



The Ambassador of Morocco  
and  
Mrs. Ali Bengelloun

Bill  
This is why  
I need  
~~your~~ ~~accounts~~  
dist.

May 31st

FLO  
with request

Dear Mike,

Buy 1/11

I would like to thank you very  
much for giving me your time yesterday morning

I was so pleased to talk to Mr. Ogilby  
and I certainly will be in touch with him  
during your absence.

I am at your disposal... but I would  
like to have the list you have been talking  
about.

Please let the President know that  
His Majesty King Hassan II will be very  
helpful in the subject we have been  
talking about.

Many wishes for the success of your visit  
to Europe... Bon voyage

Ali

REMARKS:

TO: Michael K. Deaver

FROM: Bob DeProspero

Thanks for the info.

*Bob*  
Bob

*Will*

THE WHITE HOUSE  
WASHINGTON

TO:

*Bobby DeP*

FROM:

MICHAEL K. DEEVER  
Assistant to the President  
Deputy Chief of Staff

- Information  
 Action

1984 MAY 30 AM 10:40

U. S. SECRET SERVICE

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38 221260  
M.D.



THE POLICE COMMISSIONER  
CITY OF BALTIMORE

~~990~~

April 23, 1984

Dear President Reagan:

We at the Baltimore Police Department appreciate your very kind message regarding your unscheduled visit to Memorial Stadium on Monday, April 2, 1984.

Mr. President, we were honored, indeed, when you decided to journey to our city to attend the Orioles' opening day ceremonies. And, we are so pleased you enjoyed the visit.

Your comments will be communicated to the force.

Sincerely,

Frank J. Battaglia  
Commissioner

The President  
The White House  
Washington, D. C. 20500



# TAX FOUNDATION, INCORPORATED

ONE THOMAS CIRCLE, N.W., WASHINGTON, D.C. 20005 (202) 822-9050

June 13, 1984

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TO: Board of Trustees

FROM: Robert C. Brown *RCB*

RE: Schedule for Mid-Year Board Meeting - Revised

Thursday, June 14

Drivers will have picked you up at the airport,  
taken you to your hotels and returned to take you to dinner.

6:30 p.m.

Cocktails and Dinner  
1925 F Street Club  
1925 F Street, N.W.  
202/331-0020

Drivers will be available to return you to your  
hotels.

Friday, June 15

8:00 a.m.

Breakfast/Board Meeting  
Belle Air Room-Mezzanine Level  
Vista Hotel  
1400 M Street, N.W.  
202/429-1700

Because of the tight schedule, we will begin to  
conduct our business during breakfast.

9:15 a.m.

Breakfast ends. Walk through  
lobby of hotel to Tax  
Foundation offices  
One Thomas Circle, Suite 500  
for a brief tour.

9:30 a.m.

Leave office for the White  
House in cars provided by the  
Tax Foundation

10:00 a.m.

White House Briefing  
Roosevelt Room

11:30 a.m.

Briefing ends. Return to  
Vista Hotel.

11:45 a.m.

Cocktails and luncheon  
Belle Air Room-Mezzanine Level  
Vista Hotel

12:45 p.m.

Staff presentations

1:45 p.m.

Luncheon adjourns

Drivers will be available to take you to  
airport/other locations.

**United States  
Information  
Agency**

Washington, D.C. 20547

Office of the Director

*Peli*

June 13, 1984



MEMORANDUM FOR: The Honorable  
Michael K. Deaver  
Deputy Chief of Staff and  
Assistant to the President  
The White House

FROM: Charles Z. Wick  
Director

SUBJECT: "Soviet Propaganda Alert No. 20"

Attached is the twentieth issue of the "Soviet Propaganda Alert" produced by our Office of Research.

Between March 1 and April 30, the Soviet Union:

- o renewed (after a brief pause subsequent to the death of Iurii Andropov) its derisive criticism of the Reagan Administration and its harsh denunciations of US foreign policy.
- o denied any long-term significance to President Reagan's trip to China, derided the President's "electioneering," and condemned the US attempt to draw China into a "Pacific strategy" against the Soviet Union.
- o issued a long litany of grievances prior to withdrawing from the Olympic Games in Los Angeles, complaining of US Government "interference" in the games and "threats" to the safety of Soviet athletes.
- o rejected new US proposals for a chemical weapons ban, calling them a new US "propaganda trick."
- o denounced new US proposals made at the Mutual and Balanced Force Reduction talks in Vienna as "deliberately unacceptable."
- o condemned the mining of Nicaraguan ports as an "act of state terrorism."
- o portrayed US policy in Southern Africa as doomed to failure as long as the "terrorist regime in South Africa" exists.

Attachment:  
"Soviet Propaganda Alert No. 20"

# **== Soviet Propaganda Alert ==**

No. 20

May 16, 1984

## Summary

In March and April, Soviet external propaganda stressed the following themes:

- Chernenko's Propaganda. Under new General Secretary Konstantin Chernenko, continuity was the rule in Soviet propaganda. After a brief period during which criticism of the United States was restrained, standard themes and approaches predominated, notably: derisive criticism of the Reagan administration, harsh denunciations of US foreign policy, and an emphasis on military and arms control issues. See p. 1
- President Reagan's Trip to China. Soviet propagandists criticized the President's "electioneering" and the US attempt to draw China into its "Pacific strategy" against the Soviet Union. They also denied any long-term significance to the trip, playing down the agreements reached while the President was in Beijing. See p. 3
- Olympic Games. Although the Soviet decision to pull out of the Los Angeles Olympics surprised many in the West, Soviet propagandists in March and April had issued a long litany of grievances concerning the preparations undertaken for the games. Among their complaints were "concern" for the safety of Soviet athletes and US government "interference" in the games. See p. 4
- Chemical Weapons. The Soviet Union rejected new US proposals for a chemical weapons ban, depicting them as a new US "propaganda trick." See p. 6
- MBFR Talks. The Soviet Union also denounced new US proposals made at the Mutual and Balanced Force Reduction negotiations in Vienna, describing those proposals as "deliberately unacceptable." See p. 7
- Central America. Soviet propagandists condemned the mining of Nicaraguan ports as an "act of state terrorism" and described the recent Salvadoran elections as a "farce." See p. 8
- Southern Africa. Soviet propagandists portrayed US policy in southern Africa as a "futile" attempt to reverse history and belittled the significance of the agreements signed by South Africa with Angola and Mozambique. See p. 9

## CHERNENKO'S PROPAGANDA

In March and April, Soviet propaganda reverted to recent form. For a brief period after the death of Iurii Andropov in early February, it had restrained its criticism of US policy and the Reagan administration. Within a few weeks, however, it returned to the "ideological struggle" with its previous rhetorical fervor. Under Konstantin Chernenko, at least thus far, Soviet propaganda has been much the same as it was under Iurii Andropov, in terms of both style and substance.

Soviet propaganda themes in March and April, therefore, were generally similar to those of recent months, particularly in a number of key respects:

1. Soviet propagandists continued to subject President Reagan and members of his administration to derisive personal attacks. Perhaps the most noxious was the Soviet comparison of the Reagan administration to the leaders of Nazi Germany:

The huge military machine of the United States prepares to repeat what was done by Hitler and his Wehrmacht. Only the scope of this preparation is immeasurably greater.

Like the leaders of Nazi Germany in their time, the White House leaders nowadays accompany preparations for war by stirring up hatred for the Soviet Union.... Psychological preparation of the population of the Western countries for confrontation is almost completed. (Anatolii Krasikov, TASS International Service in Russian, April 4)

2. Soviet propaganda continued to condemn US foreign policy in harsh terms. Soviet Foreign Minister Andrei Gromyko repeatedly blamed the "sharply aggravated" international situation on the "adventurist policy" of the United States: "Using ostentatious peaceableness and election rhetoric as a smokescreen," he charged, the United States and others "count on crude force, build up the arms race, keep international conflicts smoldering, and kindle new ones" (Pravda, April 2).

In particular, the Reagan administration was again accused of pursuing a policy of "state terrorism"--a charge resurrected by Chernenko on March 29 at a state dinner for visiting Ethiopian leader Mengistu. In response to the Presidential speech of April 6 at Georgetown University's Center for Strategic and International Studies in Washington, Soviet propagandists charged that what the Reagan administration really wanted was to subject troublesome Third World countries to a policy of military tyranny--to "terrorism elevated to the rank of state policy."

Though the United States officially opposes terrorism, it was asserted, what US statesmen really mean by terrorism "is not so much individual terror--the kind that the CIA engages in so intensively, by the way--as much as the national liberation movements and anyone at all who challenges the dominance of the transcontinental monopolies" (Izvestiia, April 11).

