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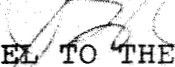
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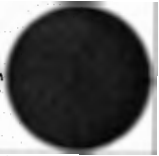
THE WHITE HOUSE

WASHINGTON

February 6, 1986

MEMORANDUM FOR EDWARD P. DJEREJIAN
SPECIAL ASSISTANT TO THE PRESIDENT AND
DEPUTY PRESS SECRETARY FOR FOREIGN AFFAIRS

FROM: JOHN G. ROBERTS 
ASSOCIATE COUNSEL TO THE PRESIDENT

SUBJECT: Foreign Policy Briefing Materials 

Counsel's Office has reviewed the above-referenced briefing materials and finds no objection to them from a legal perspective. I would point out, however, that we expect a decision in the Gramm-Rudman case at noon tomorrow. That decision may necessitate changes in the "Gramm-Rudman-Hollings and Defense" section.

cc: David L. Chew

WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

- O - OUTGOING
- H - INTERNAL
- I - INCOMING

Date Correspondence Received (YY/MM/DD) 1 / 1

Name of Correspondent: David Chew

MI Mail Report User Codes: (A) _____ (B) _____ (C) _____

Subject: Foreign Policy Briefing Materials

ROUTE TO:	ACTION	DISPOSITION		
Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Completion Date YY/MM/DD
<u>Curtall</u>	ORIGINATOR	<u>86.02.06</u>		<u>1 / 1</u>
	Referral Note:			
<u>Curt 18</u>	R	<u>86.02.06</u>		<u>5 86.02.07</u> <u>10 am</u>
	Referral Note:			
		<u>1 / 1</u>		<u>1 / 1</u>
	Referral Note:			
		<u>1 / 1</u>		<u>1 / 1</u>
	Referral Note:			
		<u>1 / 1</u>		<u>1 / 1</u>
	Referral Note:			

ACTION CODES:

- A - Appropriate Action
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 - X - Interim Reply
- to be used as Enclosure

DISPOSITION CODES:

- A - Answered
- C - Completed
- B - Non-Special Referral
- S - Suspended

FOR OUTGOING CORRESPONDENCE:

- Type of Response = Initials of Signer
- Code = "A"
- Completion Date = Date of Outgoing

Comments: _____

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 Send all routing updates to Central Reference (Room 75, OEOB).
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WHITE HOUSE STAFFING MEMORANDUM

DATE: 2/6/86 ACTION/CONCURRENCE/COMMENT DUE BY: 10:00 a.m. 2/7/86

SUBJECT: FOREIGN POLICY BRIEFING MATERIALS

	ACTION FYI			ACTION FYI	
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	OGLESBY	<input checked="" type="checkbox"/>	<input type="checkbox"/>
REGAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	POINDEXTER	<input type="checkbox"/>	<input checked="" type="checkbox"/>
MILLER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	RYAN	<input type="checkbox"/>	<input type="checkbox"/>
BUCHANAN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SPEAKES	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CHAVEZ	<input type="checkbox"/>	<input type="checkbox"/>	SPRINKEL	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CHEW	<input type="checkbox"/>	<input checked="" type="checkbox"/>	STEELMAN	<input type="checkbox"/>	<input type="checkbox"/>
DANIELS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SWAHN	<input checked="" type="checkbox"/>	<input type="checkbox"/>
FIELDING	<input checked="" type="checkbox"/>	<input type="checkbox"/>	THOMAS	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HENKEL	<input type="checkbox"/>	<input type="checkbox"/>	TUTTLE	<input type="checkbox"/>	<input type="checkbox"/>
HICKS	<input type="checkbox"/>	<input type="checkbox"/>	<u>DJERIJIAN</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
KINGON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
LACY	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: Please provide any comments on the attached briefing materials directly to Ed Djerijian by 10:00 a.m. Friday, with an info copy to my office. Thank you.

RESPONSE:

GRAMM-RUDMAN-HOLLINGS AND DEFENSE

- o Defense absorbs 50 percent of required reductions under the Gramm-Rudman-Hollings sequestration formula.
- o In the current fiscal year (FY 86), just about every program except personnel and SDI was cut by 5 percent to comply with Gramm-Rudman-Hollings.
- o The FY 87 impact of Gramm-Rudman-Hollings sequestration on defense would be very significant if triggered.
- o However, RR's budget proposal shows this will not be necessary as long as the Congress takes responsible action to meet the deficit target of \$144 billion..

NASA SPACE PROGRAM

Future of Space Program

- o The shuttle program is temporarily suspended until the Commission report identifies the cause of the recent tragedy and recommends appropriate actions.
- o However, we intend to reactivate the space shuttle in the future and make it operational again as soon as we can.
- o We also intend to move forward on development of the space station.

Civilians in Space

- o We have always backed space efforts as a peaceful endeavor for the purpose of furthering science and research as well as using it for defensive purposes and treaty monitoring.
- o As the program serves science, industry, defense and government, reserving places for doctors, scientists and yes, even journalists, is certainly in order.

