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~~AB~~
3/21

Friday, March 18, 1988

TO : Senator Baker
FROM : Dan
RE : Phone Call to Domenici

If you have the time and inclination this weekend, you might want to speak to PVD about the budget. There are essentially two areas where we will need his support:

1) enforcement of the Budget Agreement. As you know, the House has already begun to play scoring games and, if they get away with it, the Senate will do likewise. The simplest way to prevent most of the games is try to maintain the same scoring rules we agreed to in December. The deal was for two years, the scoring should be maintained for the duration of the agreement. This "rule" also would prevent the mire of esoteric scoring arguments which no members want to deal with.

2) achieving as much of the President's budget as possible. The name of the game this year is domestic discretionary appropriations. While many of the President's initiatives should fare well (health, education, etc.), science & tech and transportation (FAA and Coast Guard) will have difficulty. I believe there's a shot at getting the Senate Appropriations Committee to adopt the President's allocations, at least for now, especially with PVD's assistance. A longer exposition on an appropriations rationale and strategy is attached.

Garn memo to you attached -

Wednesday, March 16, 1988

TO : Senator Baker
FROM : Dan
RE : FY 1989 Budget Strategy

Although the budget resolution will have some overall impact, the primary budget fight this year will occur over domestic discretionary appropriations. The real battles will be fought in the appropriations committees when they determine how they will allocate the domestic expenditures agreed to by the Budget Summit (the 302(b) allocations).

The Senate Appropriations Committee will likely move before the House, perhaps week after next. We have a chance, based on committee make-up, to have the Committee simply adopt the 302(b) allocations implicit in the President's budget. If we can pull it off, it not only has the obvious value of the President's role in the budget process, but would also protect in this first round, the science and tech initiatives, including NASA and SSC.

Of the thirteen appropriations subcommittees, three (DOD, Milcon, Foreign Ops) essentially have their allocations based on the budget agreement. Of the remaining ten, five are much better off with the President's budget than the likely alternative of an across-the-board increase. More importantly, the five "winners" are among the most influential members of the committee:

Winners

Commerce, State, Justice (Hollings, Rudman)
Energy-Water (Johnston, Hatfield)
HUD-Independent Agencies (Proxmire, Garn)
Labor, HHS, Education (Chiles, Weicker)
Legislative (Bumpers, Grassley)

Losers

D.C. (Harkin, Nickles)
Interior (Byrd, McClure)
Agriculture (Burdick, Cochran)
Transportation (Lautenberg, D'Amato)
Treasury, Postal (DeConcini, Domenici)

Garn is fully supportive and suggested a Presidential call to Stennis on this issue in the NASA plan he sent you this week. Domenici is positive thus far, even though his subcommittee does not fair well. The obvious problems are Interior (although the allocation would be only slightly less than an across-the-board) and Agriculture (which Whitten will protect anyway).

If you think that this approach is viable and worth undertaking, I would suggest:

- 1) You encourage Domenici to take this on with Garn—I'll follow up with Domenici on how we should proceed.
- 2) Seriously consider the Garn suggestion of a Presidential call to Stennis.

E. J. (JAKE) GARN
UTAH

SD 505 DIRKSEN SENATE OFFICE BUILDING
TELEPHONE: 202-224-5444

JEFF M. BINGHAM
ADMINISTRATIVE ASSISTANT

552974

COMMITTEES:
APPROPRIATIONS
BANKING, HOUSING, AND
URBAN AFFAIRS
RULES AND
ADMINISTRATION

United States Senate
WASHINGTON, DC 20510

March 14, 1988

The Honorable Howard Baker
Chief of Staff
The White House
Washington, D.C. 20500

Dear Howard,

I want to thank you again for your interest in making an assessment of what sort of action might be taken by the President and his Administration to ensure improved prospects for the nation's Space and Science programs. I thoroughly enjoyed our recent conversation on the subject in your office, and am truly grateful for the opportunity to offer some suggestions as to what can and should be done.

As I know you sensed from our discussion, I am very concerned about the current state of affairs with respect to Space Policy and believe strongly that urgent and forceful and sustained efforts must begin as soon as possible to begin to turn the tide back in the direction of a strong, viable, forward-looking science and space program. I believe it is vitally important to our nation's ability to maintain leadership in the area of space and high technology, and I believe it is, or should be, among the most significant legacies that President Reagan can leave the American people as he brings his administration to an end.

At your request, and under the further guidance of your staff, I have prepared the attached brief summary of some suggestions that I feel go to the heart of the matter, and represent the first steps in a process of restoring this nation to a position of leadership.

A few "quick" suggestions are included which are driven by the immediate demands of the Congressional budget and appropriations process. These are followed by some points which look at the problem from an "institutional" viewpoint and suggest some modifications in the policy development process with respect to space and technology.

I have attached some supporting comments, which expand somewhat on the rationale behind the suggestions I have made knowing of the tremendous demands on your time, I have tried to be as brief

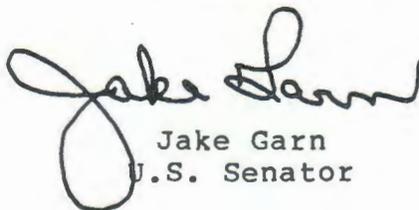
The Honorable Howard Baker
March 14, 1988
Page 2

and concise and specific as I could. Naturally, I will be more than happy to discuss in even greater detail any of the items I have listed.

Thank you once again for your sensitivity to my concerns and your willingness to take time to seriously consider what might be done to begin to remedy the situation.

I look forward to visiting with you again, once you have had a chance to review these suggestions, and to refining them to the point of bringing them to the attention of the President for his consideration.

Sincerely,

A handwritten signature in black ink that reads "Jake Garn". The signature is written in a cursive style with a large, looping initial "J".

Jake Garn
U.S. Senator

JG:JMB/Attachments

Program of Action and Milestones

1. The President should increase public statements and appearances on science and space activities coupled with direct Congressional appeals for funding of his budget initiatives. (See TAB 1)
2. Presidential visit to the national Space Transportation Lab (NSTL) at Bay St. Louis, Mississippi, in March, with Senator Stennis in attendance for a Space Shuttle main engine test firing. (See TAB 2)
3. Designation of a "point-person" in the White House to coordinate agency and Congressional activities on space and science funding. (See TAB 3)
4. Establish a clear White House/EOP authority for development and implementation of a coordinated US Space Policy.
 - Option 1: Reestablish the National Space Policy Council, traditionally chaired by the Vice President, with responsibility and authority to establish policy, goals and objectives, and with clear Presidential authority to ensure implementation; Remove or redefine role of SIG/SPACE. (See TAB 4-A)
 - Option 2: Create position of Special Assistant to The President for Space Policy with authority to ensure participation and cooperation of all governmental entities with space-related mandates in the development and implementation of space policy, goals and objectives. (See TAB 4-B)
 - Option 3: Designate current Administration Official (e.g., NASA Administrator or White House/EOP Staff member) to be "Lead Official" with responsibility to oversee development, and implementation of space policy, goals and objectives. (See TAB 4-C)
5. Actively support and encourage efforts at development and active and cohesive public "constituency" for support of space policy; active support of private-sector efforts to establish common themes and common goals among wide variety of organizations and entities with particular interest in the US space program. (See TAB 5)
6. A letter from the President to each Presidential candidate urging that space, science, and technology funding be made an important theme in their campaigns. (See TAB 6)

TAB 1

STATEMENT OF RATIONALE:

The President's FY 1989 Budget calls for a 29% increase in general science, space and technology activities (budget function 250). This increase is the largest proposed for any non-defense function in the Federal budget on either a percentage or dollar basis.

Under the Bipartisan Budget Agreement, overall Federal discretionary programs are held to a 2.4% increase in budget authority and 3.7% in outlays. The increases recommended for agencies such as NASA, the National Science Foundation, and the Superconducting Super Collider facility are in sharp contrast to baseline funding and reductions proposed for the vast array of other federal activities.

The Federal science and space program is the cornerstone of this Administration's economic and trade competitiveness long-range plan and includes targeted efforts to demonstrate the Nation's technological prowess and leadership. However, this significant initiative is threatened by Congressional unwillingness to reduce and eliminate existing programs needed to accommodate new priorities under the fixed spending limits of the Bipartisan Budget Agreement.

Unless the Administration actively intervenes in the Congressional budget and appropriations process this Spring it is likely that the Space Station program will be terminated, along with the elimination of the proposed science and technology centers, and the "Pathfinder" space technology development program to prepare for manned missions to the moon and Mars. Even with additional efforts, it appears likely that funding for the Superconducting Super Collider will be dropped.

It is critical, therefore, that an aggressive campaign be undertaken, not only to preserve as much of the President's proposed increases for science and space - but also to enforce and buttress his efforts to cut or eliminate ineffective and inappropriate Federal spending.

Following is a list of upcoming space related events that the President could participate in. A similar list outlining events related to general science activities is being prepared. These events provide opportunities not only to increase the President's public visibility on space and science programs but many also include good contact points with key members of the House and Senate.