3. As before, Soviet propaganda concentrated heavily on military and arms control issues. "Deeds, not words," was the favorite Soviet catch phrase. But the general approach was well-worn and all too familiar, even in moments of rhetorical moderation:

The Soviet Union wants only peace and arms reduction, not an arms buildup. But it will do everything necessary to ensure equal security for itself and its allies. (Konstantin Chernenko, reported in TASS, March 2)

The United States wants military superiority and has entered into arms negotiations only in order to camouflage the arms race and its "cold war" policy. (Chernenko, in TASS, March 2)

The Soviet Union refuses to play the US game, particularly since the United States has begun to deploy INF weapons in Western Europe. The US action has created "obstacles" to both the INF and START negotiations, and the USSR will not resume these negotiations until the newly deployed missiles are removed. (Chernenko, in TASS, March 2; and Prime Minister Nikolai Tikhonov, in Pravda, April 15)

If the United States really has good intentions, why did it not accept the proposal for a mutual freeze on US and Soviet weapons? Why does it not ratify the treaties with the USSR, signed nearly ten years ago, on limiting underground nuclear weapons tests and on the peaceful purposes of nuclear explosions? (Chernenko, in TASS, March 2)

Apart from standard themes, however, Soviet propaganda responded to developing events. Within the framework of the general Soviet propaganda line, Soviet spokesmen and commentators in March and April dealt with a number of new issues not treated at great length before--notably President Reagan's trip to China, the Los Angeles Olympic Games, a new US proposal for a ban on chemical weapons, a new US proposal at the Mutual and Balanced Force Reduction talks (Vienna), the mining of Nicaraguan ports and the Salvadoran elections, and the recent US diplomatic demarche in southern Africa.

### PRESIDENT REAGAN'S TRIP TO CHINA

Soviet media coverage of President Reagan's trip to China concentrated on the US side, whose intentions, actions, and pronouncements were treated in detail. As the trip wore on, Soviet coverage of the Chinese side was increasingly more subdued and less sweeping in its judgments.

Soviet propaganda explained the trip as a necessity of the US presidential race. President Reagan was actually campaigning in Beijing, according to Soviet news reports; his trip to the Great Wall, for example, was "purely a matter of domestic politics":

He had to drive about 80 miles to the wall and back just to spend 20 minutes on it posing for correspondents to take pictures. He was filmed not only by the press but also by a film crew of the Republican Party, who had followed Reagan throughout his visit, shooting material for his reelection TV advertisements. (TASS in English, April 30)

Other Soviet commentaries added that "after four years of politics based on force, hatred, fostering constant enmity to the socialist countries,... Reagan...hopes to win over part of the American electorate by posing before them as an 'open' and 'peaceful' President" (TASS, April 26).

A second theme in Soviet coverage was that the Reagan trip had an anti-Soviet thrust. Specifically, Soviet spokesmen accused the United States of attempting to involve China more closely with the US-Japan-South Korea "military triangle," and to develop active political and military cooperation with China (Izvestiia, April 21). Before Reagan's arrival in Beijing on April 26, Soviet commentators mentioned that the United States might conclude contracts to supply China with advanced weapons (TASS in English, April 20). And in a Mandarin-language broadcast to China, one Soviet "observer" cited the "covert" US objective of weakening "China's vigilance against stationing American troops in China's coastal areas" (April 24).

A third propaganda theme was given less play--the US attempt "to penetrate the Chinese economy." Through such means as investments and the sale of arms production technologies, Soviet commentators claimed, the United States was trying "achieve positions of maximum dominance in China's economy, and so raise the issue of creating the best conditions for US investments, making them tax-free and providing privileged treatment for mixed US-Chinese and US enterprises" (Izvestiia, April 21).

Soviet propaganda was generally low-key about the results of the trip. According to Moscow Radio, "It's too early to draw conclusions on President Reagan's journey to China; when the dust stirred up by the American media settles down after the trip, we'll see that the actual results are much tamer than the noise made over the President's trip to Beijing" (Moscow Radio in English, April 28)."

Accordingly, the Soviet media played down, at least while President Reagan was still in Beijing, the agreements concluded by the United States and China. The US-PRC nuclear energy agreement, for example, was reported matter-of-factly, and without much commentary, as an agreement "on cooperation in nuclear-power engineering, envisioning US technology supplies to meet the needs of the Chinese nuclear power industry" (TASS in English, April 30).

In the same vein, the Soviet media also stressed the enduring differences between the United States and China. Foremost among them was Taiwan--"potentially a serious source of complications in US-Chinese relations" (TASS in English, April 30).

A counterpoint to coverage of the US side was a continual Soviet media refrain extolling friendly Soviet-Chinese ties. The Reagan trip thus shared the stage with accounts of, among others, a visiting Chinese coal-mining delegation in Moscow (Moscow Radio in Mandarin, April 13), an optimistic assessment of Soviet-Chinese trade relations (Radio Peace and Progress in Mandarin, April 18), a gymnastics competition in Beijing in which a Soviet team lost to the Chinese gymnasts (TASS in English, April 22), and USSR-PRC friendship society groups on tour in China (Izvestiia, April 27).

#### OLYMPIC GAMES

Soviet propaganda in March and April kept up a steady barrage of criticism of preparations undertaken for the Los Angeles Summer Olympics, in advance of the Soviet Union's announcement on May 8 that it would withdraw from the games.

This criticism centered on several themes:

- o Security for Soviet athletes. Will Soviet athletes and citizens be safe? A statement by the Soviet Olympic Committee professed alarm that "preparations for political demonstrations and rallies during the Olympics are under way and that banners and placards hostile to socialist countries have already been put up." (TASS, April 9)

Soviet spokesmen expressed particular concern over such groups as "Ban the Soviets." According to the Soviet media, leaders of "Ban the Soviets" boasted that they had "infiltrated" the Los Angeles Olympic Committee and "would have access to athletes and guests" for the purpose of encouraging defections from the Soviet team. (Moscow Radio in English, April 25).

- o Identity documents. Soviet spokesmen charged that in violation of Rule 59 of the Olympic Charter, the US State Department was requiring visas for all members of the Soviet Olympic delegation and was prepared to deny entry to those it considered unsuitable. (TASS, April 9)

Specifically, they condemned the US denial of a visa to Oleg Erimyshkin, the Olympic attache (described by Western sources as a KGB agent) proposed by the Soviet Olympic Committee.

- o Radio Free Europe accreditation. The Soviet Olympic Committee objected strenuously to accreditation of the press representatives of Radio Free Europe. "As is known," the committee stated, Radio Free Europe is "maintained at the expense of the US special services and...conducts subversive activity against the peoples of the socialist countries in direct violation of Rule 51 of the Olympic Charter" (TASS, April 9).

- o "Commercialization." The Soviet Olympic Committee censured the "unrestrained commercialization" of the Olympic games. "Profit grabbing...has taken on some very ugly forms," it charged, and "things have gone so far that there is a gross violation of Rule 62 of the Olympic Charter, which bans the use of the Olympic flame for commercial aims." TASS complained bitterly that "the head of the motorcycle gang 'Hells Angels' has been granted the right to an 'Olympic kilometer.'" (April 23)

Furthermore, the committee complained, "the increase in prices in Los Angeles is not being controlled; vast sums will be raised here for many services that are traditionally free." (TASS International Service in Russian, April 9)

- o "Sin City." Soviet propagandists as usual inveighed against crime, smog, traffic jams, and poor public transportation in Los Angeles. The most salacious charge, however, was that the city was awash in "sexploitation" of the Olympic games.

The explanation? According to Izvestiia, the Los Angeles Olympic games, billed as the first "private games" in history, quickly fell prey to the capitalist system. Deprived of financial assistance from public agencies, the Los Angeles Olympic Organizing Committee had to turn to "big business," which opened the door to such abuses (A. Palladin, Izvestiia, April 3).

The implicit threat in such criticism was that the Soviet Union might not participate in the games. Marat Gramov, head of the Soviet Olympic Committee, publicly threatened on April 16 that the Soviet Union might not send a team to Los Angeles. At the time, however, he also stated that the Soviet Union had no intention of "boycotting" the games (presumably because a "boycott" might entail sanctions by the International Olympic Committee). At the time Soviet spokesmen promised that the Soviet Union would announce its decision in late May.

As an afterword: the Western press reported on April 30 that "alternative Olympic games in Sofia [Bulgaria] are evidently being planned in case of a boycott of the Olympic summer games.... Complete blueprints for such an event allegedly already exist in Moscow" (Vienna ORF Teletext, April 30).

#### CHEMICAL WEAPONS

The Soviet Union reacted in a strongly negative fashion to US proposals for a new draft treaty banning the production, possession, and use of chemical weapons worldwide.

The Soviet media called the proposals "nothing short of a propaganda trick," when President Reagan announced the new initiative at a press conference on April 4:

"The White House will use it to camouflage and justify a program for the rapid buildup of its chemical arms arsenal," it was charged, and the Reagan administration "is actually going to block any agreement in this field by making patently unacceptable conditions for 'verification' and 'enforcement.'" (Pravda, April 6)

Soviet propagandists repeated the same charges after Vice President George Bush formally presented the US proposal to the UN Committee on Disarmament in Geneva on April 18. Pravda called the US proposal "deliberately unacceptable," for in the socialist countries it would open "every factory, even one that produces shoe polish," to inspection, while in the capitalist countries, the "huge chemical corporations could produce

whatever they like, including chemical weapons, quite uncontrollably because they are private property." The real US aim in presenting such proposals, it charged, is to accelerate preparations for "chemical rearmament" (April 21).

More generally, Soviet spokesmen expressed strong skepticism about whether the United States can be trusted to keep its promises. According to Viktor Israelian, the Soviet delegate to the Geneva disarmament conference:

It is known that international confidence has recently been considerably undermined as a result of attempts of the United States to obtain unilateral military advantages to the detriment of the other side--the Soviet Union--spreading various kinds of doctrines and concepts substantiating the possibility of victory in nuclear war and the first use of nuclear weapons to this end.

