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File Folder: W.H. Staff Memos - Cabinet Affairs [1 of 3] Box 3 ~~OA 10513~~ Date: 11/24/98

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
~~1. Memo~~	~~Regan to J. Baker re: capital budget (1 p)~~	~~4/30/83~~	~~P5~~ CB 10/23/00
~~2. Memo~~	~~Speakes to J. Baker (1p)~~ R 6/30/00 NLSF98-024 #1	~~10/31/83~~	~~P1~~
3. Memo	Brock to McFarlane re: Japanese trade (3 p)	10/18/83	~~P1~~ B1

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]
- P-1 National security classified information [(a)(1) of the PRA].
- P-2 Relating to appointment to Federal office [(a)(2) of the PRA].
- P-3 Release would violate a Federal statute [(a)(3) of the PRA].
- P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA].
- P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA].
- P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA].

C. Closed in accordance with restrictions contained in donor's deed of gift.

Freedom of Information Act - [5 U.S.C. 552(b)]
- F-1 National security classified information [(b)(1) of the FOIA].
- F-2 Release could disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA].
- F-3 Release would violate a Federal statue [(b)(3) of the FOIA].
- F-4 Release would disclose trade secrets or confidential commercial or financial information [(b)(4) of the FOIA].
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- F-7 Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA].
- F-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA].
- F-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA].

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OUTLINE OF POSSIBLE SOCIAL SECURITY SOLVENCY SOLUTION

1) Six Month COLA Freeze and Permanent Structural Reform After 1989

   - 6 month freeze saves $40 billion over 1983-89

   - After 1989, benefits capped by lower of wages or prices if system threatened by insolvency

     - Trust fund surplus of nearly $60 billion today rather than insolvency if this structural reform had been in place since 1975

2) Voluntary Incentives and Disincentives for Retirement at Age 68

   - 24% reduction in benefits if early retirement at 62

   - 24% increase in benefits if delay retirement to 68

   - called "8 and 8 plan" because permits individual choice of greater or lesser benefits depending on age of retirement between 62 - 68*

3) Carter Tax Rate Rescheduling Reduced to 85¢/week for $19,500/Year Worker

   - $40 billion in revenues over 1983-89 as opposed to $80 billion previously proposed by Democrats

   - 1990 scheduled rate of 6.2% not moved forward, but rate of 5.86% for 1985-89 instead of 5.70% under current law

   - No long-term tax increase after 1990

4) Coverage Expansion

   - New and unvested Federal employees (under 3 years) and non-profit

   - $27 billion in savings over 1983-89

*Long-term savings will not be known until actual experience over time with incentives

5) Recapture of Unearned Benefits Through Inclusion of Half Social Security Benefit in Income Tax Base

- o Applies only to recipients with incomes above $20,000/$25,000 (single/joint)
- o Covers only half of benefit -- generally "windfall" element in current formula not funded by worker's lifetime taxes plus interest
- o $36 billion in savings to Social Security over 1983-88
- o Amounts to 5-25% benefit cut (depending on marginal tax rate) for more affluent recipients. Recaptured payments (revenues) returned to trust fund. Direct means-test not practical due to vast number of recipients -- 36 million.

6) Comparable Payroll Tax for Self-Employed with Off-setting Income Tax Credit

- o Matter of "principle" to Democrats -- all people should pay the same taxes if they get the same benefits
- o No net Federal tax increase to self-employed because shift to 100% of combined employee/employer rate (from current 75%) is off-set by direct tax credit
- o $19 billion in trust fund revenues over 1983-89

7) Other Features

- o Federal payment for military Social Security credits put on same basis as private pensions. $6 billion trust fund increase but no unified budget impact
- o Minor equity adjustments (widows, homemakers) financed by minor cost-savers

8) Overall Impact

- o Short-term savings (1983-89) of $168 billion -- about midway in Commission target range of $150-$200 billion
- o Long-term savings (75 years) equal to 1.40% of payroll or 77% of Commission target
- o Remaining 0.40% of long-term solution subject to alternative proposals including mandatory retirement age increase
- o If Summit Agreement reached, 6-month freeze formula can be applied to all other Federal pay and COLA -- with savings of $23 billion over FY 1984-88

EYES ONLY

THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

5/15 MDT
Pls keep
this for future
reference when
Don calls me.
Thanx
JAB III

April 30, 1983

Dear Jim:

Enclosed is a paper on the concept we discussed as a way out of the continual budget deficit morass.