Key Events in Countdown for next Space Shuttle Flight, Kennedy Space Center, FL--Preparations for the August launch of the Space Shuttle offer opportunities for the Presidential appearances against the backdrop of the Orbiter "Discovery." The five-man crew of Discovery would be on hand for any such event. Possible date include:

April 18, Discovery rollover to the new Orbiter Maintenance and Refurbishment Facility, where most work will be completed on the Orbiter; May 8-- arrival of Discovery's primary payload, a Tracking and Data Relay Satellite, at Kennedy for installation aboard the Shuttle; May 15--Discovery rollover to the Vehicle Assembly Building, where the Orbiter will be mated with its main fuel tank and solid rocket boosters; and May 24, rollout of the Shuttle to Launch Pad B.

Visit to Shuttle Mission Simulator, Johnson Space Center, Houston, TX--This full-scale mockup of the Space Shuttle's flight deck provided realistic, computer-driven flight training for the crew. During a tour of this facility, the President could meet with crew of Discovery and enjoy an excellent photo opportunity with Mission Commander Rick Hauck, with the President positioned in the pilot's seat. could be timed with the House Republican Conference meeting in Houston, Texas, on March 24-26, 1988. Most of the Republican Members of the House of Representatives, along with their spouses, are expected to attend. The Conference theme is "Congress of Tomorrow"--focusing on the changes and challenges our Nation faces as we enter the 21st century. The Conference will open on Thursday evening, March 24, with a gala dinner at the Johnson Space Center in Building 9A, site of the full scale Shuttle mockup. Thursday evening's event offers a prime opportunity for a Presidential appearance.

Space Station Mockup, Marshall Space Flight Center, Huntsville, AL--The full-scale engineering models of the Space Station's laboratory and habitation modules offer an impressive and realistic view of this project. The President's commitment to the Space Station as the key to U.S. leadership in space makes this a natural setting for a public appearance. (Sen. Kennedy and Rep. Gephardt have already visited the Space Station mockup.)

Orbiter Naming Contest--The public release of the Announcement of Opportunity for the Orbiter Naming Project is March 1988. A new project could be to announce a national student competition to provide the name for the U.S. Space Station. This is especially significant as Space Station will provide an incentive for students to enter the fields of science and engineering . . . knowing that these challenges and disciplines will exist for them throughout their careers.

TAB 1 (CONTINUED)

Space Camp opportunities--

- They are now planning a dedication of their new Space Camp facility Training Center in Huntsville, Alabama, in March (we could influence the date;)
- The Center is also planning its 18th anniversary celebration March 17:
- There are classes of students there through the next several months, with former astronauts--Al Shepard, Al Beam, Wally Schirra, Joe Allen, and others--participating with the students from time to time (again, this could easily be stage to meet our needs):
- They hope to have the new full stack of the Shuttle Pathfinder dedicated in late May; engineering model of Skylab is to be in place and dedicated May 11; and the new dorm, a four-story building to house some 400 Space Campers, is expected to be completed and dedicated in late May or early June.

Inspection of Hubble Space Telescope, Lockheed Missile & Space Co., Sunnyvale, CA--The Hubble Space Telescope, one of the four "Great Observatories" that will revolutionize space science, is being maintained in a "super clean room" at Lockheed's large and modern facility, awaiting launch aboard the Space Shuttle in 1989. The telescope will be able to peer far into space, inspecting some of the universe's most intriguing objects, and providing imagery of unprecedented clarity. A tour of the plant could include inspection of the telescope's instrumentation, meeting key scientists involved with the program, and viewing the impressive, six-story-high telescope.

PRESIDENTIAL ACTION: PARTICIPATION IN EVENTS AND OFFERING REMARKS, AS APPROPRIATE.

RESPONSIBLE AUTHORITY: TOM GRISCOM, COMMUNICATIONS DIRECTOR

TIMELINE: COMMENCING AT EARLIEST OPPORTUNITY; SUCCEEDING MONTHS, THROUGH REMAINDER OF TERM

TAB 2

STATEMENT OF RATIONALE:

Beginning with an engine test firing on March 10 (Dr. Fletcher will attend,) the plan is to fire an engine approximately every 5 days during March. After that, the plan is to conduct 4-5 engine firings per month. Additionally, given a 7-10 day advance notice, an engine could be fired anytime.

Such a visit by the President seems ideal - it permits direct lobbying of Senator Stennis for NASA funding (NSTL is a pet concern of the Senior Senator); it's in Trent Lott's district and his is an important Senate race; there is a State financed technology transfer facility recently completed at the site; and it's great "photo-op" as well as very impressive (and reasonably reliable) event to experience.

NOTE: Should such a visit not be possible in March, it is strongly suggested that the President telephone Senator Stennis to appeal for favorable committee action on NASA and NSF funding.

PRESIDENTIAL ACTION: TELEPHONE CALL TO SENATOR JOHN STENNIS

RESPONSIBLE AUTHORITY: ALAN KRANOWITZ, DIRECTOR,
CONGRESSIONAL RELATIONS

TIMELINE: MARCH, 1988

STATEMENT OF RATIONALE:

The objective of this proposal is to secure enactment of FY 1989 appropriations reflecting the President's priority for increases in basic science, space and technology activities (budget function 250).

Establishment of a formal organizational change within the White House at this point in the Reagan administration would serve to dramatize the Presidential level of interest in space and science policy, and would establish a precedent for the President's successor. This notion is discussed in greater detail in Action Item #4, which follows, and in the associated TAB materials.

However, with respect to the immediate requirements of the Congressional budget and appropriations process, an informal "task group" headed by someone on the White House staff who would expedite members meetings with the President, or timely phone calls, and who could call agency and Congressional personnel to work in a coordinated manner is crucial since the decision points in this year's Congressional calendar cannot be nailed down, but will probably occur faster than a more formal organization can respond.

Critical Decision Points

It is important to recognize that aggregate budgetary constraints, under existing congressional procedures, make it difficult to sustain proposed programmatic increases in the budget resolution, authorizing measures, as well as the appropriations bills. Failure to succeed at any step along the way in the Congressional process could be very prejudicial to final enactment of appropriations preserving the President's priorities for space and science.

An added complication this session is the stated intention to move individual appropriations bills on an expedited schedule. As part of this scheme, it appears that the Senate Appropriations Committee will attempt to make a "tentative" subcommittee budget allocation in March - well before the Budget Resolution consideration can be expected to occur. Similarly, the House Appropriations Committee is planning a "tentative" allocation by mid-April to permit the mark-ups of individual bills later that month and in May.

While tentative, these allocations will be extremely difficult to revise in the normal allocation process following adoption of the budget resolution, especially if appropriation mark-ups have occurred as planned. It is therefore critical that key members of the Appropriations Committee be urged to adopt a tentative allocation more in line with the President's request than a simple subcommittee-by-subcommittee percentage adjustment.

TAB 3 (CONTINUED)

Since funding for both NASA as well as NSF are included in the HUD-Independent Agencies Appropriations Bill, mark-ups and floor consideration of this measure represent important decision points, however it should be noted that without an adequate budget allocation, the President's proposed increases in space and science will not be politically viable.

Other potentially important decision points will be during consideration of the budget resolution and the authorizing bills, however, these may be significantly diminished in significance if they follow appropriations action.

Other Recommended Actions

Calling a White House meeting, or series of meetings highlighting the President's concern for space and science funding with key Congressional Members. Included should be the Chairman and Ranking Minority members of the Budget, Appropriations, and Authorizing Committees. If scheduling permits, the appropriate subcommittee leadership and other interested members should be included.

PRESIDENTIAL ACTION: DESIGNATION OF RESPONSIBLE "POINT-PERSON"; PARTICIPATION IN PROPOSED ACTIVITIES THROUGHOUT BUDGET/APPROPRIATIONS CYCLE.

RESPONSIBLE AUTHORITY: HOWARD BAKER, CHIEF OF STAFF; ALAN KRANOWITZ, DIRECTOR, CONGRESSIONAL RELATIONS

TIMELINE: IMMEDIATE DESIGNATION; PARTICIPATION OVER BUDGET CYCLE

TAB 4

STATEMENT OF RATIONALE:

There is no clear authority at the level of the Executive Office of the President for the over-all coordination, preparation and articulation of the US Space Policy, reaching across the Military, Civil and Private Sector Space arenas. The result is not only a lack of visible leadership, but a "committee" or "consensus" process that more frequently results in stalemates or delays than vigorous and positive direction. A good example was the inordinate delay in a decision regarding a replacement orbiter in 1986, which finally was resolved through Congressional action.

Three proposed options regarding this point are discussed at the next three TABS (4-A, 4-B, and 4-C)

PRESIDENTIAL ACTION: SELECT OPTION OR ALTERNATIVE

RESPONSIBLE AUTHORITY: HOWARD BAKER, CHIEF OF STAFF

TIMELINE: SOONEST, TO ENABLE ANNOUNCEMENT AND/OR DESIGNATION IN EARLY "MAJOR ADDRESS" (SEE ABOVE) AND TO ENABLE PARTICIPATION IN CURRENT BUDGET/APPROPRIATIONS CYCLE.