It should be mentioned that the Soviet Union continued to reject all charges that it has employed chemical and biological weapons in Afghanistan, Southeast Asia, and elsewhere. It also denied that Soviet military experts aided the Iraqi use of chemical weapons against Iran: according to a Moscow Radio broadcast to Iran, "it is truly difficult to think that there can be lies more absurd than these concoctions and fantasies. Everyone knows that from the very first days of the war between Iran and Iraq, the Soviet Union has believed that the differences between the two neighbors should be solved solely through peaceful means" (March 13).

#### MBFR TALKS

The Soviet Union also belittled new Western proposals made at the Mutual and Balanced Force Reductions (MBFR) negotiations in Vienna.

As the MBFR talks resumed in mid-March, Soviet observers reiterated the socialist countries' proposals, describing them as a "simple and practical approach" to solution of the problems. Therefore, it was claimed, "the ball is now in the Western court" (Moscow Domestic Service, March 15).

When the new Western initiative was formally presented on April 19, the Soviet MBFR representative promised to study them carefully. However, Soviet press commentators left little doubt that the Soviet side found them unacceptable, claiming that "in the present Western proposals one can find no hint of a serious attempt to untie the knots of differing views held by the sides at the talks" (Pravda, April 21).

Specifically, it was claimed that:

The Western proposals do not resolve the data disputes [over the current level of conventional forces in Europe] but revive them: "even a cursory examination...shows that the West continues to maintain the artificially created numerical impasse with the aim of justifying its claims for asymmetrical reductions of the Armed Forces of the Warsaw Pact and NATO, banking on obtaining unilateral military advantages for itself." (Pravda, April 21)

The verification measures proposed by the West, exaggerated even before the new initiative, have been broadened. (Pravda, April 21)

"All the questions currently dividing the two sides at the Vienna talks," Soviet propagandists asserted, "lend themselves to mutually acceptable resolution. The basis for such a resolution is provided by the package of proposals put forward by the Warsaw pact states in 1983. These proposals retain their topicality in full to this day" (Pravda, April 21).

#### CENTRAL AMERICA

In March and April, Soviet propaganda continued to replay standard themes on Central America. None were substantially different from what had been said before. Most, however, were repeated more noisomely than previously.

Soviet propagandists denied any important Soviet or Cuban role in the region: "the sundry fabrications of US propaganda that the situation...is the handiwork of 'subversive elements linked with Moscow and Havana' are simply slander and lies." (Izvestiia, March 16)

They maintained that the causes of the crisis in Central America are "the profound social injustice existing in these countries, the domination and despotism of the transnational corporations in their economies, and discriminatory US policy." (Izvestiia, March 16)

They continued to charge that the United States supports counterrevolution in the region and is preparing to intervene in force if necessary: "The US Empire has staked its claim to neocolonialist rule in this part of the world.... Today, after the treacherous aggression in Grenada, US internationalist activity is spearheaded against Nicaragua. The attack on the Nicaraguan revolution is being conducted under the flag of 'defending democracy and pluralism.'" (Izvestiia, March 16)

The mining of Nicaraguan ports provided the occasion for a great deal of Soviet handwringing. Soviet propagandists claimed that the US actions amounted to "official Washington's new act of state terrorism.... Both Nicaraguans and the crews of foreign ships have already become victims of terror" (Pravda, April 14).

The "height" of US "hypocrisy" in the affair, according to Soviet commentaries, came with the appearance of Deputy Secretary of State Kenneth Dam before the House Foreign Affairs Committee: "This diplomat went so far as to try to justify the mining of Nicaraguan ports as... 'necessary measures of collective security.' And he even asserted that this does not run counter to the UN and OAS charters" (Pravda, April 14).

"Caught red-handed," Soviet commentaries continued, "the White House has been forced to take "evasive action." But that does not mean the threat to Nicaragua is over: "The Pentagon has already drafted plans for direct US military interference in Central America, including a direct invasion of Nicaragua" (Pravda, April 14).

Another occasion for Soviet propaganda clamor was the election campaign in El Salvador. Before the first round of the elections, one Soviet "observer" noted "the predictable outcome of the election farce" and argued that "the Reagan administration intends to use it as a confirmation that democracy has triumphed in El Salvador" in order to extract more money from Congress (World Service in English, March 12). Another Soviet commentator, however, claimed that "the training of 2,000 American Marines for an invasion of El Salvador is under way," because Washington fears a "fresh offensive by the patriotic forces," which will lead to a complete breakdown of the elections (Moscow Television, March 12).

Subsequent to the initial election round, Soviet propagandists again proclaimed the elections a "predictable farce." The United States had had full control of the voting process, it was claimed, and got a substantial lead for the candidate it wanted--Jose Napoleon Duarte. Duarte, it was asserted, "appears more decent than the other favorite, the open murderer D'Aubuisson, and should be more pleasing to congressmen who commit the sin of liberalism" (Moscow Domestic Service, March 28).

#### SOUTHERN AFRICA

In reponse to the recent US diplomatic offensive in southern Africa, Soviet propagandists sought to accentuate the positive--what little of it could be found, at least, in what

most Western observers called a major setback for Soviet foreign policy.

The Soviet media said little about South Africa's cease-fire agreements with Angola (February 28) and Mozambique (March 16). Soviet commentator Aleksandr Bovin lamely claimed that the agreements represented a defeat for South Africa's policy of military force; from the point of view of Angola and Mozambique, he said, "the chief gain is the opportunity to get on with their internal affairs in peace, first and foremost with their economies" (Moscow Television, March 18).

Even less was said about the South West African People's Organization (SWAPO) and the African National Congress (ANC), both of which lost territorial bases and support as a result of the agreements. The positions of SWAPO and ANC, Bovin acknowledged, "become more complicated. They are to a large extent deprived of their rear" (Moscow Television, March 18).

However, Soviet spokesmen severely criticized US and South African policy, which they called "immoral and dangerous":

"Acting in unison with South Africa, US ruling circles are implementing a kind of 'division of labor' with their 'historical ally.' Whereas Pretoria uses crude force and the mailed fist against the front-line African countries, Washington acts as a 'peacemaker' promising mountains of gold to those who 'put themselves in the difficult position' of their racist neighbor." (Pravda, March 5)

But US policy in southern Africa, according to Pravda, will prove futile. The African peoples are well aware, it was claimed, that "the main source of tension" in southern Africa is "the very existence of the terrorist regime in South Africa." There will be no "lasting peace" in the region, therefore, until the "racist system" is eliminated (Pravda, March 5).

In such conditions, Soviet propagandists suggested hopefully, the African front-line states will ultimately reject US efforts to play the "honest broker" in southern Africa--which amount to no more than calling on them "to come to terms 'temporarily' with the system of racist terror and oppression in South Africa for the sake of 'peace and stability.'"

## SELECTED BIBLIOGRAPHY

Listed below are representative Soviet press and TASS items on themes discussed in this report. Translations or summaries of virtually all appeared in the FBIS Daily Report (Soviet Union) in March and April.

### CHERNENKO'S PROPAGANDA

Election Speech of Konstantin Chernenko to Constituents in Moscow's Kuibyshev District, summarized in TASS in English, March 2.

"Soviet-Indonesian Talks," Pravda, April 2 (luncheon remarks by Foreign Minister Andrei Gromyko).

Book Review of Soviet-US Relations During the Great Patriotic War of 1941-45, by TASS political news analyst Anatolii Krasikov, TASS International Service in Russian, April 9.

"Ostentation and Reality in the US Code of State Terrorism," by political observer Vladimir Kudriavtsev, Izvestiia, April 11.

### PRESIDENT REAGAN'S TRIP TO CHINA

"Regarding the US President's Trip to Beijing," Izvestiia, April 21.

"Reply to Readers' Letters: The Island of Taiwan," by V. Ganshin, Izvestiia, April 27.

"Reagan: From Positions of Confrontation," TASS International Service in Russian, April 29.

"Reagan's Trip to China," Pravda, April 29.

### OLYMPIC GAMES

"Sin City," by A. Palladin, Izvestiia, April 3.

Statement of the National Olympic Committee of the USSR, TASS International Service in Russian, April 9.

### CHEMICAL WEAPONS

"Performance Flopped: Washington Gambles on Chemical Weapons," Pravda, April 20.

"Advertisement and Reality," Pravda, April 22.

#### MBFR TALKS

"International Diary" program, presented by Evgenii Kachanov, Moscow Domestic Service in Russian, March 15.

"Commentator's Column: The Latest Trick," by Boris Orekhov, in Pravda, April 21.

#### CENTRAL AMERICA

"Hopes and Fears of the Seething Continent," by Viktor Vol'skii, Izvestiia, March 16.

"International Diary" program, presented by Viktor Sobolev, Moscow Domestic Service, March 28.

"Apart from Everything Else," by A. Tolkunov, Pravda, April 14.

#### SOUTHERN AFRICA

"What Is the Meaning of the US Maneuvers in Africa," by A. Patin, Pravda, March 5.

"International Panorama" program, presented by Aleksandr Bovin, March 18.



EMBASSY OF THE UNITED STATES OF AMERICA  
LONDON, ENGLAND

June 13, 1984

CHARLES H. PRICE II  
AMBASSADOR

William F. Sittmann, Esquire,  
Special Assistant to the President  
and Special Assistant to the  
Deputy Chief of Staff,  
The White House  
Washington, D.C. 20500

Dear Bill:

I just wanted to thank you for the many courtesies which you accorded Carol and me, and most especially to express our deep appreciation for being granted the privilege of our trip out to Normandy for the 40th celebration of D-DAY. We will always retain this occasion among our most treasured memories.