I will be back from my travels on May 12 and we can explore this in greater detail then.

Sincerely,

Don

Donald T. Regan

The Honorable
James A. Baker, III
Chief of Staff
and Assistant to the President
The White House

Enclosure

EYES ONLY

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

April 30, 1983

MEMORANDUM FOR THE HONORABLE JAMES A. BAKER, III
CHIEF OF STAFF AND ASSISTANT TO THE PRESIDENT

FROM: Donald T. Regan DTR

SUBJECT: A Capital Budget

The adoption of a capital budgeting approach to Federal government finance would be very useful for shifting emphasis away from strict attention to pure deficit reduction as the primary tool of economic policy.

Deficits per se are not the problem; it is the amount of federal spending represented by both borrowing and taxing that constitutes the problem. Additional taxes may reduce the deficit but they will not reduce the amount of total spending.

Since both the level of total spending and the structure of spending are really the problem, we should adopt a budget approach that accurately evaluates how the Federal government spends its funds. Legitimate long-term investment should be financed by borrowing. As long as what is considered to be investment is carefully defined, it would be in the "public interest" to have the Federal government run a deficit equal in magnitude to the size of its capital account. Only current operating expenses should have to balance with tax receipts. Previous experience, in States, in the British Government, and elsewhere shows this concept can fail unless "capital" is pretty closely drawn--and adhered to.

In order to adopt a capital budget, it is not necessary that the Administration propose new legislation and declare war with Congress. It is only necessary to adopt a policy within the Administration that changes the emphasis of budgetary management from unified budget balance to balance of only the current operations part of the budget. In other words, capital budgeting does not have to become the law-of-the-land in order to practice it within the Administration. President Reagan could direct OMB to classify unified budget items as either capital or operating, and each year's budget decisions could be based on what long-term investments the Administration should undertake and how to balance the operating part of the unified budget.

Attached is a background paper on capital budgeting that deals with the pro and con issues and points out some technical matters that would have to be resolved upon adopting a capital budget concept.

Attachment

A CAPITAL BUDGET

What Is A Capital Budget?

The present Federal budget can be characterized as a unitary budget in which no distinctions are made between current and capital transactions. A capital budget, in essence, would involve a two-way character classification of budget expenditures--capital and current. A capital budget would also usually involve linking the capital account to some form of financial plan, generally, but not necessarily, entailing loan financing, depreciation and consideration of net worth.

Major Reasons for a Capital Budget

There are several reasons for advocating a capital budget. A frequently cited reason is that a capital budget is needed to establish a system of long-range planning to manage the public infrastructure necessary for optimizing private sector growth. Typically, a capital budget will present the capital outlays that are scheduled to be made in the subsequent year (or even longer) and show the means proposed to finance these outlays. The purpose is to help in evaluating the need for and the nature, cost, and timing of the acquisition of longlived assets as well as methods of financing them.

A Federal capital budget appeals to many of its proponents because it would make the Federal Government more businesslike in its approach to recording and maintaining the government's and financial accounts. Historically, the business accounting procedure of segregating current expenses from capital outlays has been accepted as a necessary and proper practice for revealing the true costs and the net income or net loss resulting from the operation of a business during a given time period.

A Federal capital budget is also proposed as a means of strengthening administrative management and control. An accurate statement of program costs and resource use is necessary to minimize the costs of achieving given program objectives. Accurate statements of costs might also be helpful for encouraging greater attention in government to the maintenance of Federal property and improved property management, e.g., to replacement of old assets, purchase of new assets, or to renting rather than purchasing a particular asset.