STATEMENT OF RATIONALE:

In the example given of "stalemate" earlier, it was the "institutional failure" of the SIG/SPACE process that contributed to costly and unnecessary delays in a decision. "Turf" mentality is altogether too intense without the involvement of a higher authority with the "big picture", and the authority to inject "compromise" into the "consensus" process.

The same "turf" mentality was instrumental in causing the President to veto the 1986 Authorization Bill because it included a provision calling for the re-establishment of the National Space Policy Council. Those internal objections should be over-ridden and that position reversed.

The current timing, however, may argue against adopting this "ideal" solution, in view of the Presidential campaign and the potential for "politicization" of the Vice President's role as Council chairman, or his inability to spend the necessary time to exert leadership on behalf of the President, while a candidate. On the other hand, the Council could be established with either the Chief of Staff of the White House, the NASA Administrator, or another designated senior official as "Acting Chairman".

There continues to be considerable interest in the Congress for reestablishment of the Council, and this option would generate a good deal of immediate support on the Hill, and bring high praise for an important first step in revitalizing the nation's Space Program. It would also be very welcome news to the vast majority of individuals and organizations which have an interest in US Space Policy. Except, of course, to our international competitors, who are undoubtedly happy with our current situation, which has given them at least a two-year "catch up" opportunity (and arguably much longer than that, given lead-times and start-up times to fully reactivate our space launch capabilities).

ACTION, ETC: SEE TAB 4

TAB 4-B

STATEMENT OF RATIONALE:

Assuming available budget and authority, this option is obviously less controversial, internally, and much easier to implement quickly, which is an important consideration.

The key to success of this option is the level of authority such an individual would have in securing the cooperation and participation of the various agencies and Departments, as well as other members of the White House staff with space-related responsibilities (such as the appropriate individual at the National Security Council and the Science Advisor, for example).

Sufficient rank and reporting authority directly to the President, through the Chief of Staff, would seem to be minimal requirements.

ACTION, ETC: SEE TAB 4

TAB 5

STATEMENT OF RATIONALE:

The vast majority of Americans, according to every survey conducted on the subject in recent years--including post-Challenger accident--continue to hold a high level of support for and confidence in the nation's space effort.

What is lacking, however, has been a readily identifiable and active "constituency" for supporting budget and program requests and initiatives.

In the past two years there has been an upsurge in the number of individual and group efforts to rally behind the space program. Many of these came about in response to the Challenger accident, and the need felt by many people to express themselves in support of the space program in the wake of that tragedy.

There are some forty-plus organizations with a focus on the space program (e.g., U.S. Space Foundation, National Space Society, Space Cause, Challenger Center, Young Astronauts, Astronaut Memorial Foundation, etc.). Many of them have similar objectives and programs and most of them appeal to the same corporate base for financial support of their activities.

There are currently discussions and efforts under way among several of these organizations to find ways to pool their resources and coordinate their efforts around a set of common themes and objectives, in order to avoid diluting their impact. Collectively, they represent, along with their membership and support rosters, a very substantial and potentially very effective "constituency" for space.

This recommendation is intended to bring this important fact to the President's attention, and to suggest that requests for involvement and support of those coordination efforts be given very serious consideration by the appropriate officials, for possible Presidential involvement.

It may also be appropriate for the White House to consider adopting a more "activist" role in encouraging and promoting such unified and coordinated efforts.

PRESIDENTIAL ACTION: APPEARANCE AT EVENTS; CONTINUED PARTICIPATION IN PUBLIC SERVICE ADVERTISING CAMPAIGNS, AS APPROPRIATE; SPEECHES AND STATEMENTS IN SUPPORT OF UNIFIED EFFORTS.

RESPONSIBLE AUTHORITY: TOM GRISCOM, COMMUNICATIONS DIRECTOR; FRED RYAN, DIRECTOR, OFFICE OF PRIVATE SECTOR INITIATIVES; A.B. CULVAHOUSE, WHITE HOUSE COUNSEL; (DESIGNATED OFFICIAL ITEM #4, ABOVE).

TIMELINE: ONGOING, AS OPPORTUNITIES ARISE OR CAN BE GENERATED.

TAB 6

STATEMENT OF RATIONALE:

Such a letter could highlight the President's desire to leave a legacy of solid investment in programs crucial to the nation's economic future. Furthermore, its unusual nature will probably be of good news value.

PRESIDENTIAL ACTION: SEND LETTER

RESPONSIBLE AUTHORITY: FRANK DONATELLI, ASSISTANT TO THE
PRESIDENT FOR INTERGOVERNMENTAL AND POLITICAL AFFAIRS

TIMELINE: SOONEST, BUT PERHAPS BEST FOLLOWING, OR EVEN A PART
OF A MAJOR ADDRESS ON THE SUBJECT.

ROBERT C. BYRD, WEST VIRGINIA
WILLIAM PROXMIRE, WISCONSIN
DANIEL K. INOUE, HAWAII
ERNEST F. HOLLINGS, SOUTH CAROLINA
LAWTON CHILES, FLORIDA
J. BENNETT JOHNSTON, LOUISIANA
QUENTIN N. BURDICK, NORTH DAKOTA
PATRICK J. LEAHY, VERMONT
JIM SASSER, TENNESSEE
DENNIS DECONCINI, ARIZONA
DALE BUMPERS, ARKANSAS
FRANK R. LAUTENBERG, NEW JERSEY
TOM HARKIN, IOWA
BARBARA A. MIKULSKI, MARYLAND
HARRY REID, NEVADA

MARK D. HATFIELD, OREGON
TED STEVENS, ALASKA
LDWELL P. WEICKER, JR., CONNECTICUT
JAMES A. MCCLURE, IDAHO
JAKE GARN, UTAH
THAD COCHRAN, MISSISSIPPI
ROBERT W. KASTEN, JR., WISCONSIN
ALFONSE M. D'AMATO, NEW YORK
WARREN RUDMAN, NEW HAMPSHIRE
ARLEN SPECTER, PENNSYLVANIA
PETE V. DOMENICI, NEW MEXICO
CHARLES E. GRASSLEY, IOWA
DON NICKLES, OKLAHOMA

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510-8025

FRANCIS J. SULLIVAN, STAFF DIRECTOR
J. KEITH KENNEDY, MINORITY STAFF DIRECTOR

March 14, 1988

MEMORANDUM

TO : Howard Baker, White House
Chief of Staff

FROM: Jake Garn

RE : Appropriations Committee Budget Allocations

The Senate Appropriations Committee, in March, is planning to "tentatively" allocate to its subcommittees the amounts for FY 1989 that were specified in the Bipartisan Budget Agreement. The House is likely to complete its allocation by the middle of April.

These allocations effectively preempt the Budget Resolution process and will serve as the controlling factor on Appropriations Bills in this session. Furthermore, the levels of budgetary resources provided individual subcommittees will largely determine whether initiatives proposed in the President's budget will be enacted into law.

This allocation is especially critical for the President's science and space funding proposals under the jurisdiction of the HUD-Independent Agencies Subcommittee. Here the Administration is requesting a budget authority increase of nearly \$3 billion for NASA and NSF while recommending reductions totalling \$2.4 billion in HUD and EPA. In aggregate, these changes in budget authority nearly offset each other, but since the space and science activities outlay at a much higher rate than housing and EPA construction grants, the Subcommittee's outlay allocation must be significantly increased to accommodate the President's priorities.

Unfortunately, the Committee's normal disposition in allocating very tight budgetary resources is to resort to a simple, and mindless, across-the-board percentage adjustment. While such an allocation will yield about the same level of budget authority for the HUD Subcommittee, it will provide insufficient outlays to achieve even a significant fraction of the President's proposed increases for NASA and NSF. Moreover, the mentality of simple percentage adjustments will preclude reductions in housing, community development, and wastewater treatment plant construction, and indeed the availability of budget authority with constrained outlays will limit its use to such low outlay activities.

Since defense funding is covered by a separate "cap" under the Bipartisan Budget Agreement, Senator Stennis in his role as subcommittee chairman has no stake in the outcome of the allocation. He is probably pre-disposed to recommend an across-the-board percentage adjustment as the simplest and easiest means of setting the allocation for the non-defense domestic bills.

A personal appeal from the President to preserve the increase for space and science is needed to secure Senator Stennis' attention and support in the allocation meetings.

Possible Talking Points

1. John, you and I are in our last year of government service and while you have been "plowing a straight furrow" for a lot longer time than I have, we both share a sense of pride and concern for our Nation.

Pride in what we have been able to contribute to the military and moral strength of America. And concern for the legacy our actions will leave for our children and grandchildren as the Nation moves into the highly competitive global economy of the 1990's and beyond.

2. In my eight years in office, I am proud to have had the opportunity to work with you in restoring our defense posture. But equally important to me is our urgent need to revitalize our scientific and technological base which is the key to maintaining not only our military superiority but also to assure the continued health of our economy.