Effect on Defense Programs

- o National security missions will continue to receive the highest priority for availability of launch vehicles.

Effect on SDI

- o We intend to press ahead with our research program for SDI.

ECONOMIC SUMMIT/ASIA TRIP

Bali

- o RR will stop in Bali en route to the Tokyo Economic Summit.
- o RR will meet with President Soeharto and with senior ASEAN officials.

Economic Summit

- o At the Tokyo Economic Summit we will want to consider ways to meet the challenges facing industrialized democracies in the future.
- o RR will seek the support of colleagues for US economic initiatives and will discuss:
 - problems of international terrorism
 - trade in narcotics
 - prospects for RR's next meeting with General Secretary Gorbachev

Japan

- o Since the Economic Summit is in Japan this year, RR expects to spend time with Prime Minister Nakasone.
- o Much has been reported about bilateral trade problems, and RR expects to review our approaches to resolving such issues.

THE WHITE HOUSE

WASHINGTON

February 6, 1986

MEMORANDUM FOR THOMAS F. GIBSON III
SPECIAL ASSISTANT TO THE PRESIDENT AND
DIRECTOR OF PUBLIC AFFAIRS

FROM: JOHN G. ROBERTS *JGR*
ASSOCIATE COUNSEL TO THE PRESIDENT

SUBJECT: Briefing Materials for Q & A with
Thomas Jefferson High School Students

Counsel's Office has reviewed the above-referenced briefing materials. In the third bullet item on the Shuttle Accident, it may be better to delete "12-member." The Executive Order provided for a commission of not more than 20 members, and the actual size may change.

cc: David Chew

WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

- O - OUTGOING
 - H - INTERNAL
 - I - INCOMING
- Date Correspondence Received (YY/MM/DD) 1 / 1

Name of Correspondent: David Crew

MI Mail Report User Codes: (A) _____ (B) _____ (C) _____

Subject: Briefing Materials for OIA with Thomas Jefferson High School Students

ROUTE TO:	ACTION	DISPOSITION
Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD
<u>Curt Holl</u>	ORIGINATOR	<u>86.02.06</u>
	Referral Note:	<u>1 / 1</u>
<u>Unit 18</u>	R	<u>86.02.06</u>
	Referral Note:	<u>5 86.02.06</u> <u>3pm</u>
		<u>1 / 1</u>
	Referral Note:	<u>1 / 1</u>
		<u>1 / 1</u>
	Referral Note:	<u>1 / 1</u>
		<u>1 / 1</u>
	Referral Note:	<u>1 / 1</u>

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|---|---|
| <p>ACTION CODES:</p> <ul style="list-style-type: none"> A - Appropriate Action C - Comment/Recommendation D - Draft Response F - Furnish Fact Sheet to be used as Enclosure I - Info Copy Only/No Action Necessary R - Direct Reply w/Copy S - For Signature X - Interim Reply | <p>DISPOSITION CODES:</p> <ul style="list-style-type: none"> A - Answered B - Non-Special Referral C - Completed S - Suspended |
|---|---|
- FOR OUTGOING CORRESPONDENCE:**
 Type of Response = Initials of Signer
 Code = "A"
 Completion Date = Date of Outgoing

Comments: _____

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WHITE HOUSE STAFFING MEMORANDUM

DATE: 2/6/86 ACTION/CONCURRENCE/COMMENT DUE BY: 3:00 p.m. TODAY

SUBJECT: BRIEFING MATERIALS FOR Q & A WITH THOMAS JEFFERSON HIGH SCHOOL STUDEN

	ACTION FYI			ACTION FYI	
VICE PRESIDENT	<input type="checkbox"/>	<input checked="" type="checkbox"/>	OGLESBY	<input checked="" type="checkbox"/>	<input type="checkbox"/>
REGAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	POINDEXTER	<input checked="" type="checkbox"/>	<input type="checkbox"/>
MILLER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	RYAN	<input type="checkbox"/>	<input type="checkbox"/>
BUCHANAN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SPEAKES	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CHAVEZ	<input type="checkbox"/>	<input type="checkbox"/>	SPRINKEL	<input type="checkbox"/>	<input type="checkbox"/>
CHEW	<input type="checkbox"/>	<input checked="" type="checkbox"/>	STEELMAN	<input type="checkbox"/>	<input type="checkbox"/>
DANIELS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SVAHN	<input checked="" type="checkbox"/>	<input type="checkbox"/>
FIELDING	<input checked="" type="checkbox"/>	<input type="checkbox"/>	THOMAS	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HENKEL	<input type="checkbox"/>	<input type="checkbox"/>	TUTTLE	<input type="checkbox"/>	<input type="checkbox"/>
HICKS	<input type="checkbox"/>	<input type="checkbox"/>	<u>GIBSON</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
KINGON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
LACY	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: Please provide any comments on the attached briefing materials directly to Tom Gibson's office by 3:00 p.m. this afternoon, with an information copy to my office. Thanks.