Proponents of a Federal capital budget argue that it would contribute to providing a channel of communication for keeping the general public informed and for promoting a better public understanding of governmental activities and operations. Capital budgeting could provide a systematic means of gathering and presenting information on the role of the Federal Government

Many proponents of a Federal capital budget believe that it would provide a different, and more revealing perspective on Federal deficits and the Federal debt. They believe that a capital budget would be a means of taking capital expenditures out from under the constraint of the "balanced budget" at any cost doctrine. Current expenditures would be separated from capital outlays with the latter financed by borrowing. Since the liabilities incurred by an increase in the public debt would be offset by the value of assets acquired, the loan financing would not be viewed as contributing to an increase in net government debt. Also, capital budgeting might increase the political acceptability of Federal capital outlays by assuring the public that it is getting a productive asset in return for its tax dollar.

There are many good reasons to believe that capital budgeting with loan financing may provide a better allocation of the costs of public facilities between present and future generations of beneficiaries and taxpayers than does financing such outlays through current tax receipts. Loan financing combined with a capital account that includes an allowance for depreciation distributes the cost of these facilities over time on a payas-you-use basis. By charging fees or levying taxes to recover the full capital cost over a period of years, all users, both present and future, pay for the benefits they receive from government capital outlays. Under our current budgetary system, the total cost of capital facilities is written off when the disbursements are made.

Finally, a convincing argument can be made that if only those Federal investment outlays were undertaken which promised to yield a return equal to or greater than the interest rate on Federal securities, then Federal capital outlays would compete for savings on an equal footing with private investment projects. Capital budgeting would permit the government to make the proper assessment of all investment projects.

Arguments Against a Federal Capital Budget. The case for a Federal capital budget involving separate loan financing for capital outlays is not persuasive. In spite of the merits of business accounting and capital budget principles for treating financial transactions in the private business sector, the applicability of such principles to all spheres of government is questionable.

According to this line of argument, the Federal Government seeks, through its budgetary programs, to maximize national welfare. In pursuit of this objective the relevant revenues produced by Federal investments are not the government's own receipts but the incomes and other satisfactions of its citizens. For this reason, the government undertakes many outlays of a capital nature, e.g., education, health, training, research and development, that would not properly be included in the balance sheet of a business firm.

The government frequently does not own the "assets" nor does it have a claim to the additional incomes that the assets create, except indirectly to the extent that it receives a portion of these revenues through taxes. Moreover, as the argument goes, the public is generally not interested in the value of public assets or how much profit the government has made; it is more concerned with what the government is doing to promote economic prosperity and to improve the Nation's welfare, at the lowest direct cost to taxpayers.

Another important limitation of a Federal capital budget is the difficulty of defining a capital asset. In the business sense capital outlays represent spending for things that produce benefits in periods beyond the current accounting period. A large body of legal, accounting and tax principles have been developed to make this determination for the private sector. The same determination for the Federal Government would be more difficult. A capital budget encompassing only the activities of a business nature would be very limited in scope.

The largest area of Federal spending for physical investments is military equipment and structures. How should such military assets be treated? Many of these assets have very long, useful lives and provide services over many years, but many others have a very high rate of obsolescence.

Expenditures for developmental-type activities, e.g., research and development, health, education, training represent the government's contribution to human capital formation but fail to meet a durability criterion. While Federal spending on these developmental-type programs is intended, among other things, to increase the productive potential and future income of the Nation, it does not produce a tangible asset that is owned by the Federal Government or that current accounting standards could easily defend as an addition to the Nation's stock of wealth. Moreover, specifying a useful life for these assets would be very arbitrary.

It is also said sometimes that, debt financing of the capital portion of a capital budget might result in a distortion of spending decisions and a misallocation of resources. An unjustifiable amount of resources might be allocated to the capital account at the expense of the current account or even the private sector if debt financing of Federal capital expenditures made these outlays appear more desirable or easier to undertake. Separate current and capital accounts with debt financing for the latter might also overemphasize the bricks and mortar type of expenditures at the expense of investments in human capital that might not be included in the capital account. On the other hand, since the definition of a capital asset is somewhat arbitrary, particularly in the case of the Federal Government, budget officials and legislators may find it tempting to characterize unwarrantedly many expenditures as capital outlays in order to avoid the requirement of financing such outlays out of current tax receipts.