3. The Bipartisan Budget Agreement, as you well know, establishes fixed caps on government spending, and living within these levels will be very difficult. But despite these difficulties we still must move forward with new priorities and programs to meet the challenges confronting the Nation. Now, more than ever before, it is critical that we commit ourselves to the pain and sacrifice needed to invest in programs that are truly important for the Nation's future.

4. Despite the overall budgetary constraints, I have proposed in my request that NASA funding be increased by \$2.6 billion (a 30% increase) and the National Science Foundation by \$333 million (a 21% increase). I know from your efforts on behalf of NSTL (National Space Transportation Laboratory in Bay St. Louis, Mississippi) that you well appreciate how critical it is that we revitalize our civilian space program. Just as it was when Werner Von Braun talked to your farmers on the Gulf Coast, the challenges we face in space now are enormous, but the potential for our Nation is limitless.

Similarly, in basic science and technology, your State of Mississippi is a model to the Nation for its commitment to education and its pursuit of the economic benefits flowing from a vigorous research and development program.

5. Your Committee will shortly undertake the difficult task of allocating, among its subcommittees, the limited budgetary resources provided in the Summit Agreement. I know that you are giving this matter a great deal of thought and careful consideration. I hope you will agree and urge your Committee to adopt a budget allocation which will permit funding of the space and science initiatives in the budget request.

Sunday, January 31, 1988

TO : Senator Baker
FROM : Dan
RE : Pending Banking Legislation

Joe
file
Ken
agreement
- R. W. [unclear]

Background

A provision in last year's legislation recapitalizing FSLIC placed a moratorium on the ability of Federal regulators to grant banks authority to offer new products or services. This moratorium, which expires at the end of February, was designed in part to force the opposing parties (largely banks vs. securities firms) to come to some accommodation. While that has not happened, the moratorium and its pending expiration have spawned a raft of hearings and several new legislative proposals. Most of the legislation has been developed in the Senate where a bill is expected to be reported and passed this year. The House, however, has split jurisdiction (St Germain and Dingell) and is historically recalcitrant on legislation that grants banks expanded powers.

Major Bills

Proxmire and Garn, working with the Administration, have introduced the "Financial Modernization Act" which would permit bank holding companies to engage in a full range of securities activities through a subsidiary insulated from insured deposits. It would also permit the affiliation of commercial banks with investment banks (but prevent a combination of the largest 15 in either industry) and relies on the current system of regulation.

D'Amato and Cranston have introduced a more sweeping proposal which would allow any company, including commercial, non-financial firms to establish a depository institution holding company. A new layer of regulation would be established to provide over-arching supervision.

Wirth and Graham have attempted to convert Gerry Corrigan's proposal (which includes sweeping changes in Glass-Steagall but the continued separation of banking and commerce) into legislation and would establish a whole new system of regulation and the creation of a new independent agency to administer it.

Administration Position

We support the Proxmire-Garn bill as the proper first step in restructuring the financial services industry. The other pending legislation is overly ambitious and has virtually no chance of enactment. As importantly, the Administration is strongly opposed to extending the moratorium beyond March 1—the President said as much when he signed the FSLIC bill. Given the uncertain outlook of any legislation in the House, the expiration of the moratorium will let the Fed and other regulators proceed with selected expansions of bank powers.

THE WHITE HOUSE

WASHINGTON

✓
HB
12/18

December 10, 1987

MEMORANDUM FOR SENATOR HOWARD H. BAKER, JR.

FROM: WILLIAM L. BALL, III /²

SUBJECT: Status of Budget Agreement

You said this morning that you would discuss with the President the current prospects for his receiving the Reconciliation Bill and the Continuing Resolution in unacceptable form. This obviously has a bearing on the schedule of the Congress, since the House and Senate Leadership now plan to adjourn as soon as these measures are completed and to convene the second session on January 25, 1988.

We have issued, to date, a number of statements citing unacceptable provisions in both bills. A number of these problems will not be resolved until Conference, but it is useful to note the number of obstacles that now exist, or are likely to exist, prior to the commencement of Conference deliberations on both bills.

The attached schedule provides a summary of such provisions. Also attached are background documents sent to the Hill stating our objections to these provisions.

RECONCILIATION BILL (H.R. 3545)

- o House version (passed on November 20 before final budget agreement)
 - o Adds \$14 billion in new taxes.
 - o Bill actually increases spending rather than reducing it.
 - o Totally unacceptable.

- o Senate version.
 - o Agriculture Title has cut year costs (soybean marketing loan), and limits loan rate drop to 1%.
 - o Commerce Title must be stripped [Fairness Doctrine, FCC user fee (transfer tax)].
 - o Asset Sales proposed are unacceptable without reforms (REA).

CONTINUING RESOLUTION (H.J. Res. 395)

- o House
 - o Funding levels exceed the bipartisan budget agreement. No specific reductions identified to reach Summit savings.
 - o No funds for non-lethal aid to Contras.
 - o Five objectionable arms control provisions remain.
 - o Reinstatement of certain authorizing bills such as the Fairness Doctrine and changes to Clean Air Act Deadlines.

- o Senate
 - o No funding for non-lethal aid to Contras.
 - o Ban on Stinger missile sales to Persian Gulf countries.
 - o Funding levels do not comport to budget agreement.
 - o Possible additions of authorizing bills such as Fairness Doctrine, Clean Air.

Attachments: Presidential letters to Speaker and Bob Michel on CR
OMB veto statement on House CR
OMB veto statement on Senate CR
OMB letter on Reconciliation - Baker, Miller
signatures
List of appropriations bills with veto signals.

THE WHITE HOUSE

WASHINGTON

December 1, 1987

Dear Mr. Speaker:

This is to register my concerns with the provisions of H.J. Res. 395, the Continuing Resolution, which I understand is scheduled to be considered in the House in the near future. While members of the House and Senate are working to develop legislation that would implement our bipartisan budget agreement, it would be counterproductive for the Congress to act on a measure that clearly violates both the spirit and the terms of that agreement.

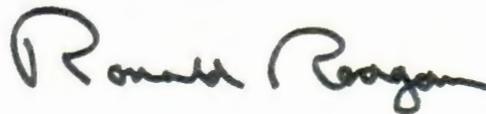
Let me also point out there are many extraneous provisions included in the Resolution to which I must take exception. In addition I am informed that further objectionable measures may be incorporated into the Resolution by the Rules Committee.

It is imperative in my view that essential nonlethal aid to the Nicaraguan democratic resistance be continued in the Resolution. To fail to provide such assistance at this critical time would undercut the peace process and undermine our commitment to democracy in Central America.

I trust that we can continue our bipartisan effort and work toward implementation of the agreement reached last month. I urge you and your colleagues to develop a Continuing Resolution that is faithful to our agreement.

We are working to carry out the Administration's part of this agreement, and I trust the House will do the same. If H.J. Res. 395 were sent to me in its current form for signature, I would have no hesitation in vetoing the measure.

Sincerely,



The Honorable Jim Wright
Speaker of the
House of Representatives
Washington, D.C. 20515



STATEMENT OF ADMINISTRATION POLICY

December 1, 1987
(House Rules)

H.J. RES. 395: FY 1988 OMNIBUS FULL-YEAR CONTINUING RESOLUTION
(Sponsor: Whitten (D) Mississippi)

The President's senior advisers would recommend veto of the full-year continuing resolution as reported by the House Appropriations Committee. It is deficient for several reasons.

H.J. Res. 395 fails to reflect the budget agreement reached between the President and the bipartisan leadership of the Congress. The Administration therefore supports amendments to bring the resolution into conformity with that agreement.

The resolution also fails to include non-lethal aid to sustain the Nicaraguan democratic resistance while the process leading to security and democracy in Central America unfolds.

In addition, by referencing House-passed or House-reported bills, the continuing resolution includes language provisions that by themselves, make the resolution unacceptable. The most serious objectionable provisions, any of which would cause a veto recommendation, include:

- o Deleting the authority of the Secretary of Treasury to disallow any premium-free prepayment of REA-guaranteed FFB direct loans (Rural Development);
- o Prohibiting any effort to alter the method of computing normalized prices for agricultural commodities in effect January 1, 1987, (Rural Development);
- o Specifying detailed up-front appropriations for each of the CCC farm price support programs (Rural Development);
- o Authorizing GSA to acquire a building in Chicago, IL, and buildings for the EPA and DOT through lease purchase arrangements (Treasury/Postal);
- o The continuing resolution contains numerous statutory minimum employment floors, thus reducing the Administration's flexibility to allocate personnel resources to meet changing circumstances and must be deleted or modified in an acceptable way; and

- o The continuing resolution includes a number of provisions that unnecessarily and imprudently infringe on legitimate Executive Branch policy and managerial functions and must be deleted or modified in an acceptable way.
- o Prohibiting or restricting the sale of loan assets held by the Economic Development Administration, Agricultural Credit Insurance Fund, and HUD's Rehabilitation loan fund (Commerce/Justice/State, Rural Development, and HUD/Independent Agencies);
- o Blocking the Bureau of Reclamation from moving to Denver or reorganizing as planned until Congress can review the plans (Energy/Water);
- o Incorporating numerous unbudgeted construction starts and other add-ons for Army Corps of Engineers water projects, including mandated funding for: (1) the next segment of the uneconomic \$1.6 billion Red River Waterway, LA, and (2) Helena Harbor, AR (Energy/Water);
- o Rescinding \$64 million in previously appropriated funds that were committed to Korea (Foreign Operations);
- o Requiring that structures on the Outer Continental Shelf contain at least 50 percent of U.S. materials (Interior);

These and other equally objectionable provisions, any of which, would cause a veto recommendation, are identified in the attachment.