I trust you and Mike have recovered from our marathon tennis competition and that during my next visit to Washington I will once again be allowed the opportunity to savor the joy of victory.

Incidentally, if you have a tape of the President's speech at the ceremony at Omaha Beach I would greatly appreciate having one. Carol talked to Mrs. Reagan yesterday who indicated that she had just viewed a video tape of about three hours duration of their entire trip. Is it possible to obtain a duplicate of this?

Please accept my warm personal regards, and again my thanks for making it possible for Carol and me to participate in such a memorable journey.

Sincerely,

*Charles*



*File*

June 14, 1984

Dear Mike:

With the enclosed, I am pleased to be able to share with you a final compilation of information on the usage resulting from WORLDNET's commemoration of NATO's 35th Anniversary.

Best regards.

Sincerely,

Charles Z. Wick  
Director

The Honorable  
Michael K. Deaver  
Deputy Chief of Staff and  
Assistant to the President  
The White House

SIGNIFICANT REACTION  
TO WORLDNET NATO SPECIAL PROGRAM  
MAY 24, 1984

BELGIUM:

RTBF carried a three minute special summary of the program on its prime time evening newscast (3 million), including Secretary Shultz' reply to a question of fair burden sharing.

Le Soir (215,000) carried an article and Belga National News Agency summarized Secretary Shultz' views as well as those of Mr. Tindemans.

A frontpage story under the heading "Belgium Remains Prepared to Deploy Missiles" in the Catholic Gazet Van Antwerpen (194,000) said that Foreign Minister Tindemans by emphasizing that Belgium will honor its commitments "wiped away all doubts about the installation or non-installation of the 48 cruise missiles on Belgian soil."

De Morgen (54,000) carried the following item on the program: "Minister Tindemans told BRT radio yesterday that he judged from the Reagan remarks that foreign problems are increasingly 'a specialist's job'. In the same radio interview the Minister cited his wife as a 'witness beyond suspicion' to state that Reagan may have made a mere slip of the tongue. Tindemans yesterday was one of the stars of the interational 'talk show' which was broadcast from the RTBF studios. Also participating were, among others, NATO Commander Rogers, U.S. Assistant Secretary of Defense Richard Perle and Le Monde editor Andre Fontaine, while via satellite Tindemans' American colleague Shultz also spoke. Tindemans said: 'Belgium will honor its NATO commitments -- but continues to evaluate the evolution of the situation. It is important to make public opinion realize

how much Europe is directly involved in NATO decisions and that the European countries themselves are the ones who asked Washington to deploy the Euromissiles."

CANADA:

Embassy Ottawa reports that the audiences in both Ottawa and Montreal were effusive in their praise of the program. Turnout at Ambassador Robinson's residence was heavy with NATO Ambassadors, military attaches, Canadian press and government. In Montreal, one member of the audience of press and NATO Consular representatives stated: "how wonderful it is to sit in Canada and finally hear some good European views."

Global TV fashioned a major news item out of the event for May 24 early and late evening newscasts repeated in May 25 noon news show. While it emphasized the local angle of the Trudeau "Peace Initiative" it also repeated at some length Secretary Shultz' response to the six-nation nuclear freeze proposal explaining the danger of leaving all deployments to one side.

DENMARK:

Copenhagen reports that their first participation in WORLDNET was a highly successful experience appreciated by all who attended. Print media coverage was substantial and upbeat, and Danish T.V. used over three minutes in its prime time evening newscast on May 24, carrying its correspondent's question to Secretary of State Shultz as well as as a question from the Hague on INF. TV correspondent Karin-Lis Svarre described the Secretary as "friendly and diplomatic."

Berlingske Tidende (conservative) reported: "Questions and answers were issued at the first major trans-atlantic press conference and security policy dialogue via TV and satellite taking place between Western Europe and North America, an unusual media event on the occasion of NATO's 35th anniversary and an example of the democratic openness which characterizes Western defense cooperation....[Shultz] stated that 'NATO is strong and our best guarantee for peace.' This was the prevailing theme of the lengthy dialogue between the many capitals...."

Under a story in Information (leftist) headlined "New Era with TV Communication Brings Washington Nearer," correspondent Jorgen Dragsdahl says: "From studios in the American embassy

journalists had the possibility to raise direct questions to top members of the Reagan administration....Danish journalists have not been included in previous telecasts but the 35th anniversary of NATO allowed the circle to be extended to include 14 countries....After drawing straws the invited press were allowed to address questions to the color TV monitor....The American embassy has great expectations for regular meetings via satellite which also can include others besides the media. For example, European and American artists can meet and exchange viewpoints....A new era has begun."

Conservative Jyllands-Posten's Nils Thostrup wrote: "The U.S. government has begun utilizing satellite technology in order to be able to include its partners in the NATO alliance in quick debates on mutual problems....Thursday the American embassy in Denmark was linked up on this network on the occasion of NATO's 35th anniversary...."

Social Democratic Aktuelt's foreign affairs editor stated: "NATO is alive and well. Despite minor problems things are going pretty well. This is what TV viewers were told yesterday by U.S. Secretary of State George Shultz, seconded by politicians and experts from the U.S. and Europe...."

Kristeligt Dagblad (independent Christian) wrote: "The questions of the journalists from the 16 countries were transmitted back and forth between the U.S. and Europe via satellite. [The press conference] centered around the intermediate range missiles. The situation in the Gulf area and the possibility of renewed negotiations...."

#### FRANCE:

Agence France Presse carried a four paragraph dispatch reporting Secretary Shultz's reaction to President Mitterrand's remarks on the necessity of European defense and the Secretary's comments on Spain's joining the NATO alliance.

#### UNITED KINGDOM:

Attendees to this program generally found it of considerable interest and praiseworthy.

BBC Russian Service prepared a 6 minute segment on the transmission which went out on the Russian Service's Weekend Magazine show (repeated twice on May 26 and 27).

WEST GERMANY:

Embassy Bonn noted that audiences in the capital and Munich felt that the program appropriately commemorated the anniversary of NATO by demonstrating that this Alliance of sixteen democratic states reaches its decisions through a process of consultation and discussion, in stark contrast to the Warsaw pact.

Suddeutsche Zeitung weekend edition (May 26/27) (478,000 circ.) reported Secretary Shultz's statement that the U.S. Administration's planned strategic defense initiative did not represent a serious obstacle to the NATO alliance as well as the Secretary's comments about the possibility of a neutralist government in West Germany (which he saw as unlikely) and about the need for greater European defense expenditures.

Bayrischer Rundfunk (BR) closed its 6:45 PM television newscast Thursday with a 90-second feature on Munich's participation in EURONET.

ICELAND:

The special NATO WORLDNET program was broadcast for one hour and fifteen minutes on Icelandic State Television on Friday, May 25, starting at 10:30 PM. The commitment of such a large block of time to a political issue is unusual for state television.

Morgunbladid, Iceland's largest daily, noted the NATO broadcast in an editorial on May 27. "The television program telecast on the 24th that was done simultaneously in all NATO member states and was shown here....confirmed once again that NATO is the strongest peace movement that has been established since the end of the Second World War and even further back in history. Of course, no one is in full agreement on everything that NATO has done, but the overwhelming opinion in the member states is that a more sound option than military cooperation between the member states is not possible if they want to ensure their security and independence."

"It is necessary to keep this in mind when one listens to the various outcries and sensationalism in the name of peace. For a long time, the Soviet propaganda machine has been busy portraying Kremlin leaders, whoever they may be, as the greatest peace chiefs of the world. Now, even as the Soviet Army is decimating the people of Afghanistan, the peace drums have been beaten harder than ever in the hope that their sound will drown out the cries of agony and the bomb percussions from Afghanistan...."

"As Leo Tindemans said during the NATO WORLDNET interview on TV, 'Who is not for peace and against nuclear weapons?' Of course, everyone chooses peace without nuclear weapons, but there are only a few who find it necessary to advertise themselves as the saviours of mankind with that view on their lips."

Thodviljinn, Iceland's most leftist-leaning daily, carried a major article on May 25 that was remarkable in its content since it was generally more evenhanded than what is expected of the newspaper which is the strongest print critic of the NATO base and Iceland's participation in the alliance.

#### ITALY:

Rome

The special WORLDNET program on the occasion of NATO's 35th anniversary received coverage by major newspapers and electronic media throughout Italy.

Italian television's moderate Channel One News (TG-1), which was on the site with a correspondent and crew, carried a clip on its late-night "TG-Notte" broadcast (275,000). The clip, narrated by Fabrizio Del Noce, highlighted his one INF-related question and used a variety of visuals from the program.

Moderate GR-2 -- Channel Two Radio News -- carried brief summaries of the broadcast on its morning news roundups on May 24 (1.4 million).

Leftist, influential La Repubblica (260,000) headlined its report "Shultz: We Shall Not Give In to The Kremlin."

Caludio Lanti in leading conservative Il Giornale (182,000): "'NATO is strong and firm,' said the U.S. Secretary of State Shultz"....During the many-voiced debate the defensive nature of the pact was repeatedly stressed. Lanti followed with a summary of the program's views, listed theme by theme.

Rome's conservative Il Tempo (130,000) called Secretary Shultz "cautious and positive at the same time." The headline: "Shultz: 'There Will Be No Concessions To Bring Moscow Back to the Negotiating Table.'"