A capital budget with separate current and capital accounts is unlikely to satisfy proponents who envisage a more illuminating perspective on Federal deficits. If government investment is stable or declining, allowances for depreciation and related charges, which would be included as a current account outlay, would catch up to or exceed the amount of new capital outlays. This would offset the effect on reducing or eliminating deficits that would otherwise be recorded.

Even if capital budgeting were adopted by the Federal Government, there would still be a need to keep cash accounting records. The Federal Government must know at all times what its cash position is. Government investment spending has to be financed by borrowing or taxes at the time the facilities are acquired or delivered, regardless of whether they would be charged to the current account or capital account of the budget.

Conclusion

Assuming that a capital budget is proposed, several issues would need to be examined to determine the most appropriate choice for the Federal Government, including as examples, among others:

1. Should an allowance be made for depreciation?

2. If an allowance is made for depreciation, should it cover assets acquired prior to establishment of the capital account? Should it be calculated on the basis of original or replacement cost?

3. Should the concept include military assets?

4. Should outlays for R&D be included?

5. To what extent should the capital account be financed by borrowing?

6. How should tax expenditures and loan guarantees be treated?

THE SECRETARY OF THE TREASURY
WASHINGTON

December 20, 1983

MEMORANUM FOR THE HONORABLE JAMES A. BAKER, III
CHIEF OF STAFF AND ASSISTANT TO THE PRESIDENT

SUBJECT: Poll on Deficits

Attached is a copy of the ABA poll on deficits that we discussed. Also attached is a one page summary prepared by my staff. I think this is especially encouraging considering its sponsors were probably hoping for different results.

DTR

Donald T. Regan

Attachments

83-18078

Memorandum

ACTION	BRIEFING	INFORMATION

FOR: SECRETARY REGAN

DATE: DEC 15 1983

FROM: Bruce E. Thompson, Jr., Assistant Secretary (Business and Consumer Affairs)

SUBJECT: Poll on Budget Deficits

Attached is a preliminary paper on a market research poll on budget deficits commissioned by the ABA, the National Association of Realtors, the National Association of Homebuilders, the Mortgage Bankers Association and the U.S. Savings League. These groups are considering a public campaign on deficits, and commissioned the study to determine public attitudes on the deficit.

The preliminary results of the study are:

-- While there is an awareness of the deficit problem, it is not perceived to be a major domestic problem.

-- Government spending and waste are perceived to be the major reasons for the deficit.

-- The deficit is perceived to be responsible for high interest rates and inflation.

-- The preferred solution to the deficit problem is spending cuts, not tax increases.

-- There is a concern that higher taxes would result in increased spending.

-- Although it is not fully understood, there is a great deal of support for a flat tax.

-- Since the deficit is a problem of long standing, people seem to feel little urgency about it.

-- The report concludes that it would be premature to attempt a campaign to arouse the public to action.

Attachment

	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	SECRETARIAT
OFFICE CODE SURNAME						HICKS
INITIALS / DATE	/	/	/	/	/	/

TD F 80-02.1 (7-81) OBSOLETE OS F 10-01.2 WHICH MAY BE USED UNTIL STOCK IS DEPLETED

DARLENE K. MISKOVIC RESEARCH & CONSULTING
522 Bonnie Brae
River Forest, Illinois 60305

EXPLORING AWARENESS AND CONCERN ABOUT THE FEDERAL DEFICIT

Preliminary Insights

Based on ten focus group discussions conducted across the country, with people ranging in age from 25 to over 55, and from household incomes under $25,000 to over $45,000

This is a preliminary document. It offers initial reactions, thoughts, and hypotheses based on notes, recollection, and discussions with sponsoring groups during the course of the focus groups. It will be followed by a more thorough, in-depth document, prepared after reviewing and analyzing each session. The final document will include actual quotations from respondents illustrating their perceptions, misconceptions and feelings.

* * * *

Several steps are necessary in order to rally the citizenry to an issue. There must be awareness, understanding, a feeling there is some personal stake in the matter, a reasonable solution -- or at least the feeling there is some solution, and a way to be sure the powers that be effect that solution.

How does the issue of federal deficit fare? How far along is the public at this point?