The following four items concerning arms control can be resolved by amending the provision to make them consistent with the DOD Authorization Conference Report:

- o Prohibiting the development, testing, or deployment of an ABM System under certain circumstances (Defense);
- o Limiting U.S. strategic nuclear forces to the numerical sublimits of the SALT II agreement (Defense);

- o Prohibiting U.S. nuclear explosions exceeding one kiloton (Defense);
- o Imposing a one-year moratorium on the testing of the Space Defense System (ASAT) against objects in space (Defense);

The Administration is strongly opposed to efforts expected on House floor to add entire authorizing bills to the continuing resolution. For example, inclusion of the Fairness Doctrine would cause a veto recommendation. An omnibus continuing resolution is not the appropriate vehicle to include legislation that should be debated and enacted separately. Any attempt to ensure passage of legislation in this way would make the bill unacceptable to the President.

The Administration objects to funding levels provided in specific portions of the measure. Also, as mentioned earlier, it is absolutely imperative that funding levels provided in FY 1988 appropriations bills be consistent with the bipartisan budget agreement for domestic, international, and defense spending. Action taken on appropriations bills, in conjunction with reconciliation, must achieve the important and necessary reductions to the deficit.

Finally, the bill contains numerous other objectionable provisions, any combination of which could trigger a veto. The provisions have been summarized in previous Statements of Administration Policy on each of the bills included in the resolution by reference.

The Administration urges the House to craft an appropriations measure that comports with the bipartisan agreement and is free of extraneous language provisions so that the President's senior advisers may recommend approval.



STATEMENT OF ADMINISTRATION POLICY

MOST OBJECTIONABLE LANGUAGE ITEMS IN
FULL YEAR CONTINUING RESOLUTION,
H.J.Res. 395

ANY ONE OF WHICH WOULD TRIGGER VETO RECOMMENDATION

Rural Devel

- The Continuing Resolution (CR) deletes the authority of the Secretary of Treasury to disallow any premium-free prepayment of REA-guaranteed FFB direct loans. Must be deleted or modified in an acceptable way.
- The CR prohibits any efforts to alter the method of computing normalized prices for agricultural commodities in effect January 1, 1987, thus blocking Administration effort to end water subsidy/price subsidy double-dip. Must be deleted.
- The CR specifies detailed up-front appropriations for each of the CCC farm price support programs. This will be difficult to administer and will likely result in unwarranted delays in providing loans and payments to farmers. Must be deleted.
- The CR precludes sale of loans made by the Agricultural Credit Insurance Fund. Must be deleted.
- The CR denies use of private debt collection agencies in FmHA. Must be deleted.

Com/Jus/State

- The CR prohibits the sale of EDA loans without approval of borrower. Must be deleted.

Defense

- The CR prohibits development, testing, or deployment of an ABM System under certain circumstances. Must be deleted or modified in an acceptable way.
- The CR limits U.S. strategic nuclear forces to the numerical sublimits of the SALT II agreement. Must be deleted or modified in an acceptable way.
- The CR prohibits U.S. nuclear explosions exceeding one kiloton. Must be deleted or modified in an acceptable way.
- The CR imposes a one year moratorium on testing of Space Defense System (ASAT) against objects in space. Must be deleted or modified in an acceptable way.
- The CR prohibits DoD from purchasing foreign-made supercomputers unless the Secretary certifies that capability is not available from U.S. manufacturers. Must be deleted.
- The CR prohibits DoD procurement from Toshiba and Kongsberg unless the Secretary certifies that compliance would be detrimental to national security. The CR prohibits purchase or sale of Toshiba products in commissaries and exchanges. Must be deleted.
- The CR eliminates funding for A-76 studies or contracting-out for any reservoir administered by the Corps of Engineers. Must be deleted.

Dist of Columbia - None.

- Energy and Water - The CR blocks the Bureau of Reclamation from moving to Denver or reorganizing as planned until Congress can review the plans. Must be deleted or modified in an acceptable way.
- The CR includes over 40 unbudgeted construction starts and other add-ons for Army Corps of Engineers water projects. Particularly objectionable is the mandated funding for: (a) the next segment of the uneconomic \$1.6 billion Red River Waterway (LA) and (b) Helena Harbor (AR). Must be deleted.
- Foreign Ops - The CR rescinds \$64 million in previously appropriated funds that were committed to Korea which, it is claimed, is the amount of the benefit Korea will receive under the debt restructuring proposal. Must be deleted.
- The CR prohibits use of U.S.-supplied military equipment by Turkish troops on Cyprus and codifies the 7:10 ratio of military aid to Greece and Turkey. Must be deleted.
- HUD-Independent - The CR prohibits selling section 312 direct loans made to rehabilitate single and multi-family units. Must be deleted.
- Interior - The CR requires that structures on the OCS contain at least 50 percent U.S. materials. Must be deleted.
- Labor/HHS/Ed - None.
- Legis. Branch - None.
- Mil Con - None.
- Transportation - None.

Treasury/Postal

- The CR directs GSA to acquire a building in Chicago, Ill. and buildings for the EPA and DOT through lease purchase arrangements. Must be deleted.

Other

- The CR incorporates a 3 percent Federal Civilian pay raise in January 1988, with 65 percent absorption. Must be modified to conform with bipartisan budget agreement.
- The CR, in virtually every Subcommittee, includes numerous provisions which intrude unnecessarily into Executive Branch responsibilities and have been detailed in previous Statements of Administration Policy (such as staffing floors and Chadha issues). Must be deleted or modified in an acceptable way.



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

DEC 7 1987

Honorable Robert Dole
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

As the Senate Appropriations Committee prepares to consider H.J. Res. 395, Full-Year Continuing Resolution for FY 1988, I want to express the Administration's strong objections to the bill passed by the House of Representatives on December 3, 1987. Unless appropriate actions are taken to resolve the deficiencies identified herein, the President's senior advisers would recommend veto of the resolution.

The resolution fails to reflect the budget agreement reached between the President and the bipartisan leadership of the Congress by identifying specific reductions to funding levels to reach the Summit savings. It is absolutely imperative that funding levels provided in FY 1988 appropriations bills be consistent with the bipartisan budget agreement for domestic, international, and defense spending. Furthermore, action taken on appropriations bills, in conjunction with reconciliation, must achieve the important and necessary reductions to the deficit. The Administration is encouraged by the Senate Appropriations Committee's international and defense funding as provided for in the Senate-reported FY 1988 Defense and Foreign Operations Appropriations bills.

The resolution also fails to include non-lethal aid to sustain the Nicaraguan democratic resistance while the process leading to security and democracy in Central America unfolds.

In addition, by referencing House-passed or House-reported bills, the continuing resolution includes language provisions that, by themselves, make the resolution unacceptable. The most serious objectionable provisions, any one of which would cause a veto recommendation, are identified in the enclosure.

For example, five items concerning arms control, any one of which would prompt a veto recommendation, are as follows:

- o Prohibit the development, testing, or deployment of an ABM System under certain circumstances (Defense);
- o Limit U.S. strategic nuclear forces to the numerical sublimits of the SALT II agreement (Defense);

IDENTICAL LETTERS SENT TO HONORABLE MARK O. HATFIELD,
HONORABLE ROBERT C. BYRD, AND HONORABLE JOHN C. STENNIS

- o Prohibit U.S. nuclear explosions exceeding one kiloton (Defense);
- o Impose a one-year moratorium on the testing of the Space Defense System (ASAT) against objects in space without providing adequate funding for the Miniature Homing Vehicle (MHV) and a related program (Defense); and
- o Prohibit the development or deployment of the Space-Based Interceptor Project (Defense).

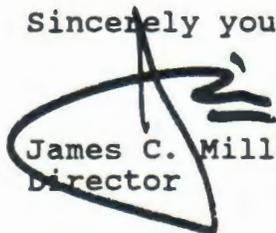
The Senate is commended highly for not including the five provisions. However, the enclosure does address seriously objectional provisions contained in the Senate-passed or Senate-reported bills. Thus, the actions of Committee should address the Administration's concerns not only on the House-passed resolution, but also on Senate appropriations actions to date.

The Administration is strongly opposed to efforts expected to add entire authorizing bills to the continuing resolution as demonstrated by the House's inclusion of the Fairness Doctrine, which the President has already vetoed. An omnibus continuing resolution is not the appropriate vehicle for legislation that should be debated and enacted separately, such as any changes in the deadlines to the Clean Air Act. Attempts to ensure passage of legislation in this way could result in a veto recommendation.