RESPONSE:

THE WHITE HOUSE

WASHINGTON

February 6, 1986

MEMORANDUM FOR DAVID CHEW

FROM: TOM GIBSON *TG*

SUBJECT: Briefing Materials for the Presidents Q & A
With Thomas Jefferson High School Students

Attached, for staffing, are briefing materials for the President's February 7, 1986, question and answer session with students from Thomas Jefferson High School.

cc: Pat Buchanan

Briefing Materials for the President's February 7, 1986
Q and A with students from Thomas Jefferson High School

NATIONAL AEROSPACE PLANE

- o Our objective is to demonstrate, by the mid 1990s, an entirely new class of aircraft -- more of a plane than the Shuttle and more of spacecraft than the Concorde.
- o The "Spaceplane" will have Hypersonic Cruising speeds of between 4,000 to 8,000 miles per hour -- 25 times the speed of sound.
- o At that speed you could get from here to Baltimore in about 20 seconds -- that would certainly make seeing an Orioles game a cinch.
- o Imagine this: The Concorde is 9 inches longer at cruising speed than when it's on the ground. It grows because of the heat generated on the outer skin at twice the speed of sound. Think of the engineering challenges the builders of the Spaceplane will face in speeds 10 times faster.
- o We're going to build this plane in the next decade. You can be part of that process.

SHUTTLE ACCIDENT

- o We mourn the loss and honor the valor of our seven Challenger heroes. They took the risks and made the ultimate sacrifice because they believed in the space program and were excited by the mysteries and the opportunities of what is beyond the earth.
- o Now we must be ready to do what they would want us to do: Go forward and reach for the stars.
- o RR has appointed a 12-member commission of distinguished Americans to find out why the accident happened, and how we can prevent it from happening again. The Commission will report its findings in June.
- o Commission members include Neil Armstrong, the first man on the moon, and Sally Ride, the first American woman in space.

SPACE AND RELATED TECHNOLOGIES

What kinds of scientific and technological breakthroughs have come about as a result of the space program?

- o Computer-controlled walking: People who are partially or completely paralyzed are beginning to use their limbs through the aid of computers that send electric impulses to the muscles.
- o Programmable Implantable Medical Systems: Programmed to administer medicine to a patient automatically, in quantities needed, when they are needed. (Note: RR saw this device at Goddard Space Research Center in Maryland.)
- o Implantable heart pacemakers developed in the 1960s came right out of the space program and have given new life to people with heart problems.
- o The entire field of computers, including pocket calculators.

1986 HEROES

How did you pick the "heroes" you introduced at your State of the Union address?

- o RR takes an active interest in the lives of Americans who do more than their share to make this country the best place on Earth.
- o RR is proud to know the four outstanding young Americans introduced Tuesday, Americans not unlike yourselves.
 - Richard Cavoli -- young scientist who works with crystals and x-ray technology;
 - Tyrone Ford -- a musical prodigy;
 - Shelby Butler -- a heroine who saved the life of 7-year-old girl; and
 - Trevor Ferrel -- who saw a TV news story about homeless men and women and now directs a huge volunteer effort to help them.
- o RR is proud to know these young people -- and proud to know the students of Thomas Jefferson High School for Science and Technology. There are plenty of heroes right here!

SELECTION OF HIGH SCHOOL

Why did you decide to come to Thomas Jefferson High School?

- o RR knew that a member of the faculty, Judith Garcia, was one of the ten teacher-in-space finalists.
- o Thomas Jefferson High School is so eager to meet the challenges of tomorrow, "Science and Technology" is part of its name.

EDUCATION

- o The real issue is how much students learn, not how much the government spends.
- o The National Commission on Excellence in Education took a hard look at our schools and made some important recommendations. The Nation responded, and we're moving ahead by raising graduation standards and providing incentives to reward good teaching.
- o Scholastic Aptitude scores for 1985 rose 9 points over 1984, registering the biggest annual gain since 1963. Good work!

SPENDING ON EDUCATION

- o About 42 percent of all full-time college students received some form of federal student aid last year.
- o More money was loaned last year to students than ever before -- almost \$9 billion.
- o States and localities are spending more, too.

EDUCATION CHOICE

- o Parents have a fundamental right to educate their children at schools of their own choosing.
- o RR has proposed education vouchers to enable parents of disadvantaged children to choose the school which best suits their child's educational needs.
- o RR also supports tuition tax credits for low and middle income families, to reduce the double burden these families bear by paying private school tuition and taxes which support public schools.

The Budget

- o Most of you know that you can't spend more of your allowance or your earnings than you have. You probably have not been granted the privilege and responsibility of credit cards.
- o But the government does that every day. That's why we're stuck with a budget deficit of billions and billions of dollars.
- o That deficit is standing in the way of your getting the best job you can when you graduate from high school or college.
- o We can close that gap between what the government gets in taxes and what it spends.
 - All we have to do is spend about 3 cents less on the dollar than we planned to.
 - We won't have to raise your parents' taxes to put a dent in the deficit. It wouldn't be fair to put a choke hold on your family's budget just so the government can keep on spending.
 - We can continue to spend money on AIDS research and on Social Security. We can see that the needy get the help they need.
 - And we can maintain the restoration of our defenses. A strong America is the only reason Mr. Gorbachev met with me last year. If we weaken our defenses, the Soviets will have no reason to bargain with us. And we won't be able to make the world safer for all of us.