Il Popolo (80,000): "It was not only a celebration, but also an occasion for debate and study. What's the present status of health of the 35-year old alliance? Almost everybody says it is good, even if there are problems."

The longest article on the program appeared in radical left Il Manifesto (30,000) under headline: "35 Years of NATO, Shultz makes a Television Toast to Peace and to Cruise Missiles."

#### Milan

Overall, the EURONET transmission to Milan was a great success. The inaugural telecast of EURONET in Milan attracted television and press coverage on a national and regional level.

An estimated audience of 100,000 viewed the RAI 3 evening newscast for the Lombardy region which devoted three minutes to the EURONET transmission.

Corriere Della Sera (502,000), Italy's top circulation, centrist daily carried an article on EURONET on the day of the transmission and covered the program the following day, May 25, on its foreign affairs page. Headline read: "Shultz Live on Television: European Plan for Common Defense a Constructive Step."

L'Avvenire, the national Catholic daily, covered the transmission in a five-column wide box on the front page. The headline read: "NATO, A Choice of Peace" with subhead: "Anniversaries: Press Conference of Shultz via Satellite with the Capitals of the Alliance."

#### Naples

The foreign editor of Naples' Il Mattino, Almerico Di Meglio, gave a lengthy, positive story on the program under the headlines: "Deterrence: Strategy for Peace; Shultz for the NATO's 35 Years."

#### NORWAY:

A 3-column story headlined: "International Press Conference via Satellite," focused on the program, its participants, and types of questions. Aftenposten, (independent conservative)

In a story that illustrated the timeliness of the program, the Dagbladet (sensationalist liberal) focused on the answer Assistant Secretary of Defense Perle gave to a question about a nuclear freeze. The reporter asking the question came straight from the Parliament which the same day approved nearly unanimously a report favoring a freeze. Dagbladet in its five column story headlined, "Freeze: Cold Shoulder from USA" said:

"Richard Perle said almost the exact opposite of the Norwegian parliament. He denied that a nuclear freeze is an advantage for the disarmament effort, and said that a freeze would increasingly place the West in a worse situation, with the deterrent force gradually losing its credibility."

PORTUGAL:

An estimated 4.5 million people saw RTP's (Portugal's state-owned and only television station) prime-time evening broadcast May 29, which aired major portions of May 24 WORLDNET special. The feature lasted for over an hour and included introductory film, Shultz and Tindeman's interviews and the two panel discussions. In addition to WORLDNET's "man-in-the-street interviews," RTP included a couple of their own.

SPAIN:

The May 24 WORLDNET special was well covered in the Spanish media: a full minute on Spanish television, broad radio coverage and articles in Madrid's three leading dailies on May 25th. In addition to journalists, the program at the Embassy was attended by representatives from the Office of the Spokesman of the Prime Minister, the Ministry of Defense and three political parties.

TURKEY:

Turkey's first participation in WORLDNET programming was highly successful. The NATO special generated great interest among working journalists and attracted an invited audience that included the Director of Turkish Television, Director of the Government of Turkey's Press Office, several Members of Parliament and other foreign policy analysts.

Ankara reports that TRT Television ran a six minute segment on their main news broadcast, featuring Turkish questions, answers and in-studio visuals.

Semi-official Anatolian News Agency distributed story with excerpts, and the report was carried in Milliyet (liberal - 232,122).

Both Tercuman (259,000 - conservative) and Bulvar (177,000 - sensational) carried stories including color pictures of TRT studio scene (frontpage in Tercuman). Cumhuriyet and Gunes (232,000 - popular/family) both carried brief items emphasizing "boycott."

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

OFFICE OF THE CHAIRMAN

June 14, 1984

The Honorable Michael K. Deaver  
Deputy Chief of Staff and Assistant  
to the President  
The White House  
Washington, D.C. 20500

Dear Mike:

The attached paper on "The Leveraging of America" discusses three aspects of corporate takeovers and buyouts that will significantly impact American enterprise next year and beyond.

Any comments or suggestions concerning what we should do, if anything, concerning the issues discussed, would be sincerely appreciated.

Very truly yours,

  
John S.R. Shad

Attachment

The Leveraging of America  
John S.R. Shad

Three aspects of corporate takeovers and buyouts that will significantly impact American enterprise next year and beyond are: the increasing tendency of institutional investors to oppose anti-takeover proposals by corporate managements; acquisition related bankruptcies and other consequences of leveraging-up major corporations; and the consequences of a significant increase in exchange offers, if pending proposals are adopted.

The purpose of this paper is not to sound a note of alarm, but to ventilate some of the major issues that should be weighed by the business and financial community, the Congress and the Securities and Exchange Commission, in conjunction with ongoing discussions of the laws and regulations that govern changes in corporate control.

More Institutional Dissents

Until last year, institutional investors' opposition to management proposals has been negligible. However, last year they and other investors defeated anti-takeover proposals by a number of companies, including Castle and Cook, Data General, International Paper and Sherwin-Williams.

Despite management opposition, Superior Oil's shareholders forced rescission of a defensive preferred stock dividend, and created a committee of independent directors to evaluate future tender offers.

In a 1983 Kidder Peabody & Co. and Morrow & Co. survey of 2,500 institutions, 75% opposed requirements that mergers be approved by supermajorities (typically 80%) of the shareholders, and half opposed staggered boards (i.e., the election of less than all the directors annually).

In an Investor Responsibility Research Center survey last year, a "wide margin" of institutions opposed both supermajority and staggered board provisions, and favored requiring shareholder ratification of "golden parachutes" (i.e., high termination compensation for executives, following a change in effective control).

In a D.F. King study, 75 of 100 major institutions were generally opposed to increasing management protective provisions.

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Based on a June 7, 1984 speech by Securities and Exchange Commission Chairman Shad before the New York Financial Writers Association.

The repurchases of blocks of their stocks at premium prices from possible bidders have subjected Walt Disney, Texaco, Warner Communications, St. Regis, Gulf & Western and many other companies to significant shareholder criticism. The SEC has proposed pending legislation that would proscribe so called "greenmail" transactions.

Following a case-by-case review, Citicorp's \$36 billion Investment Management division is reported to have voted against all anti-takeover proposals by 64 companies in which it holds stock.

The \$11 billion Batterymarch Financial Management has adopted a policy of voting against all anti-takeover proposals and of announcing publicly its votes on specific issues.

With only a 1% interest in the TWA holding company, Odyssey Partners obtained a 30% vote in favor of breaking-up the company, based on the proposition that the parts were worth more than the whole.

A projection of these trends suggests that a rising number of institutions will not only oppose future anti-takeover proposals by managements, but also begin to support corporate break-ups and mergers, with a view to enhancing the value of their investments.

### The Rising Tide of Leveraged Takeovers and Buyouts

These trends lead into the second topic - the consequences of the rising tide of leveraged takeovers and buyouts of major American corporations.

In such transactions, shareholders have received 50% to 100% premiums over the current market prices of their shares. However, the longer term consequences to shareholders and the nation cannot be ignored.

Corporate takeovers and buyouts are financed through large loans. The net effect is that debt is being used to retire equity, which is known as leveraging-up a company's capitalization. The greater the leverage, the greater the risks to the company, its shareholders, creditors, officers, employees, suppliers, customers and others.

### Common Characteristics of Targets

Companies that are being takeover by other companies or boughtout by their managements and others generally have one or more of the three following common characteristics: significant untapped borrowing capacity; shares trading at discounts from the current market value of their net assets, and at low multiples of their cash flows (i.e., their net incomes plus depreciation, depletion and other non-cash charges).

The foregoing - untapped borrowing capacity, undervalued assets and low cash flow multiples - are also common characteristics of many of America's largest and soundest corporations.

Under such circumstances, buyers are able to finance-out a major portion of the purchase price against such companies' own assets and cash flows. When they do so, it is usually necessary to dedicate such cash flows to future debt service, rather than the replacement of aging plant and equipment and declining oil or other reserves. Companies that do not replace aging facilities and declining reserves, become increasingly inefficient.

Also, under current economic conditions, conservatively capitalized companies - those with low debt-equity ratios - have incentives to borrow funds and reacquire their own shares or those of other companies, rather than suffer the consequences of such tactics by others.

In today's corporate world, Darwin's "survival of the fittest", has become - acquire or be acquired.

#### Management Leveraged Buyouts

Leveraged buyouts by managements have been a fraction of leveraged takeovers of one company by another. In my opinion, shareholders would generally prefer to have managements place their companies on the block at premium prices, rather than use their companies' resources to buyout or fight off bidders. Management buyouts that have attracted higher bids from others include City Investing, Northwest Energy, Norton Simon and Stokely-Van Camp.

#### Optimum Economic Environment

The past 24 months have been an optimum economic environment in which to effect leveraged takeovers and buyouts.

Corporations' tax deductible depreciation and depletion allowances are based on historical costs. Such allowances have long been inadequate to replace plant, equipment and reserves at current inflated prices. The Economic Recovery Tax Act of 1981 increased such allowances, which has in turn increased corporations' cash flows and liquidity. In addition, the past 24 months have witnessed relatively low interest and inflation rates, and a vigorous economic recovery. This combination of events has facilitated the rising tide of leveraged takeovers and buyouts.