Finally, the resolution and individual Senate bills contain numerous other objectionable provisions in addition to those in the attachment, any combination of which could trigger a veto. These provisions have been summarized in previous Statements of Administration Policy on each of the thirteen individual appropriations bills.

The Administration urges the Committee to craft an appropriations measure that comports with the bipartisan agreement and is free of extraneous language provisions so that the President's senior advisers can recommend that he sign this legislation.

Sincerely yours,



James C. Miller III
Director

Enclosure

Defense

- Senate prohibits selling loans held by SBA or guaranteed by the SBA and held by the FFB and prohibits imposing new or increased SBA user fees. House and Senate prohibit sale of EDA loans without approval of borrower. Must be deleted.
- House prohibits development, testing, or deployment of an ABM System under certain circumstances. Must be deleted or modified in an acceptable way.
- House limits U.S. strategic nuclear forces to the numerical sublimits of the SALT II agreement. Must be deleted or modified in an acceptable way.
- House prohibits U.S. nuclear explosions exceeding one kiloton. Must be deleted or modified in an acceptable way.
- House imposes a one year moratorium on testing of Space Defense System (ASAT) against objects in space. Funding for ASAT must be consistent with P.L. 100-180 (DoD Authorization for fiscal years 1988 and 1989) and provide adequate funding for the Miniature Homing Vehicle (MHV) and directed energy programs related to the ASAT mission.
- House prohibits the development or deployment of the Space-Based Interceptor Project. Must be deleted or modified in an acceptable way.
- House prohibits DOD from purchasing foreign-made supercomputers unless the Secretary certifies that capability is not available from U.S. manufacturers. Must be deleted.
- House eliminates funding for A-76 studies or contracting-out for any reservoir administered by the Corps of Engineers. Must be deleted.
- Senate prohibits DoD from procuring certain machine tools not manufactured in the U.S. or Canada. Must be deleted.

- Dist of Columbia - Senate allows use of D.C. local funds for abortions. Must be deleted.
- Energy and Water - House blocks the Bureau of Reclamation from moving to Denver or reorganizing as planned until Congress can review the plans. Must be deleted or modified in an acceptable way.
- Senate requires a "cold shutdown" of N Reactor in Hanford, Washington. Must be deleted or conformed to the language in P.L. 100-180 (DoD Authorization Act).
 - Senate prohibits the Administration from studying or proposing any initiative to privatize the uranium enrichment programs unless GSA is used to dispose of the enterprise as surplus property. Must be deleted.
 - House includes 44 unbudgeted construction starts and other add-ons for Army Corps of Engineers water projects. The Senate includes 26. Particularly objectionable is the mandated funding for: (a) the next segment of the uneconomic \$1.6 billion Red River Waterway (LA) (House/Senate); (b) Helena Harbor (AR) (House/Senate); and (c) the Cooper River Seismic Modification (SC) (Senate). Must be deleted.
- Foreign Ops
- House rescinds \$64 million in previously appropriated funds that were committed to Korea which, it is claimed, is the amount of the benefit Korea will receive under the debt restructuring proposal. Must be deleted.
 - House prohibits use of U.S.-supplied military equipment by Turkish troops on Cyprus and codifies the 7:10 ratio of military aid to Greece and Turkey. Must be deleted.
 - Senate prohibits sale of Stinger missiles to the Persian Gulf. Must be deleted.
- HUD-Independent - House and Senate prohibit selling section 312 direct loans made to rehabilitate single and multi-family units. Must be deleted.

- Interior - House requires that structures on the OCS contain at least 50 percent U.S. materials. Must be deleted.
- Labor/HHS/Ed - None.
- Legis. Branch - None.
- Mil Con - None.
- Transportation - None.
- Treasury/Postal - Language directs GSA to acquire buildings in San Francisco, Ca. (Senate); Chicago, Ill. (House) and buildings for the EPA and DOT through lease purchase arrangements (House). Must be deleted.
- Senate requirement to reimburse the costs of detailing Federal employees to executive branch agencies. Should be deleted or substantially revised to respond to Administration concerns.
- House requires the expenditure of receipts from surplus silver disposal for the acquisition of chromium, cobalt, manganese, and platinum metals which are not needed to meet national security requirements. Must be deleted or modified in an acceptable way.
- Other - House incorporates a 3 percent Federal Civilian pay raise in January 1988, with 65 percent absorption. Must be modified to conform with bipartisan budget agreement.
- House, in virtually every Subcommittee, includes numerous provisions which intrude unnecessarily into Executive Branch responsibilities and have been detailed in previous Statements of Administration Policy (such as staffing floors and Chadha issues). Must be deleted or modified in an acceptable way.
- House attaches Fairness Doctrine authorizing legislation recently vetoed by the President.

- House prohibits promulgation or implementation of a proposed rulemaking on foreign repair stations for aircraft that was published in 11/87 by DOT and FAA. Must be deleted.
- House prohibits Japanese contractors or firms from participating in public works or public building construction projects. Must be deleted.
- House extends Clean Air Act deadlines for eight months. Any extension is unnecessary. Must be deleted.
- House exempts Members, Executive Schedule, SES, and Federal judges from the January 1988 pay increase. Administration defers to Congress on matters concerning its own pay; however, Executive and Judicial Branch officials should not be exempted from the Administration's recommended two percent pay increase.



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

December 10, 1987

Honorable Robert Dole
Minority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

As the Senate begins consideration of the reconciliation bill, we would like to outline the Administration's position.

The Administration would like to compliment the Leadership of the Senate, and particularly the Senate Finance Committee, for moving ahead to transform the budget agreement into specific legislative proposals. The reconciliation bill now on the Senate floor fails to carry out several parts of the agreement, and the Leadership amendment pending before the Senate has several shortcomings. These problems must be addressed satisfactorily before the President's Senior Advisors could recommend that he sign the measure.

The first problem concerns the savings in agriculture. The Agriculture Committee's plan would reverse or severely impede important progress made under the 1985 Farm Bill. For example, the maximum decline in loan rates would be no more than 1 percent in 1988 (as opposed to 5 percent under current law). This would send the wrong signal to our foreign competitors -- that we are willing to tolerate artificially high domestic prices, concede the world market to competing nations, and thereby jeopardize recent gains in agricultural exports. Moreover, the package mandates a new oilseed marketing loan program which would increase spending by some \$230 million per year and is counter to our negotiating stance in upcoming GATT negotiations. A budget agreement designed to reduce the deficit should not be used to expand government programs. The most straightforward method of achieving budget savings would be to accelerate the target price reductions to 2 percent -- a proposal which has been widely discussed and which we urge the Senate to adopt.

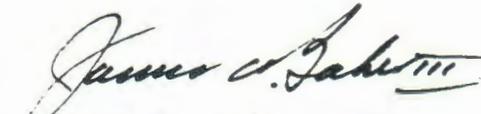
Another issue involving the Agriculture Committee's jurisdiction involves prepayment of loans. As we indicated during the recent budget negotiations, the prepayment of an estimated \$5.8 billion in Rural Electrification Administration (REA) loans would not be acceptable because of the substantial (greater than \$1.0 billion in present value terms) additional subsidy this would represent. However, the Administration would be willing to accept limited REA loan prepayment provided there were important and long overdue changes in the REA loan program to restrict abuses. A similar, and equally unacceptable, provision would permit prepayment of outstanding Rural Telephone Bank (RTB) loans without penalty. This provision must be deleted unless similarly reformed.

We realize, of course, that limiting REA and RTB prepayments means that other asset sales must be achieved in order to meet the FY 1988 and FY 1989 figures included in the agreement. We believe that objective can best be achieved through the sale of the Naval Petroleum Reserves (NPR) and other physical assets. (The Administration is proposing that the NPR sale authorization also provide for a portion of the proceeds to be used to establish a new Defense oil stockpile, with the remainder earmarked to complete oil acquisition for the Strategic Petroleum Reserve.) We understand that the Leadership amendment includes additional loan asset sales for both FY 1988 and FY 1989. Although we do not object to such sales, we note that the Administration intends to accomplish most of them under current law, and so we question whether all should be claimed in meeting the figures included in the budget agreement.

Two Senate Commerce Committee provisions must be removed in order to make the bill acceptable. First, there is a provision that codifies the Fairness Doctrine. As you know, last June the President vetoed free-standing legislation to accomplish this objective. Another Commerce Committee provision would set a fee for the transfer of Federal Communications Commission licenses and establish a trust fund. This fee would fall most heavily on owners of the least economically viable licenses -- AM radio and UHF television. The public broadcasting trust fund established with revenue from the transfer fee is also objectionable and must be deleted.

These modifications to the reconciliation bill are essential if we are to achieve the savings set forth in the budget agreement. We in the Administration stand fully prepared to work with you and your colleagues in Congress as you grapple with these most important issues under severe pressure. But we urge you to pass a reconciliation bill in the Senate that we could recommend the President approve.