THE WHITE HOUSE

WASHINGTON

February 6, 1986

MEMORANDUM FOR THOMAS F. GIBSON III
SPECIAL ASSISTANT TO THE PRESIDENT AND
DIRECTOR OF PUBLIC AFFAIRS

FROM: JOHN G. ROBERTS *JGR*
ASSOCIATE COUNSEL TO THE PRESIDENT

SUBJECT: Domestic Briefing Materials
For the President

Counsel's Office has reviewed the above-referenced briefing materials and has no objection to them from a legal perspective.

cc: David Chew

WHITE HOUSE CORRESPONDENCE TRACKING WORKSHEET

O - OUTGOING

H - INTERNAL

I - INCOMING

Date Correspondence Received (YY/MM/DD) 1 / 1 /

Name of Correspondent: Paul Chew

MI Mail Report

User Codes: (A) _____ (B) _____ (C) _____

Subject: Domestic Breeping Materials for the President

ROUTE TO:

ACTION

DISPOSITION

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response Code	Completion Date YY/MM/DD
<u>CU Hall</u>	ORIGINATOR	<u>86.02.06</u>		<u>1 1</u>
	Referral Note:			
<u>CUmt 18</u>	<u>R</u>	<u>86.02.06</u>	<u>586.02.06</u>	<u>5pm</u>
	Referral Note:			
		<u>1 1</u>		<u>1 1</u>
	Referral Note:			
		<u>1 1</u>		<u>1 1</u>
	Referral Note:			
		<u>1 1</u>		<u>1 1</u>
	Referral Note:			

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Extreme Close Hold

Document No. _____

WHITE HOUSE STAFFING MEMORANDUM

DATE: 2/6/86 ACTION/CONCURRENCE/COMMENT DUE BY: 5:00 p.m. TODAY

SUBJECT: DOMESTIC BRIEFING MATERIALS FOR THE PRESIDENT

	ACTION FYI			ACTION FYI	
VICE PRESIDENT	<input type="checkbox"/>	<input type="checkbox"/>	OGLESBY	<input checked="" type="checkbox"/>	<input type="checkbox"/>
REGAN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	POINDEXTER	<input type="checkbox"/>	<input type="checkbox"/>
MILLER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	RYAN	<input type="checkbox"/>	<input type="checkbox"/>
BUCHANAN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SPEAKES	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CHAVEZ	<input type="checkbox"/>	<input type="checkbox"/>	SPRINKEL	<input type="checkbox"/>	<input type="checkbox"/>
CHEW	<input type="checkbox"/>	<input checked="" type="checkbox"/>	STEELMAN	<input type="checkbox"/>	<input type="checkbox"/>
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FIELDING	<input checked="" type="checkbox"/>	<input type="checkbox"/>	THOMAS	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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HICKS	<input type="checkbox"/>	<input type="checkbox"/>	GIBSON	<input type="checkbox"/>	<input checked="" type="checkbox"/>
KINGON	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
LACY	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: Please provide any comments on the attached briefing material directly to Tom Gibson by 5:00 p.m. this afternoon, with an information copy to my office. Thanks.

RESPONSE:

THE WHITE HOUSE

WASHINGTON

February 6, 1986

MEMORANDUM FOR DAVID CHEW

FROM: TOM GIBSON *TG*

SUBJECT: Briefing Materials for Presidential Press
Conference

Attached, for staffing, are draft briefing materials for use by the President in the February 11, 1986, press conference. This package includes materials on NASA/Space Shuttle and trade provided by Rusty Brashear.

cc: Pat Buchanan

ECONOMIC UPDATE

U.S. is in its 38 months of economic expansion:

- o Employment: More than 9 million Americans employed today than in November 1982. RR looks forward to hitting the 10 million mark this year.
- o Output: Real GNP has grown every quarter since the third quarter of 1982. Economic growth of 2.3 percent in 1985 was due to sharp declines in production for inventory and continued slow growth of foreign economies.
- o Inflation: You have to go back to 1966-1968 to find three straight years of lower inflation (measured by CPI).
- o Interest rates: Prime rate now lowest in over 7 years (9.5%).
- o December housing starts were up in every region.
- o Housing is more affordable: The median American family has sufficient income to assume all the cost of a loan on the median-priced house.

Economic Outlook Healthy

- o Index of Leading Indicators has risen the past 8 months in a row and are now at their highest level in history (December 1985).

COMPONENTS OF THE FY '87 BUDGET

By submitting this budget, the President abides by the law and keeps his part of the bipartisan compromise reached when Gramm-Rudman-Hollings was approved. Moreover, it does so:

- without raising taxes,
- without sacrificing our defense preparedness, and
- without cutting into vital programs for the poor and the elderly.