### More Bankruptcies in Prospect

However, major bankruptcies have resulted from the heavy debt incurred by companies that have engaged in aggressive acquisition programs (e.g., Baldwin-United, Charter Corp., Lionel, Saxon Industries, Wickes and many others).

When a company highly leverages its capitalization, the consequences of even modest business problems, economic recessions or rising interest rates, are greatly magnified. Shareholders, creditors and others have sustained billion dollar losses - in addition to the serious impact of bankruptcies on employees, communities, suppliers, customers and others.

The more leveraged takeovers and buyouts today, the more bankruptcies tomorrow. During the past few years, the multi-billion dollar premiums shareholders have received in leveraged takeovers and buyouts have been a multiple of their losses from acquisition related bankruptcies. The premiums come first, the consequences later. The leveraging-up of American enterprise will magnify the adverse consequences of the next recession or significant rise in interest rates.

### Marketplace Disciplines

The theory that contested takeovers discipline incompetent managements is of limited veracity. Corporations have momentum. Today's corporate performance and stock prices are in large measure a function of yesterday's decisions, by prior managements - whether good or bad.

Companies that borrowed at the low interest rates 12 years ago to buy oil reserves at the low prices then, and subsequently retired such debt with inflated dollars, are reaping the rewards today of prior management decisions.

When able executives turn around ailing enterprises, the market prices of such companies' shares often lag their improving prospects. They become attractive takeover candidates, because of the competence - not the incompetence - of their managements.

Also, contrary to a discipline, the increasing threat of being takenover is an inducement to curtail or defer research and development, plant rehabilitation and expansion, oil exploration and development, and other programs - which entail current costs for long-term benefits.

### More Exchange Offers in Prospect

The third topic concerns offers to exchange one company's securities for those of another. Contested takeovers through exchange offers have been negligible. However, if proposed regulatory changes are adopted by the SEC, next year can be expected to witness a significant increase in both friendly and contested takeovers through exchange offers - and through combinations of open market accumulation, securities exchange offers, cash tender offers and statutory mergers.

Last year, the SEC Advisory Committee on Tender Offers recommended that exchange offer regulations be simplified and accelerated. In view of the billion dollar benefits to corporations and shareholders of the SEC's recent simplification and acceleration of public offerings and private placements of securities, similar improvements in tender offers seems a worthy effort.

The Commission is currently soliciting public comments on proposals that would significantly reduce the paperwork for business combinations and exchange offers. The SEC will also release for public comment shortly, proposals that would permit exchange offers to be done as rapidly as cash tender offers.

### Advantages of Exchange Offers

There are many advantages to exchange offers:

- o Stock-for-stock exchange offers do not increase the leverage in corporate capitalizations.
- o Exchange offers of debt and equity securities can eliminate the necessity to borrow the large sums required to do cash tender offers.
- o Multiple transactions can be telescoped into a single transaction. There is no need to refinance the short-term debt incurred to effect cash tender offers.
- o Cash tender offers are taxable transactions. Exchange offers of voting equity securities are not - and such acquisitions can be accounted for as poolings of interest, rather than as purchases. In poolings, the premiums over book value paid for target companies do not have to be amortized.
- o And finally, the fairness of partial and two-tier tender offers have been questioned. Exchange offers facilitate offers for all of a company's shares, rather than for only a portion of them.

### Exchange Offer Consequences

Therefore, why shouldn't exchange offers be streamlined and accelerated? They probably should, but not without assessing and responding to the consequences.

One consequence is that a small company can do an exchange offer for the shares of a large corporation on a basis under which it is simply recapitalizing the larger corporation. The larger corporation's assets and earning power become the credit behind the new securities.

Subject to tax and other considerations, such an exchange offer might consist of a package of common and preferred shares, warrants, zero coupon bonds or other exotic financial instruments, designed to accommodate such an offer. It will be successful if arbitrageurs, institutional investors and others conclude - or if the when-issued market value of the package of securities clearly demonstrates - that the securities offered are worth significantly more than the market price of the target's common shares, before the offer.

Through combinations of exchange and tender offers, target corporations' capitalizations might thus be leveraged-up, and their managements succeeded by those of smaller companies, that may have limited knowledge of the targets' operations.

In order to do cash tender offers, bidders typically have to seek lines of credit from banks and other institutions. Thus, cash tender offers generally require the support and concurrence of institutional lenders. Such support or concurrence is not generally required to do exchange offers. Bidders simply create their own "corporate currencies" (i.e., packages of securities) and offer them in exchange for targets' securities.

The longer time periods and more detailed registration requirements for exchange offers have permitted target companies to block or delay them through legal actions, often based on deficiencies in the registration documents or other contentions. Targets have also used the longer time to seek higher bids from others. For these reasons, there have been relatively few contested exchange offers. However, there will be more if they are streamlined and accelerated, and the consequences are likely to include greater leverage in corporate capitalizations and less experienced managements.

In the open meetings that preceded the Advisory Committee's recommendation to accelerate exchange offers, these implications were not discussed. These and related issues should be factually addressed by those who respond to the Commission's releases on streamlining and accelerating exchange offers.

One of many possibilities would be to limit accelerated exchange offers to the largest and most creditworthy companies - as in the case of accelerated public offerings of securities under the shelf registration rule. They might also be limited to actively traded security issues of such corporations. Exchange offers of exotic securities (so called "Chinese paper") and offers by companies that do not enjoy broad active public markets in their securities, might continue to be subject to the more detailed and time consuming conventional exchange offer requirements.

It should be noted in this regard that the SEC is charged with the implementation and enforcement of the laws passed by Congress, principally through full disclosure. The SEC does not have or desire the authority to pass on the merits of corporate financings, mergers or acquisitions. Congress has wisely concluded that such judgments are better left to the marketplace.

### Conclusion

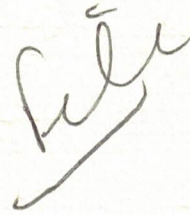
In conclusion, as mentioned at the outset, these are some of the issues that should be weighed in conjunction with ongoing discussions of the laws and regulations which govern changes in corporate control.

It would be as wrong to overreact to these issues, as it would be to ignore them.

Notwithstanding concerns to the contrary, multi-billion dollar leveraged takeovers and buyouts have not had a disruptive effect on the credit markets. As bank loans have been drawn down by bidders and paid to target companies' shareholders, the funds have been instantly recycled - redeposited or reinvested by the shareholders. And bidders' short term bank loans have generally been reduced within a year or two through long term debt and other refinancings or through asset liquidations.

Corporate consolidations are subject to the antitrust and other laws. Their major operational, financial and other benefits should not be inadvertently foreclosed or inhibited in an attempt to address ancillary issues. The evolutionary response of the marketplace to changing business conditions has been much more effective than less flexible laws and regulations.

Joan F. Gonzales  
4555 Forman Avenue  
North Hollywood, California 91602  
213-761-2578



June 14, 1984

Mr. Michael Deaver  
The White House  
Washington, D.C. 20500

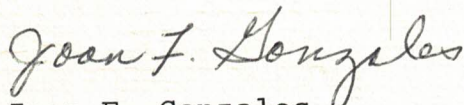
Dear Mr. Deaver:

Following up on our conversation at the banquet for the Citizens For The Republic, we reiterate the necessity to Federal funds from localities with rent controls.

Rent controls destroy the rental housing industry and cripple the free enterprise system.

Please support any and all Federal measures to stop rent controls.

Sincerely,

  
Joan F. Gonzales

JFG/kk



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

Sullivan  
FLO

June 15, 1984

MEMORANDUM FOR: Michael K. Deaver  
Deputy Chief of Staff and  
Assistant to the President

FROM: Joseph R. Wright Joe  
Deputy Director

SUBJECT: Comments on Memoranda from Jim Munn

Mr. Munn's first two memoranda contain the usual arguments that the deficits will go away and that they are not all that large anyhow. Mr. Munn's third memorandum is quite different. It proposes a tax change that essentially allows individuals to send their Federal personal income taxes to local governments or private organizations rather than to the Federal government.

First Memorandum

Mr. Munn's first memorandum argues that continued recovery will, by itself, reduce the deficit dramatically. His evidence is largely based on the fact that in January 1983 we forecast a more gradual recovery than what actually occurred and that the 1983 deficit was below our estimate. Unfortunately, neither of these facts indicates a trend that suggests long-term deficits will disappear. In fact, much of the shortfall in the 1983 deficit was due to slower defense spending rather than more robust economic growth.

Since July of 1983 we have revised our near-term economic forecast to be more optimistic. The long-term forecast has always been optimistic. On the basis of our current forecast of unprecedented real growth with declining inflation for five and a half more years and rapidly declining interest rates starting below their current levels, we still anticipate deficits of over \$100 billion in 1989.

Second Memorandum

Mr. Munn's second memorandum stresses that it is the combined Federal, State, and local government spending relative to total tax receipts that is of concern. However, the figures that Mr. Munn uses showing large State and local surpluses are misleading. They include not only tax receipts, but the contributions by State and local government employees and employers to the employee's pension fund. These contributions are no different from the contributions made by General Motors and its employees to the General Motors pension fund.

The true operating surplus at the State and local level, that is the excess of State and local taxes over State and local government spending, is only about \$15 billion, not the \$58 billion Mr. Munn references.

18544

Further, this \$15 billion figure is likely to decline in the next few years because many States operate with something akin to a balanced budget amendment. Thus, they can be expected to cut taxes (hopefully) or increase spending over the next few years.