Sincerely yours,


James A. Baker III
Secretary of Treasury


James C. Miller III
Director of OMB

IDENTICAL LETTER SENT TO HONORABLE ROBERT BYRD, HONORABLE
PETE DOMENICI, HONORABLE LAWTON CHILES

APPROPRIATIONS BILLS WITH STRONG VETO

1. Commerce/Justice/State

H.R. 2763 passed House 7/1, 292-102. Senate passed H.R. 2763 10/15, 82-9.

Position: Letter to Senate Subcommittee recommending veto of House bill sent on 7/23. SAP threatening veto sent to Senate on 9/29. Conferees letter sent 10/23. President's senior advisors recommend veto of either version.

Expected timing: Conference - timing uncertain.

Major Veto Theme: Excessive Domestic spending; and insufficient funds for State Department/USIA. House bill deletes funds for Civil Rights Commission.

2. District of Columbia

H.R. 2713 passed House 6/26, 225-113. H.R. 2713 passed Senate 9/30, 76-23.

Position: Letter to Senate Subcommittee evaluating House bill sent on 7/16. SAP threatening veto sent to Senate on 9/29. House bill did not have a veto threat on it. Conferees letter sent on 10/16. Veto recommendation on Senate bill.

Expected Timing: Conference - timing uncertain.

Major Veto Theme: Language permitting District to use local funds for abortion (Senate), and direct payment for Federal Water and Sewer.

3. Interior and Related Agencies

H.R. 2712 passed the House 6/25, 295-115. H.R. 2712 passed the Senate 9/30, 91-5.

Position: Letter to Senate Subcommittee recommending veto House bill sent on 7/8. SAP threatening veto sent to Senate on 9/25. Conference letter sent on 10/16. President's senior advisors recommend veto of either version.

Expected Timing: Conference - timing uncertain.

Major Veto Theme: Excessive spending; "Buy America" provision (House).

4. Defense

House Appropriations Committee reported 10/28. Senate Committee reported 12/3.

Position: Letter sent to House Committee on 10/27 expressing concern. Letter sent to Senate Subcommittee on 12/1 expressing concern.

Expected Timing: Will be incorporated into H.J. Res 395, Full year CR.

Major Opposition: House-passed version: \$23.4 billion below President's Budget. Includes objectionable arms control language (SALT II, ASAT, ABM, certain nuclear testing limits). Senate version is better, but still under review.

APPROPRIATIONS BILLS WITH OMB VETO OR STRONG OPPOSITION

5. Energy and Water

H.R. 2700 passed the House 6/24, 340-81. H.R. 2700 passed the Senate 11/18, 86-9.

Position: Letter to Senate Subcommittee evaluating House bill sent on 7/8. Letter to Senate Committee evaluating Subcommittee bill sent on 9/15. OMB Director Miller recommended veto on House bill, and opposition to Senate bill. SAP sent to Senate 10/2 opposes with potential veto threat on nuclear reactor provision.

Expected Timing: Conference - timing uncertain.

Major Opposition Theme: Increases Domestic spending, 50 unrequested Corp of Engineers Projects in House and 30 in Senate, and insufficient funds for Super Conducting, Super Collider (House). Language blocking restart of N Reactor in Washington State (Senate).

6. Foreign Operations

House Committee reported bill on 8/6. Senate Committee reported bill on 12/3.

Position: Letter to House full Committee evaluating Subcommittee bill sent on 8/5. (no veto but strongly oppose) Letter to Subcommittee sent on 12/1, strongly oppose.

Expected Timing: No House or Senate floor action expected, will be incorporated into H.J. Res. 395, full year CR.

Major Opposition Theme: House-passed version: Distorts President's priorities for foreign assistance, provides less discretionary budgeting authority than requested and excessive earmarking of funds. Senate: Does not include funds for STINGER missiles in Bahrain. FMS prepayment provision.

7. HUD and Independent Agencies

H.R. 2783 passed House 9/22, 348-68. Senate passed H.R. 2783 10/15, 86-12.

Position: SAP recommending veto by OMB Director sent to House on 6/30. Letter to Senate Committee sent 9/30 recommending veto by Director Miller. SAP sent 10/14, OMB Director recommending veto. Conference letter sent on 10/21. OMB Director recommends veto of either version.

Expected Timing: Conference - timing uncertain.

Major Veto Theme: Excessive spending (UDAG, CDBG, and VA Medical Care); substantial increases in loan guarantee ceilings for GNMA, FHA.

8. Labor/HHS/Ed

H.R. 3058 passed the House 8/5, 336-89. H.R. 3058 passed the Senate 10/14, 80-15.

Position: Letter to Senate Subcommittee recommending veto of House bill sent on 9/16. SAP sent 10/8, OMB Director recommends veto. Letter to Conferees sent 10/22, OMB Director recommends veto of either version.

Expected Timing: Conference began 11/9 - next meeting has not been scheduled.

Major Veto Theme: Excessive spending (Education, NIH). Title X Family Planning regulations bar (Senate).

9. Transportation

H.R. 2890 passed the House 7/13, 282-108. Senate passed H.R. 2890, 10/28, 84-10.

Position: Letter to Senate Subcommittee evaluating House bill sent on 8/18. Letter to Senate Committee evaluating Subcommittee bill sent on 10/1. (Veto signal on both bills). SAP sent 10/15, OMB Director recommending veto.

Expected Timing: Conference - timing uncertain.

Major Veto Theme: Excessive spending: 12 additional pork highway projects (House), 5 additional (Senate).

10. Treasury/Postal

H.R. 2907 passed the House 7/15, 254-158. H.R. 2907 passed the Senate 9/25, 84-7.

Position: Letter to Senate Subcommittee recommending veto of House bill sent on 8/4. SAP recommending veto by Director Miller sent to Senate on 9/25. Conference letter sent on 10/16 with OMB veto recommendation on both versions.

Expected Timing: Conference - timing uncertain.

Major Veto Theme: Excessive spending and micro-management, language limiting Federal Employee details - (Senate).

11. Rural Development/Agriculture

House Appropriations Committee reported out its bill, 10/20. Senate Appropriations Committee reported out its bill, 10/16.

Position: OMB veto recommendation included in letter to House Committee on 10/20 and Senate Committee on 10/16. SAP sent to House and Senate with Secretary of Agriculture and OMB recommending veto, 11/10.

Expected Timing: House and Senate floor action (incorporated into H.J. Res 395, full year CR).

Major Theme: Excessive domestic spending, no terminations of duplicative rural housing/development loan programs or REA subsidies, no proposed user fees, House language blocking Administration effort to stop "double subsidy" for farms who get water subsidies and price support payments and House language which permits premium free prepayment of REA/FFB loans.

APPROPRIATIONS BILLS WITH OPPOSITION/NEUTRAL POSITION

12. Military Construction

H.R. 2906 passed the House 7/14, 371-48. Senate passed H.R. 2906, 10/27, 93-0.

Position: Letter to Senate Subcommittee expressing concern with House bill sent on 7/23. SAP sent on 10/20 expressing concern. Letter to Conferees sent 11/9 expressing concern.

Expected Timing: Conference - timing uncertain.

Major Opposition Theme: Below President's funding request; insufficient funds for SDI test facilities, homeporting and White House support complex in Washington, D.C. (House).

13. Legislative Branch

H.R. 2714 passed the House 6/29, 228-150. H.R. 2714 passed the Senate 9/30, 79-19.

Position: The Administration defers to Congress on their appropriations; however, a letter was sent on 11/16 which objects to Senate language prohibiting certain Executive Branch printing procurement.

Expected timing: Conference - timing uncertain.

December 13, 1987

V
AB

TO : Senator Baker
FROM : Dan
RE : Issues of the Week

Budget

Reconciliation will be more difficult to successfully conclude, especially the spending provisions. I recommend a meeting of Administration negotiators early in the week to reaffirm your involvement. The Domenici meeting should probably be expanded to include key Democratic Senators. A call or meeting with Foley would also be useful. [See attached]

Monetary Policy

The FOMC will be meeting on Tuesday and Wednesday (a week earlier than originally scheduled). If we chose to make our druthers known, we need to quickly assess our position and decide how to transmit the message. Sprinkel is clearly on the side expanding money growth, even at the expense of the dollar. JAB III tends to agree, but is concerned about the impact on the dollar and our ability to do anything about it. Greenspan appears to be less concerned about a recession at this juncture, is unsure of what our dollar policy should be, and prefers to wait until some weakness in the economy appears. I believe some monetary expansion is warranted. A clear decision on dollar policy is critical. [See attached}

Housing

Domenici and Garn have not come to closure on what their alternative should look like. PVD would like to structure something that "...will pass..." and avoid fighting the issue next year. Given that posture, he is likely to split Senate Republicans (Armstrong and others would prefer no bill) and produce dissension in our own ranks.