Criteria for Spending

- o Priority programs -- national security programs and those that continue to benefit the general health and welfare of all Americans, with particular attention paid to individuals in greatest need.
- o Programs targeted for cuts or reform -- those favoring only a narrow segment of the population, where services can be improved and costs reduced by programs being returned to the private sector or state and local governments.
- o These criteria are met in four components of the FY '87 budget:
 - Cost savings through greater efficiency;
 - Cost savings and improved service delivery through the privatization of several federal programs;
 - Cost savings by broadening federalism initiatives;
 - Cost savings by the increased application of user fees.

1986 -- Year of Decision

- o For the sixth year, the President's budget calls for reduced spending and the restoration of the federal government to its proper and less costly role in the lives of Americans.
- o The President's budget for FY 1987 responds to the first test of fiscal accountability in the Gramm-Rudman-Hollings era. The President met the G-R-H deficit reduction targets agreed to by Congress and did so without raising taxes, cutting Social Security or assistance for the needy, or undermining defense. It is now Congress' turn.
- o If Congress had accepted the President's spending priorities in his first year of office, last year's deficit would have been substantially less, and this year's budget exercise would be easier.
- o The tough decisions that Congress put off in 1981, 1982, 1983, 1984 and 1985 will have to be made in 1986. The Law, code named Gramm-Rudman-Hollings, will see to that.

FY 87 BUDGET NUMBERS

- o This budget sets the deficit on a downward path to a balanced budget by 1991. In doing so, it meets or exceeds the deficit reduction targets specified in Gramm-Rudman-Hollings.
- o As RR has long predicted and the Congressional Budget Office have now confirmed -- economic growth is producing increased federal revenues. Revenues are rising faster than outlays for current services.
- o The proposed budget will lower the budget baseline to the G-R-H targets. If baseline is lower through spending cuts this year, no further significant cuts will be required again.

<u>(1987 Baseline Deficit)</u>	\$182 billion
<u>1987 Proposed Outlays</u>	\$994 billion
<u>1987 Proposed Receipts</u>	\$850 billion
<u>(1987 Gramm-Rudman-Hollings Deficit Target)</u>	\$144 billion
<u>(Required deficit reduction)</u>	\$38 billion -----

The \$38.2 billion will come from:

<u>Increased receipts</u>	\$6.3 billion
Employee contributions to retirement funds, continuation of the cigarette tax, IRS administrative initiatives, and certain fees;	
<u>Selling various real and financial assets</u>	\$3.2 billion
Elk Hills Naval Petroleum Reserve, surplus real estate, certain loan portfolios;	
<u>User fees</u>	\$2.4 billion
Payments by special beneficiaries of services provided by the government;	
<u>Lower interest payments</u>	\$1.2 billion
<u>Program cuts</u> -- only 2½ percent of total budget	\$25 billion

PROPOSED BUDGET CUTS

- o The proposed cuts in the Presidents amount to less than 3 cents on the dollar for total spending.
- o With Social Security, interest on debt, defense and other essential spending off limits -- proposed cuts constitute only 6 percent of remaining budget base.
- o Spending reductions do not necessarily mean reductions in services. Greater efficiencies, through management reforms, can account for reduced spending without cutting services.

Example: Job Placement Programs -- Because of overlap from old programs, for every \$4 spent to help place a potential worker, \$3 is spent on administrative overhead. By reducing the overlap and overhead costs, we can apply more to service delivery.

Example: Student Loans -- Students who need assistance will get assistance. A shift from making direct loans to guaranteeing private loans will result in major savings without reducing services.

Cuts -- \$25 Billion Doable

- o Congress has just agreed to an \$11.7 billion dollars in cuts, with barely a wimper. It can be done.
- o \$2.7 billion of the \$25 B comes from reductions in defense activities.
- o \$22.4 billion must be obtained from nondefense programs.

DEFENSE SPENDING

Real Increases as Promised by Congress

Some are saying your defense budget actually proposes increased spending of 8 percent?

- o RR compromised with Congress last year and agreed to accept zero growth in FY 86 and 3% growth, after inflation, in the following years.
- o But Congress provided less than zero real growth for defense in FY 86, and G-R-H deductions for FY 86 means defense budget authority declines more than 5% in real terms.
- o RR's FY '87 budget proposes funding authority that would provide the same real program growth levels agreed to in the 1986 Congressional budget resolution compromise.
- o It's important to distinguish between proposed Budget Authority and real outlays -- dollars being spent. Proposed spending, in actual dollar outlays, will increase only 3%.

Real Increases in Defenses are Important

- o Even with the proposed increases, defense still constitutes a smaller share of the budget and of GNP than in any Kennedy-Johnson peacetime year.
- o During the 1970s, the United States seriously underfunded defense programs.
 - From 1972 to 1981, U.S. defense spending declined nearly 20 percent in real terms.
 - As a percentage of the GNP, defense spending declined to 5% by 1977, down from 7.5% of GNP in 1971.
 - During the 1970s, the Soviet Union outpaced our defense spending effort by about 50 percent.
- o In the past five years of the RR has reversed this alarming decline in defense and have made significant progress in strengthening our military capabilities. We have laid the foundation for the most effective American military we have ever had in peacetime.
- o With all of the talk about defense spending growth, the defense budget, as a percent of GNP, is still low by post-war standards. It is now about 6% -- well below the 9.5% of 1960, and smaller than in any year of the Kennedy-Johnson administration.