### Third Memorandum

Mr. Munn's third memorandum proposes a tax cut and tax surcharge that is difficult to understand. The corporate 1 1/2 point rate cut combined with a 3% surcharge is clear, though it is not clear why both are done. This change will lower corporate taxes since lowering the corporate rate from 46% to 44.5% is a larger percentage rate cut (3.3%) than the 3% surcharge.

The noncorporate change is unclear. Mr. Munn refers to "the noncorporate businesses tax", but there is no such tax. The owners of noncorporate businesses pay personal income taxes on their combined business and other income with no separate tax on the business share of that income. Nonetheless, presumably the proposal could be refined to achieve whatever result Mr. Munn is seeking.

The most important part of Mr. Munn's plan is the dollar-for-dollar tax credit that an individual would receive for payments to State and local governments or to Private Sector Initiatives organizations. The proposal means that a family that owes, say, \$5,000 in Federal income taxes can send that \$5,000 to a local organization instead of the IRS. Since many people would prefer to contribute to a local youth organization, for example, rather than to the Defense Department or the Interior Department, Mr. Munn's plan can confidently be expected to wipe out most receipts from the Federal income tax.

# OFFICE OF MANAGEMENT AND BUDGET

## HANDLING

- |  |  |   |
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| <input type="checkbox"/> Correspondence          | Outgoing to _____  |   |

## SPECIAL HANDLING INSTRUCTIONS

## SHORT SUMMARY OF MATERIAL

Reply to Mike Deaver re: Memoranda from Jim Munn (for J. Wright's signature).

NAME AND DIVISION	PREPARED BY	CLEARED BY	CLEARED BY	CLEARED BY	CLEARED BY	CLEARED BY	CLEARED BY
	Ballentine ADEP	JWright DD					
INITIALS AND DATE	<i>[Signature]</i> 6/15/84						

OMB STAFFING OF WHITE HOUSE PAPERS

Doc Date: 6/14/84 Action:  Info:        Paper from: Sittman  
 Subj: Deficit and Tax Policy

Distribution within OMB

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\*Please coordinate with and provide comments to \_\_\_\_\_.  
 \*\*Should receive first \_\_\_\_\_ page(s) only.

RESPONSE TO WHITE HOUSE

Lead responsibility for preparing response: Ballentine  
 Address response to Deaver for signature of Wright  
 Response should arrive in Correspondence Unit by: 6/15 COB  
 Concurrence: Initials: \_\_\_\_\_  
 Date:   /  /     /  /     /  /     /  /  

\*\*\*PLEASE RESPOND IN WRITING TO WHITE HOUSE REQUESTS\*\*\*  
 IF RESPONSE IS SENT DIRECTLY TO WHITE HOUSE, PLEASE SEND DAVID GERSON A COPY

BRIEFING MATERIAL PREPARATION

Lead responsibility for preparing for meeting: \_\_\_\_\_  
 Briefing material should be in Director's Office by: \_\_\_\_\_

Comments:

THE WHITE HOUSE

- WASHINGTON

14 JUN 14 5:13 PM June 14, 1984

MEMORANDUM TO JOE WRIGHT <sup>UNIT</sup>

FROM: BILL SITTMANN <sup>BS</sup>

SUBJECT: Attached - Re: Deficit and Tax Policy

Mike Deaver would like your office to do a one page analysis of the attached to be sent to the President.

Mike would like it tomorrow.

Thank you.

JAMES S. MUNN  
LAWYER  
112<sup>1/2</sup> FLOOR PACIFIC BUILDING  
SEATTLE WASHINGTON 98104  
(206) 623-3515

MEMORANDUM

RE: Deficit and Tax Policy

FROM: Jim Munn

DATE: May 29, 1984

	<u>Statutory Tax Cut</u>	<u>Adjusted Rate Tax Cut</u>	<u>Cumulative Tax Cut</u>
1-1-81			
10-1-81	.05	.0125	.0125
1-1-82			.10
7-1-82	.10	.05	
1-1-83			.18
7-1-83	.10	.05	
1-1-84			.23

It is now clear that the economic recovery commenced virtually on schedule. On January 1, 1983 when all of the tax cuts came on stream, the most robust recovery took place. The recovery has substantially exceeded the expectations of all those skeptics who criticized "Reaganomics" and throughout 1981 and 1982 pronounced the economic program a failure.

It is clear now what happened to inflation and interest rates. It is equally clear what happened to the dynamics of new job creation. The severely weakened dollar has strengthened on the world market and the world leadership of the U.S. has been substantially restored.

What remains to trouble the doubters is the deficit. Not so much the prevailing deficit but the deficits being forecast by those same economic forecasters who have been so consistently wrong about everything else.

I believe it important to consider, and at least recognize certain coincident facts of recent economic history. In the latter part of 1982, the unemployment rate hit the top before beginning to slide much faster than the conventional forecasters believed possible. At this time (winter '82), the treasury reported an annual deficit rate of \$208 billion. One year later, after unemployment had fallen substantially, this annual deficit rate was at \$190 billion.

Memo re Deficit and Tax Policy  
May 29, 1984/page 2

This reduction in the deficit was not accompanied by increasing the tax rates but in the face of substantial reduction. Using the forecasts of the impact of the 1981 tax rate cut effective in 1983, there should have been \$33 billion the Feds left in the pockets of the U.S. producers. When we add to this the dramatic effect of all this on the states, there was another \$15 billion added to the net deficit reduction. The total change then from 1982 to 1983 (winter) was about \$66 billion.

Treasury also reports that despite the most "massive" tax give away as the critics contend, receipts rose 4.4% in 1983. Further, when we consider the cry that the tax rate cut favored the rich, we must explain away the fact that between 1981 and 1982 the tax take from those fat cats reporting incomes in excess of \$100,000 per annum rose about 14% in actual dollars collected. Further, in 1983 the share of the tax burden borne by those with incomes in excess of \$50,000 rose while the share of those reporting incomes of \$25,000 or less fell.

Finally, just last week the National Income and Products Account reports the projected deficit on the annualized basis is down another \$19 billion to \$171 billion.

I am reminded of that old maxim "If it ain't broke, don't fix it."

Whatever we do we must not choke off the dynamic economic growth that is now underway through misguided and misdirected tax policies. Worrisome as the projected deficits are, they are just that -- projections. The prognostications are just as likely to be wrong about the deficits as they have been about the events of our recent economic past.

To be sure, deficits are not solely the product of tax policies that discourage rather than encourage economic growth. But, and this is a big but, we do know from any fair reading of our history over the last several decades -- if you want less of something tax it and if you want more of it, reward it. Economic incentives do work and that is the pure and simple of it.

As matters now stand, the trends are all in one direction. By the end of this year, the deficits will continue to diminish, employment will continue to rise and the prospects for a budgetary balance will be greatly enhanced. Like so many dismal forecasts of those who practice the dismal science, deficits just may prove to be non-events. This will be particularly the case as state and local governments continue to generate increasing surpluses as the federal deficit rate declines.

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MEMORANDUM

FROM: Jim Munn  
DATE: May 30, 1984  
RE: Reaganomics -- Phase II

Toward the end of 1980, when President Reagan was elected, the U.S. economy was well on the way to becoming a basket case. Inflation was increasing at an accelerating rate and threatened to go out of control. Interest rates were reaching unprecedented levels by any gauge of measurement. "Stagflation" was the term employed by the conventional economists to describe the phenomena that affected the nation.

Gloom and doom was the forecast with \$50 per barrel oil the gauge of our future. A national malaise was the diagnosis of our affliction by our then President.

The candidate Reagan stood forth with the courage of his conviction that the time was not to give up but to undertake a new beginning. The American people responded to his call for this "New Beginning" for America. Doubters called his prescription "voodoo" economics. When he took office, his call for tax cuts, regulatory reform, budget cuts and a stable monetary policy were derisively called "Reagonomics". In six months his critics heralded failure as the recession he inherited slipped deeper.

Then recovery took hold in January 1983. Almost two years to the day of his inauguration when the phased in tax cuts finally took hold, the recovery began. The doubters forecast a slow, shallow recovery that would run out of steam early. Unemployment was forecast to remain high, perhaps dropping just below 10% by November 1984.

We know now what happened. Oil was deregulated and the price per barrel dropped precipitously. Energy prices did not soar as predicted. The talk is not now of shortage but of "oil glut". The recovery of the economy has entered an expansion stage. New jobs are being created by American business and industry at an unprecedented rate. Unemployment has dropped farther and faster than the legions of doubting economic forecasters believed possible. Real wages and purchasing power have begun to rise as inflation has abated.

Memo re Reaganomics -- Phase II  
May 30, 1984/page 2

Of course, the prevalent doomsayers continue to look for the dark cloud within the silver lining. Projected federal budget deficits loom over the horizon to serve the purpose of the dragon to be slain. The problem is not just some more mischief making by the taxers and regulators who find the disorderly free market place so frightening. The real problem is one of reversal. Are we to permit the "chicken-littles" among us to undo what we have done in the last three years? Are we to permit this under the guise that they are riding forth to slay the dragon when they are really tilting wind mills at best or seek greater control of our lives?

Of course, federal spending must be brought under control. This is not done by increasing taxes or re-regulating the economic activities of the American people under a national incomes and industrial policy or worse. The cuts in the budget to date are not serious attempts to cut federal spending. Congress will only be serious when the "so called" entitlements are the focus of attention.