Hata Meeting

You will be meeting with Mr. Hata on Tuesday. He has been sent to quietly advance the Takeshita visit in January. He is seeking your "political advice" on the best way to structure the trip and develop themes for the visit. The attached preliminary agenda has been developed in coordination with the NSC (Colin will attend the meeting). I will also check it with JAB III, who is meeting with Hata on Monday.

Budget Review Board

Ken and I will have a recommendation to you by mid-week—appeals will be scheduled for the second week in January.

December 13, 1987

TO : Senator Baker
FROM : Dan
RE : Budget

The conference on the reconciliation bill begins on Monday—little progress is expected. The CR conference (13 subconferences) should begin on Tuesday. With the exception of the foreign policy issues (Contras and Stingers), the CR should be easier to deal with. The levels are somewhat self-executing—they will either meet the agreement or not. Much (but not all) of the objectionable language provisions should be taken care of if we quickly prioritize our objections.

Reconciliation will be more difficult both because of the issues as well as the disparate personalities involved. In addition to tax provisions, we will have difficulty with Medicare and Medicaid expansions, Ag provisions, asset sales, and postal changes. Ways and Means insists on using CBO scoring, despite Foley's commitments to the contrary. Their definition of "normal legislative process" would largely exclude the Administration from conference (especially on spending) and present us with a fait accompli at the final hour.

Our apparent strength lies with the Senate writ large and the Leadership in the House, particularly Foley. The Senate has always been more amenable to removing extraneous language from the CR and is obviously more cooperative on Contras and Stingers. Wright and Foley should be helpful on reconciliation, especially on scoring, Medicaid, and Agriculture.

I recommend a meeting of the Administration negotiators early-on in the week to reaffirm your intent of protecting the President's prerogatives by being involved in any significant policy decisions (on both tax and spending) and approving any official communications to the Congress (both Miller and Baker have been issuing their own missives).

You may wish to expand the Domenici meeting to include Democratic negotiators (especially Chiles and Johnston) and other key members (e.g., Inouye). A call to Foley early in the week to review the bidding would also be useful.

Saturday, December 12, 1987

TO : Senator Baker
FROM : Dan
RE : Economic Policy Concerns

Review of Positions

Sprinkel's contention is simply that flat or declining money growth will ultimately lead to a recession. The stock market decline enhances the probability of a recession next year. While he admits that monetary stimulus could further weaken the dollar, he is willing to accept that result in order to fend off a recession.

Jim Baker is somewhat in Beryl's camp, but worries about his/our ability to stabilize currencies. He is unsure what effect a G-7 meeting will have, but feels that he has little else he can do. In the end, he obviously desires to avoid a recession next year and probably comes down on the side of more money growth.

Greenspan is mostly convinced that more money growth is warranted, but also worries about the consequences of a falling dollar on inflation. Further, Alan is not yet as concerned as Sprinkel or Baker about a recession next year. The real economics are still coming in good and he is receiving favorable reports from the Fed regional banks. Alan would, I believe, prefer to wait until there is some sign of economic weakness so that an obvious easing by the Fed would not be interpreted as translating into inflation (and thereby higher long-term interest rates).

Analysis

History is mostly on Sprinkel's side—the slow rate of money growth this year, particularly in the wake of the financial markets volatility, portends a slowdown in the near future. The central analytical problem is that history may not be an accurate guide in the present circumstances. Large fiscal and trade deficits, post-war dollar lows, large international capital flows, and new financial instruments all contribute to an economic situation which is unprecedented.

Despite the apparent good economic numbers, we do not have a clear picture of what is happening in the economy. For example, are the increases we witnessed in October's imports due to inventory accumulation? Unfortunately, inventory data is generally poor and unreliable, especially at a turn in the business cycle.

Inflation remains relatively low and expectations for economic growth next year are declining. Forecasters now expect 1-2% real growth, just short of a recession. Many Wall Street analysts are publicly worrying about the lack of money growth and the potential for even less economic growth. Thus, economic weakness, and not inflation, is the foremost concern .

It would not take a "panic" among consumers and business to precipitate a recession. If consumers decided to save 1-2% more or business decided to reduce inventory-to-sales ratios somewhat, we could have a mild recession. Mussa estimates, for example, that a 5% reduction in inventory-to-sales would reduce GNP by \$70 billion, or well over 1%.

Policy Options

1) Stay on the present course for the moment, see if a G-7 can be productive after we implement the budget, and wait for further economic developments. While this option might help stabilize the dollar, the passage of time may increase the probability of recession. Further, waiting for bad economics to develop may be too late. It will take some months for increased money growth to have real effects on the economy.

2) Increase money growth somewhat and be prepared for a further decline in the dollar and, perhaps, an increase in long-term interest rates. Concerted and coordinated central bank intervention could help stabilize currencies in the short-run and illustrate that we have not simply accepted a significantly lower dollar. U.S. inflation rates remain relatively low and, if we can convince foreign investors we haven't abandoned the dollar, the long-term rates should not increase dramatically.

3) Make a fundamental decision that we are not going to use monetary policy to support the dollar and allow money supply to increase. This policy would be reflected in increased bank reserves, a lower federal funds rate, and eventually a reduction in the discount rate. To attempt to prevent a dollar crash, at a minimum coordinated and significant central bank intervention would be needed (after a G-7). We should also develop other techniques such as the issuance of yen-denominated bonds. Mussa suggests that Germany, Japan, and the U.S. each issue \$30 billion in currency-denominated (yen and D-mark) bonds to create a "currency defense fund." It would be a very visible show that we are coordinating the stability of currencies and yield enough funds for intervention to be credible with the markets.

Recommendation

Doing nothing at this juncture is dangerous. Some increase in the money supply is probably warranted. The effect on long-term rates is less of a threat than the impact on the dollar. We need to be prepared to intervene to show support for currency stability and, if necessary, issue currency-denominated bonds, perhaps in concert with Germany and Japan.

Next Steps

If you concur, the following steps might be taken—

- determine that JAB III and Sprinkel are in accord.
- see if Greenspan can be brought along and, if so, what other steps we might take to assist him in implementing the policy.
- explore the possibility of a significant (e.g., \$2 billion) coordinated central bank intervention now if the dollar slides further in the next several weeks.
- explore the notion with your entire economic group of additional measures, such as currency-denominated bonds, can be taken in the face of further erosion of the dollar.

Withdrawal/Redaction Sheet

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	NSC #: WHORM Subject #: To: Senator Baker From: Dan Subject: re issues of the week (document pending further review) Restriction :				
2	Memorandum	12-12-1987	3		02-24-2003
	NSC #: WHORM Subject #: To: Senator Baker From: Dan Subject: Dan to Sen. Baker, re economic policy concerns (document pending further review) Restriction :				
3	Memorandum	12-13-1987	2		02-24-2003
	NSC #: WHORM Subject #: To: Senator Baker From: Dan Subject: re Hata Meeting on Tuesday Restriction : FOIA(b)1				

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3 MEMO

DAN TO BAKER RE HATA MEETING
(F97-066/4 #52)

2 12/13/1987

5/20/09 (CD)B

December 13, 1987

TO : Senator Baker
FROM : Dan
RE : Hata Meeting on Tuesday

You are scheduled to meet with Mr. Hata at 11:15 A.M. for 30 minutes. He has been sent by Obuchi (Takeshita's new Cabinet Secretary) to quietly explore the "politics" of the upcoming Takeshita trip. Uno had originally planned to make this trip, but his schedule would not permit it. We will be joined by Colin Powell, Jim Kelley (NSC) and an interpreter from the State Dept.

I have developed the following (preliminary) agenda in concert with the NSC:

- 1) The Takeshita trip could provide great opportunities as President Reagan prepares to leave office and Takeshita assumes leadership in Japan. We need to build on the relationship between our countries developed by Nakasone and Reagan.
- 2) Japan needs to continue its efforts to take on responsibilities commensurate with its position as a world economic power.
- 3) We should attempt to avoid the continuing focus on specific trade issues—it impairs our larger relationship and ability to work together on the more important issues. It would be most helpful if the construction and agricultural issues could be resolved before Takeshita's visit.

—On agriculture, a clear commitment by Japan to adopt the GATT report at the February GATT meeting should suffice to prevent the issue from becoming part of the meeting.

—On construction, we should redouble efforts on both sides to resolve the issues before the trip. If not, the issue has become so symbolic that it will be difficult to avoid.

- 4) Much of our apparent trade difficulties focus on access to Japanese markets. While we know that total access alone won't solve our trade deficit with Japan, an initiative by Takeshita to "remove all trade barriers by 1995" would help reduce attention to specific trade problems. Agriculture will be difficult, but much progress could be made on other fronts.
- 5) We are pleased with the current growth in Japan's economy and the redirection toward consumer demand.

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- 6) Because of our trade deficit and tight budgetary situation, it would be most helpful if Japan expanded its foreign assistance (ODA) and assumed additional responsibility for importing from LDC's.
- 7) We need to explore ways we can develop more cooperative ventures to highlight and promote the importance of our relationship. Perception is presently built on too many negatives (trade issues) and not on the benefits of relationship.
- 8) Colin will review strategic issues.