(defense continued)

Why Not Cut Defense?

- o Providing for America's security is the unique obligation of the federal government. No other level of government or private institution can fund national defense.
- o In contrast, many domestic programs can be effectively performed by state or local governments -- which are better able to afford them, having in aggregate a multi-billion dollar budget surplus in 1985.
- o The choice presented in the President's budget is clear: preserve defense, or turn back the clock to the late 1970s, when many of our planes couldn't fly and our ships couldn't sail for lack of parts and trained personnel.
- o Moreover, Soviet military expansion continues -- the current defense budget of the Soviet Union consumes an estimated 15% of their GNP.
- o An abrupt turnaround in Congressional support for essential defense spending would simply result in false economies -- and jeopardize national security interests:
 - Stop-and-go procurement and stretch-outs are extremely expensive. We end up with less equipment at much higher costs per item;
 - In many cases trained personnel might not be available to run military equipment already approved by Congress;
 - Maintenance would suffer, training would deteriorate, and crew proficiency would be undermined; and
 - The reduced quality of life for service personnel would hurt morale and increase turnover. Higher turnover means higher training costs for less experienced forces.

BUDGET PROCESS REFORM

- o The facts are plain enough. Congress' own Budget Process is not working.
- o The Budget Act of 1974 established a set of procedures and timetables that called upon the President to submit an annual budget for the coming fiscal year and for Congress to produce final appropriation (spending) bills in time for the President's action prior to October 1 of each year to keep the government running.
- o The Administration's budget has arrived on time, and has clearly articulated the Administration's spending priorities.
- o The Congress has not been so punctual or concise:
 - In every year but one since 1974, Congress has failed to enact the entire range of federal appropriations bills within the statutory deadline.
 - During the last several years the many offices of the federal government have been forced to close down temporarily because Congress was not able to pass spending bills to keep them operating.
 - In 1984, when such a shut down occurred, federal employees were not allowed to report for work, but nevertheless were paid -- \$800 million in lost productivity.
 - In 1985, Congress failed to meet every deadline required by the 1974 Budget Act, to keep the government running. Congress three times was forced to pass stop-gap measures to keep the government operating.
 - In the end, Congress panicked and threw the entire appropriations process out the window. They lumped seven major appropriations bills together a \$499 billion package and sent it to me for approval.
- o That is no way to run a railroad and it's certainly not the way to run a \$982 billion dollar a year federal government.
- o We need to fix the system, and we'll begin looking in earnest for ways to approach the problem.
- o In the meantime, as a first step and since you asked, the President of the United States should be granted the line item-veto in the same way as 43 other state governors do. The line-item veto is the best backstop to cutting spending in a system that is currently broken.

1986 INITIATIVES

Domestic Policy Council Report on Welfare

- o There has been new attention in the media about the plight of poor families -- particularly those headed by single women.
- o We have spent billions of dollars on welfare over the past several decades, but problems remain. Besides the human costs of despair, there are the dollar costs. We are beginning to see second and, in some cases, third generations who have known nothing but a welfare existence.
- o Our patchwork of programs, though well meaning, aren't working. The entire welfare system is in need of review and overhaul.
- o RR directed Domestic Policy Council to present by the end of the year, an evaluation of federal programs, and a strategy for immediate action to meet the financial, educational, social, and safety concerns of poor families.
- o It is our duty as a nation to shrink the ranks of the poor by providing the tools and incentives for families and family members to be economically secure and independent.
- o The best test of welfare is how many people are able to escape welfare and achieve "real and lasting emancipation."

Bowen Report on Catastrophic Health Care

- o RR directed Secretary of Health and Human Services, Dr. Otis Bowen, to report by year-end with recommendations on how the private sector and government can work together to address the problems of affordable insurance for those whose life savings would otherwise be threatened when a catastrophic illness strikes.
- o There are no preconceived notions about what the right answers will be. However, both RR and Secretary Bowen reviewed issue when each was governor.
- o Only about two-tenths of one percent (.2%) of non-elderly, non-poor families incur health costs of \$30,000 or more in a single year.
- o Review is to determine if there is a mechanism where we could save these relatively few persons from financial ruin when a very low probability, high cost illness strikes.

(1986 initiatives continued)

Baker Report on Currency Reform Conference

- o RR directed Treasury Secretary Jim Baker to determine if an international conference should be convened to discuss the role and relationship of world currencies.
- o RR's directive responds to questions raised here and abroad on whether the current world exchange rate system can operate with greater reliability.
- o A more predictable system of currency exchange may promote international trade and commerce by eliminating confusion and permitting a more orderly adjustments by businesses throughout the world.
- o Secretary Baker will report back to the President before the end of the year.