Awareness and Understanding

Some people are quite aware of the deficit and knowledgeable about it. But there appears to be a substantial segment of people for whom the deficit is not top of mind, not one of the major domestic problems facing America today.

One factor contributing to awareness and understanding appears to be increasing age. Some hypotheses as to why this may be the case:

- Older people may read more, and the deficit story is one that has been told primarily in the print media.

- Older people may have more time and fewer other daily concerns, and thus may be better informed.

- Older people may have a feeling of getting things in order for coming generations, and the debt clearly indicates to them that things are not in order.

Higher income also seems to result in increased awareness of the federal deficit. But here, too, the older people tended to exhibit greater understanding of the problem and its implications rather than the empty rhetoric of the younger respondents.

The problem of the deficit <u>is</u> one that is difficult for people to comprehend. The amount of billions and trillions of dollars is beyond their ken. It seems unreal and insurmountable. It is unclear where the deficit came from, and on whom rests the responsibility for solving the problem.

If there is a primary culprit in the deficit problem, it is thought to be government waste. People are very aware of the stories of government overspending for parts, and the year-end spending budgets simply to avoid a cut next year. This guilt is not laid on any one particular sector of government, but "big government" in general, or among the more sophisticated, politics and the trading of favors.

A few people philosophically say they themselves are the root of the problem, through government programs they desire or officials they elect. But this viewpoint is few and far between, and very susceptible to counterargument.

Importantly, neither banking nor the housing or real estate industries are considered perpetrators of the deficit. Housing and real estate, purveyors of the American dream, are likely to be seen as victims. The high interest rates are keeping them from fulfilling their mission. The role of bankers seems less clear. Among a few of the more sophisticated, banks are faulted for loans to foreign countries that have not been repaid. But the overall perception is one of banks as a "thermometer rather than a thermostat," as one woman put it. They ride the ebb and flow of the money supply, but are not considered to control it in any way. They are either neutral or victims, but not the villains of the deficit scenario.

<u>Feelings of a personal stake in the situation</u>

Especially among older people, probing about the personal effects of the federal deficit unleashes a flood of complaints about

America -- unions, tariffs, problems with Social Security and Medicare, even immigration, regulations and corrupting the moral fiber of the nation by encouraging overspending. Perhaps the angriest are the older people in the upper income group. They describe themselves as "resentful." A hypothesis is that these people thought they had planned for a comfortable retirement and are now seeing the value of their nest egg, and consequently their lifestyle, diminishing.

The federal deficit is linked with high interest rates, although not all are clear as to the reason for the linkage. It is also associated with inflation. The association here is even less clear. People cannot explain how the federal deficit causes inflation, but they may emotionally regard it as an outgrowth of debt.

Those who feel most removed from the situation appear to be the younger age group. They have grown up with stories of the federal deficit, have lived with it, and presume they will die with it. They may be characterized as resigned to it. Unlike the older people, they offer no concerned scenarios of bushels of German marks for a loaf of bread, or the rise of a Hitler-like dictator. Rather, they feel this is not something they think or worry about daily. It is a condition under which they live their lives rather than one that they feel they need to worry about changing.

<u>Possible solutions</u>

The solutions offered by respondents lean heavily in the direction of reduced government spending, especially by elimination of government waste.

Here, too, the response of the younger age segments is particularly disarming. Exemplifying their designation as the "me" generation, they tend to defend their interest only and willingly cut benefits to others. This age cohort, representative of the Baby Boom, has grown up with overcrowding that taught them to demand and defend what they felt due them. This is also an age group that, unlike the two older age segments, never has pulled together in the patriotic effort required by an event like a World War. Instead, they were pulled apart from each other and other generations by the divisiveness of Viet Nam.

On the whole, the older people were more willing to work toward a solution, no matter how little they had, and believe they could make a difference. They showed a willingness to pull together, to each do their part, to make America better for the generations to come.

There are some local differences, especially in reactions to possible solutions. Californians constantly fall back on the results of Proposition 13. There is discussion of reports of deficits changed the next week to be surplusses, which reinforce the notion that this is an unreal paper chase. