapata Petroleum was born. The following year it would spin off Zapata Off-Shore, and in time, under Hugh Liedtke's imaginative management, merge into Pennzoil.

Zapata: There was a winning chemistry about the company. We could sense it.

I was at the Ector County courthouse, twenty miles from Midland, checking land records, when Barbara called. She said Dr. Wyvell wanted to see us, right away. Dorothy Wyvell was the children's doctor. In a town the size of Midland, more than a doctor, she was a warm, personal friend.

When we went into the doctor's office and sat down, all I knew was that Robin had been in for a checkup because she'd been acting listless. But I knew something was seriously wrong before Dr. Wyvell said a word. She was normally a person of great composure, a reassuring presence whenever one of the kids got sick. But that day her eyes were misting, and she was having a hard time putting her thoughts into words.

Some tests had been run to see what was the matter with Robin, the doctor finally said. The results were back. Robin was a very sick child. She had leukemia.

Barbara seemed to understand the full meaning of what the doctor had said, but I didn't at first. When I asked what could be done, the answer stunned me. Nothing, said Dr. Wyvell. The disease was rampant. Robin's case was advanced, and she had only a short time to live. It might be a few weeks; it might be only days. Her deeply felt counsel to us was that we take Robin home, keep her as comfortable as possible, and let nature take its course.

Dr. Wyvell loved Robin. She just didn't want to see any of us hurt any more than necessary.

After we came home from the doctor's office, I called my uncle, Dr. John Walker, in New York City. He was president of Memorial Hospital there and a former cancer specialist. When I told him the news about Robin, he urged us to bring her to New York,

GEORGE BUSH

A BIOGRAPHY

Nicholas King

DODD, MEAD & COMPANY
NEW YORK

copyright 1980

MIDLAND COUNTY PUBLIC LIBRARY
MIDLAND, TEXAS

tation for pioneer drilling in difficult conditions and it gained the respect of the industry.

"You would have had a fight on your hands if you even suggested to one of the rig hands that there was a better drilling company than Zapata," says an engineer who had worked for Zapata.

In August 1958, Zapata Petroleum sold its remaining interest in Zapata Offshore, which then became independent, and its stock was listed on the American Stock Exchange in New York that September when Bush moved company headquarters to Houston. After five years, the firm had a fleet of four rigs, 195 employees, and 2,200 stockholders.

At the beginning of the 1960s drilling prospects in the gulf continued uncertainly, and Zapata concentrated its efforts in foreign waters, in the Caribbean and off South America. It attempted to diversify, somewhat unsuccessfully, by acquiring properties like a plastics company and a gas pipeline company. But by 1963 offshore drilling presented a rosier picture and the future again looked promising. An innovative outrigger-type floating rig began operating for the company, and construction proceeded on the *Maverick,* a new LeTourneau jack-up which cost $5.7 million and inaugurated a new generation of such rigs. It was the biggest rig in the world and could drill in waters 250 feet deep. Zapata Offshore reported a record $1,189,000 net income for 1964, meaning that Bush was getting richer.

The next year looked good too. The big rigs were earning full time and there was talk of a merger with another offshore driller which would have doubled the size of the fleet. However, there was a severe temporary setback when Hurricane Betsy swept along the Gulf Coast in September 1965 and swept the *Maverick* completely away without a trace. Fortunately, there were no lives lost. Bush personally went on a series of exhausting search

flights but returned only with tales of the destruction he had seen done to the houses and fishing communities along the Louisiana coast.

By this time, Zapata Offshore had been functioning for a decade and its assets totaled $15.8 million. The offshore drilling business had come a long way since its birth and had played a critical part in supplying oil to an industrial society. This had been George Bush's real success. But he also knew the strain and risk of offshore oil operations and was thinking increasingly of public life: He had been a Republican precinct worker in west Texas during the 1956 Eisenhower campaign and had become Houston County chairman. He was not to sever his ties with the oil business until 1966, but in 1964 he decided to take a leave of absence.

He never forgot or undervalued what he had learned in the oil fields. "The experience of dealing with people helped me enormously [in later public life]," he reflects. "I learned a great deal about leadership, and I learned a lot about the economic system. I had studied in college about supply and demand, risk and reward, profit and loss, the importance of labor and morale. But I didn't realize how all those things work together until I was making decisions that involved life and death, and survival of the business. That training under fire, under economic adversity, was a fantastic experience.

"But I think I learned the most about people. The oil field doesn't get credit for the fiber of its people. In those days, most of the oil field workers didn't have much education. They came from an entirely different background than I. But the way they devoted their lives to their work, their fierce loyalty, competitiveness and spirit were an inspiration. It made a lasting impression on me."

THE WHITE HOUSE
WASHINGTON

EC 12

87 exp 57.2 > def 22.9
imp 80.1 > tum 137.4

88 exp 71.3 > def 12.7
imp 84.0 > tum 155.3

subst imp.

Canada

87 exp 57.0 > def 13.8
imp 70.9 > tum 127.9

88 exp 65.9 > def 14.8
imp 80.7 > tum 146.6

#1 exp, #2 imp 87+88

US/World - 1980

exp 221.5
imp 239.9

def = 18.4
turnover 461.5

923.0

Japan 1980

exp 20.5 def 10.2
imp 30.7 turn 51.2

EEC 12/1980

exp 57.3 surp. 19.4
imp 37.9 turn 95.1

Canada 1980

exp 38.9 def 1.96
imp 40.8 turn 79.8

November 19, 1986

Human Resource Policy Options to Enhance U.S. Competitiveness

I. Introduction

America faces a competitive challenge during the decades ahead which--if not addressed effectively--could have serious consequences for our economy and the standard of living of our citizens. Our economy relies, more than ever in recent history, on our trading position. Almost one-fifth of the country's industrial production is exported and fully 70 percent of the goods we produce compete with merchandise from abroad. Our interdependence with our trading partners will increase, not diminish, in the years ahead. At the same time, we have witnessed during the past decade a steady deterioration in the Nation's trade balance.

A complex of factors account for this country's lagging competitiveness--a strong dollar, slow productivity growth, the transition from a goods-producing to a service-based economy. Concurrently, newly industrializing countries have emerged as potent competitors in the new global environment.

Just as the problem of U.S. competitiveness is multifaceted, there is no single solution to the problem. It is essential that greater attention be devoted to research and development. Increasing the supply of productive capital is critical. We must achieve a fair international trading system. Yet, success in all of these areas will not make America more competitive if our workforce lacks the skills and flexibility to carry out the technical requirements of the jobs of the future, and the ability to do so at a higher level of productivity than has been the case in recent years.

Despite the evidence concerning the importance of human capital, the nation's reservoir of human skills and knowledge is not growing as fast as it has historically. If America is to retain its competitive leadership in the world, it is essential that the Nation adopt a strategy for building this resource.

Against this background, the Working Group on Human Capital and Competitiveness examined the potential role of policies to strengthen the Nation's human resources in enhancing national competitiveness. This paper summarizes the Working Group's conclusions.

World trade volume nearly doubled since '80

U.S. trade deficit down nearly $20 bil over last yr -- even our deficit w/ Japan decreased.

~$135 billion

Turnover - $745 billion
4 — imp
3 — exp

VS/World

1981 imp for ~~consumption~~ - customs value + domestic exports ~~for~~

87 def = $158.2 bill
88 def $129.1 bill

87 turnover $645.9 bill exp 243.9
88 turnover $745.2 bill exp 308.0

~~trade~~ -
87 imp 402.1
88 imp 437.1

Japan -

imports ~~for consumption~~ on a customs basis value + domestic exports

1987 exp 26.9
imp 84.0
> def 57.1
turnover 110.9

1988 exp 36.0
imp 89.1
> def 53.1
turn 125.2

1988
#1 imp partner
#2 exp partner