DECLINING OIL PRICES

Good news for the economy

- o Crude oil prices peaked in March 1981, after RR ordered immediate decontrol, and have fallen steadily ever since.
- o Adjusted for inflation, a gallon of regular leaded gasoline now costs about the same as it did in the 1950s.
- o The spot market price for crude oil has fallen sharply in recent weeks. Spot prices for key U.S. crudes have fallen below \$18 per barrel for the first time in more than a decade.
- o Overall, this is very good news. The Council of Economic Advisers estimates that a \$5 per barrel drop in the price of oil will add about 1.5 percent to real GNP growth.
- o However, these price declines affect different areas of the country differently. RR is examining very closely the effect of changing oil prices on oil-producing states.

Oil Import Fee

- o Some members of the Senate have suggested a number of ways to move toward the \$2,000 personal exemption, the 35 percent top individual income tax rate, and changes that will preserve incentives for businesses to create jobs.
- o Some in the Senate have suggested an oil import fee as one way of making these important changes in the House bill, while still keeping the package revenue neutral.
- o Drawbacks to an oil import tax:
 - Increases costs to U.S. consumers and businesses;
 - Could harm relations with some U.S. allies;
 - Poses enforcement problems or require new bureaucracy; and
 - Has disproportionate impact on poorer Americans and residents of the Northeast.
- o RR still opposed to a tax increase and believes there are a variety of other ways to meet objectives for tax reform while preserving revenue neutrality. Many ideas from RR's original tax bill deserve additional consideration.

URBAN POVERTY/BLACK AMERICANS

Recovery has helped Black Americans

- o During the economic recovery, blacks have gained an average of 40,000 new jobs every month.
- o More blacks are employed in the U. S. today than ever before -- 10.7 million;
- o About 400,000 black Americans moved up and out of poverty from 1983 to 1984. The decline in the black poverty rate was the largest decline in over a decade.

Black Teenage Pregnancy -- "Vanishing Family"

- o After at least a decade of trying to treat the problem one way, we haven't made a dent in the problem of teenage pregnancy -- and all sides of the argument admit it.
- o In Minnesota, the teenage pregnancy rate fell when the state enacted a law requiring parental notification before a minor could purchase or receive contraceptives.
- o It is time to reassess the path we have taken. That is just one reason why RR directed the Domestic Policy Council to study the range of federal programs and their effects on poor families.

Civil Rights Enforcement

- o RR is deeply committed to the expansion of a colorblind society where all American men and women have equal opportunities to progress through hard work and initiative, in a climate of economic growth and expanding opportunity.
- o Under the Reagan Administration, more civil rights cases have been brought in more parts of the country than at any time in history.

TAX REFORM

- o House bill is a good start, not a final product. More must be done to broaden the tax base, reduce tax rates further, and lower the cost of capital.
- o It was apparent from the beginning that it would take bipartisan support to get tax reform through the House. There were some understandable differences of opinion on the content of the tax reform bill as this bipartisan effort was being assembled.
- o RR will now work for improvements with the Senate, but will oppose any final legislation which does not meet RR's standards of true tax reform or which threatens economic growth.

Senate Highlights

- o Senate Finance Committee has made a good first start in deciding that tax reform can pass. Committee is finishing two weeks of hearings and expects to send a bill to the floor this June.
- o Committee will take House bill and RR original tax reform proposal as a base. The spade work has been done. Just change the architecture.

State and Local Deduction

- o RR is encouraged by reports that the Senate is considering at least a partial repeal of the deduction for state and local taxes. Full repeal was part of original RR proposal.
- o Deduction provides unfair benefit -- disproportionately benefits the rich.
- o The cost of retaining this benefit is high -- it means we can't get rates down for other Americans, particularly non-itemizers.

February 5, 1986

SPACE SHUTTLE CHALLENGER ACCIDENT

- o The President has appointed Blue Ribbon Commission, headed by former Secretary of State Bill Rogers, which will review the circumstances surrounding the accident, determine its probable causes and develop recommendations for corrective action. This panel will report to the President within 120 days.
- o The Commission the President has appointed will look only into the Challenger accident. The National Commission on Space, a separate commission, recommends long-term (50 years hence) goals for space exploration.
- o The President has created an independent Presidential Commission to review this accident because the American people deserve the most thorough and balanced investigation that is possible. This in no way diminishes his respect for the men and women of NASA who epitomize professionalism in government. The President looks for the Commission to work closely with NASA and all others to determine the causes of this tragedy.
- o The President has full confidence in the manned space program which has completed so many successful missions. The crew of Challenger paid the ultimate price because they believed in the space program and we Americans owe it to them to go forward in our efforts.
- o We will fly no Shuttles until the causes of the Challenger tragedy are discovered and corrected. And, before we can even consider building another Space Shuttle to replace Challenger, we must first determine the causes of this accident before assessing budget realities.
- o As I have said:
 - [We] must forge ahead with a space program that is effective, safe, and efficient, but bold and committed.
 - Man will continue his conquest of space. To reach out for new goals and ever greater achievements -- that is the way we shall commemorate our seven Challenger heroes.
 - We'll continue our quest in space. There will be more shuttle flights and more shuttle crews and, yes, more volunteers, more civilians, more teachers in space. Nothing ends here. Our hopes and our journeys continue.
 - The future doesn't belong to the faint-hearted....The Challenger crew was pulling us into the future, and we'll continue to follow them.