Now enter the deficit forecasts. I suggest that these should be looked at in the aggregate (federal, state and local). The National Income and Products Account (NIPA) is the reference index. This peaked at an annual deficit rate at \$208 billion in the last quarter of 1982. One year later the NIPA annual deficit rate had fallen to \$190 billion. During this same period, state and local governments posted a surplus of \$15 billion. Add to this the \$33 billion of tax cuts at the federal level by static analysis over the same period and the reversal of \$66 billion is not insignificant by any measure of economic policy.

Nothing within the current figures indicate anything other than a continuation of this same trend. For the first quarter of 1984 Treasury reports another decline of \$6.5 billion which is at a rate substantially in excess of the rate for the same quarter in 1983.

Conservative projections indicate now that the deficit decline for 1984 should reflect at least \$60 billion below the 1983 rate. This projects a straight line to each of the four quarters plus \$10 billion per quarter to compensate for the over withholding in the last two quarters of 1983.

The most recent NIPA forecast of \$171 billion deficit rate for 1984 supports this analysis. Unless Congress messes up the economic mix by imprudent tinkering the trend should

Memo re Reaganomics - Phase II  
May 30, 1984/page 3

continue with deficits running at an annual rate (NIPA) of \$130 billion by the fourth quarter of 1984. The same trend should continue with state and local surpluses increasing to roughly \$75 billion by the same quarter from the present \$58 billion rate. This is simply a straight line projection from tax receipts based upon present patterns applied to the general economy based upon the 4-5% forecast growth rate. (GNP)

The cumulative government (local, state and federal) deficit should then be running at an annual rate of about \$60 billion by the fourth quarter of 1984. When viewed in these aggregate terms, the magnitude of the problem does not seem so frightening nor unmanageable.

Certainly, now the Reagan initiative of "New Federalism" that has been treated so cavalierly in the past deserves another look. A carefully crafted program shifting some of the social welfare burden, "entitlements" from the federal government to the state and local governments should have real promise. Perhaps just the simple mechanism of reversing the dominant role of the federal government financial participation would yield substantial results.

The political problem is one of constituent building to support the initiative. This is where the skillful politician can achieve the result by acceptable means once the objective has been identified. Public support for such a shift can be obtained when the process is understood. Certainly, the future economic health of the nation cannot be held hostage to old patterns born of the misguided notion that only the "Feds" can be trusted to care for the essential needs of the nation. The opportunity is at hand to give substance to the oft repeated Republican concept that the government that governs best is that which is closest to the constituents it serves.

As the appropriate "entitlements" are shifted with accompanying tax base shifts to state and local governments to which the burden shifts, fears will be allayed. This should be the next phase of the Reagan domestic program. By these methods, the continued success of "Reaganomics" can be served. We will all be the better for it.

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MEMORANDUM

FROM: Jim Munn  
DATE: May 31, 1984  
RE: Transition to New Federalism  
The 3 percent Solution

The President's proposal for a New Federalism was made at a time when the shift of the burden of some social welfare responsibility from the federal to local and state government was viewed as unacceptable. Cities, counties and states were struggling through a recession-induced funding crisis. As these deficits mounted the acceptance of greater expenditure burdens was looked upon as unrealistic at best, intolerable at worst.

Now, "Reaganomics" has begun to take hold. The forecasted economic results are becoming too pervasive and clear to be denied. The local and state budget crises have passed with the recovery. While the National Income and Product Account (NIPA) index forecasts a continuing federal (albiet decreasing) deficit, growing state and local budget surpluses are being realized.

Business income is rising as the economy expands. As new jobs are created, pressure on the so-called entitlements declines. This is the expected trend for the foreseeable future.

Now seems an appropriate time to attack the problem of ever growing expansion of the federal burden on social welfare spending. "New Federalism" and "Private Sector Initiatives" are two Reagan advanced ideas to accomplish just this. "New Federalism" is conceived as a mechanism to shift some of the "entitlement" burden to state and local governments. "Private Sector Initiatives" is conceived as a vehicle to assume some of the burden by other than tax funded government directed activities. Each in its own way is designed to carry out the Republican ideas that "the government that governs least, governs best" and where government is required it is best closest to the constituents it serves.

Memo re Transition to New Federalism  
May 31, 1984/page 2

The political problem is now, as it has always been, acceptability. There is always the natural reluctance to accept a burden where it is uncertain just how one can pay for it. Cities, counties and states resisted "New Federalism" because they could not see clearly how they could pay the tab. "Private Sector Initiatives" has had greater acceptance but not yet enough.

As the Congress confronts the requirement to deal with the growing burden of "entitlements" a means must be found to render curtailment acceptable. This is the three (3) percent solution.

The proposal is to cut the corporate income tax rate by one and one-half (1-1/2) percent. Reduce the non-corporate business tax by the same amount by an income exemption mechanism. This tax reduction would be accompanied by a sur-charge levied on all net before tax business income (corporate, partnership or proprietary) of three percent.

Having done this, then the funding of the two concepts "New Federalism" and "Private Sector Initiatives" are accomplished by granting a direct tax credit (dollar for dollar) for each 501(c)(3) deduction or payment made to the local/state government "New Federalism" participation fund. The latter would be established through enabling legislation whereby the state and local governments could preempt a portion equal to a percentage (i.e. 1/2) of the sur-charge.

The effect would be at least two fold. All qualified 501(c)(3) (tax exempt) charitable and educational enterprises would have greatly increased sources of funding available to be solicited. States, and through them, city and county governments would have the option to participate. To the extent that the state elects to participate the tax base transfer to facilitate the "New Federalism" is accomplished.

Experience can then determine whether the scope is sufficient or insufficient but the whole idea of shifting appropriate burdens from the federal government to state and local government and private sector will be substantially advanced.

The time for this undertaking is ripe as the burden of forecasted federal deficits is of such great public and political concern. This is particularly true where this is accompanied by a prospering business and growing state and local government budget surpluses.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

DATE: 6/15/84

TO: Dave Gerson

FROM: ASSOCIATE DIRECTOR  
FOR ECONOMIC POLICY

Greg Ballentine

Is this the type of response that should be forthcoming from Joe? I would appreciate having your comments. Thank you. 6/15

Joe - I think  
this draft is fine.  
If it's ok w/ you,  
EP can put it in final.  
GGR

# DRAFT



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

June 15, 1984

MEMORANDUM FOR: Michael K. Deaver  
Deputy Chief of Staff and  
Assistant to the President

FROM: Joseph R. Wright  
Deputy Director

SUBJECT: Comments on Memoranda from Jim Munn

Mr. Munn's first two memoranda contain the usual arguments that the deficits will go away and that they are not all that large anyhow. Mr. Munn's third memorandum is quite different. It proposes a tax change that essentially allows individuals to send their Federal personal income taxes to local governments or private organizations rather than to the Federal government.

#### First Memorandum

Mr. Munn's first memorandum argues that continued recovery will, by itself, reduce the deficit dramatically. His evidence is largely based on the fact that in January 1983 we forecast a more gradual recovery than what actually occurred and that the 1983 deficit was below our estimate. Unfortunately, neither of these facts indicates a trend that suggests long-term deficits will disappear. In fact, much of the shortfall in the 1983 deficit was due to slower defense spending rather than more robust economic growth.

Since July of 1983 we have revised our near-term economic forecast to be more optimistic. The long-term forecast has always been optimistic. On the basis of our current forecast of unprecedented real growth with declining inflation for five and a half more years and rapidly declining interest rates starting below their current levels, we still anticipate deficits of over \$100 billion in 1989.

#### Second Memorandum

Mr. Munn's second memorandum stresses that it is the combined Federal, State, and local government spending relative to total tax receipts that is of concern. However, the figures that Mr. Munn uses showing large State and local surpluses are misleading. They include not only tax receipts, but the contributions by State and local government employees and employers to the employee's pension fund. These contributions are no different from the contributions made by General Motors and its employees to the General Motors pension fund.

The true operating surplus at the State and local level, that is the excess of State and local taxes over State and local government spending, is only about \$15 billion, not the \$58 billion Mr. Munn references.

Further, this \$15 billion figure is likely to decline in the next few years because many States operate with something akin to a balanced budget amendment. Thus, they can be expected to cut taxes (hopefully) or increase spending over the next few years.

### Third Memorandum

Mr. Munn's third memorandum proposes a tax cut and tax surcharge that is difficult to understand. The corporate 1 1/2 point rate cut combined with a 3% surcharge is clear, though it is not clear why both are done. This change will lower corporate taxes since lowering the corporate rate from 46% to 44.5% is a larger percentage rate cut (3.3%) than the 3% surcharge.

The noncorporate change is unclear. Mr. Munn refers to "the noncorporate businesses tax", but there is no such tax. The owners of noncorporate businesses pay personal income taxes on their combined business and other income with no separate tax on the business share of that income. Nonetheless, presumably the proposal could be refined to achieve whatever result Mr. Munn is seeking.

The most important part of Mr. Munn's plan is the dollar-for-dollar tax credit that an individual would receive for payments to State and local governments or to Private Sector Initiatives organizations. The proposal means that a family that owes, say, \$5,000 in Federal income taxes can send that \$5,000 to a local organization instead of the IRS. Since many people would prefer to contribute to a local youth organization, for example, rather than to the Defense Department or the Interior Department, Mr. Munn's plan can confidently be expected to wipe out most receipts from the Federal income tax.