February 5, 1986

TRADE

- o The President seeks freer and fairer trade. We will counter unfair trading practices abroad and oppose protectionism at home. In a fair and open world market, America can out-produce, out-compete and out-sell anybody in the world.

Trade Deficit

- o It's high largely because our economic performance has been better than our trading partners'.
- o We must reduce the U.S. budget deficit. Gramm-Rudman will help reduce the trade deficit as well as the budget deficit.
- o Our trading partners need to improve their economic performance. We've begun coordinating economic and monetary policies among our major trading partners, but it will take time before there is a major trade impact.
- o Because there's more to do, RR asked Secretary Baker to determine whether we need to convene nations to discuss currency relationships.
- o Also taking aggressive steps to fight unfair trade practices in other countries. Cases filed against Japan and European Community have brought results.
- o Must keep the problem in perspective. Our free and fair trade policies have helped create nine million new jobs in the last three years. We are doing better than most countries that have protectionist trade policies.

Trade Deficit -- Japan

- o The U.S. trade deficit with Japan was almost \$50 billion in 1985, the largest deficit ever for one trading partner.
- o We insist on fair trade with Japan. We have brought unfair trade practice cases against Japan and have conducted market-opening talks in selected sectors.

Trade Legislation

- o Happy to work with Congress as it seeks to restore a level playing field for American business.
- o But will not approve protectionist legislation.
- o Would oppose any legislation to transfer President's discretionary authority on trade to unelected officials.

COMPONENTS OF SPENDING REDUCTION

Efficiency

- o RR's budget contracts out certain government services to the private sector and projects 20% increase in productivity.
- o The savings: \$4.5 billion for every 5% increase in federal productivity.
 - Urban Development Action Grants that handed out billions in subsidies, including \$768 million to build 262 hotels.
 - Interstate Commerce Commission regulated transportation for nearly 100 years, but has little for its 900 employees to do now after deregulation of buses, trucks and trains.

User Fees

- o Fairness demands that government charge for special services for special interests. Example:
 - Weekend sailors and yachtsmen alike benefit from Coast Guard services, including \$400 million spent on search and rescue operations. But 80% of its calls are not emergencies at all. Charging for routine services will save taxpayers \$714 million in two years.

Privatization

- o Government must stop running businesses and stick to the business of government. Examples:
 - In 1912, government got into the oil business, when it established the Naval Petroleum Reserve, and is still selling oil and gas by the barrel. Selling the business will save \$3.6 billion.
 - Amtrak will waste \$7 billion in subsidies by the 1990s. Even buying bus and plane tickets would be cheaper than a special subsidy for 2% of intercity passengers.

Federalism

- o Government decisions must be made closer to the people. That makes government more responsive and more accountable. Turning some federal programs over to the states and localities prevents runaway government growth and lets the federal government focus on national problems.

POLITICS OF THE BUDGET

- o The politics of the federal budget has heretofore been additive and addictive -- "I'll vote for yours if you vote for mine." The budget process has been the domain of the special interests.
- o The FY 1987 budget and the reality of Gramm-Rudman-Hollings call for politics of responsibility: a final call for the establishment of priorities -- where the federal government can and cannot afford to spend.

Why the President's Budget?

- o Jobs -- Cutting spending to reduce the deficit will require less federal borrowing -- private businesses will find borrowing for expansion easier and consumers will find lower interest rates for big ticket items and housing. Net result: More jobs for all Americans.
- o Fiscal Fitness -- A nation that looks to the future must make an accounting of the impediments to getting there. Having to drag along the extra baggage of archaic, inefficient programs such as the ICC will make the going that much tougher.
- o Defense of the Family Budget -- No Tax Increases The President is determined not to allow another raid on the family budget, while the federal budget can be cut instead. Higher taxes, like the effects of continued borrowing, will choke off the record investment and job creation that have put 9 million more Americans to work in the last 38 months.

Why not just allow the automatic cuts to take effect?

- o RR's budget was developed thoughtfully and followed a careful process that takes literally months. Automatic cuts of Gramm-Rudman-Hollings sequestering process will slash important priority programs -- such as air safety, AIDS research and drug enforcement -- and programs that are already being well managed. This is not an intelligent way to pass a budget.
- o Sequestering would be an admission by the Congress that it cannot fulfill its responsibility to pass a budget.

Why not close the gap with a tax increase?

- o It makes no sense to strangle the family budget to fix the federal budget.
- o Tax increase would choke off economic growth of the past 38 months that has put 9 million more Americans back to work.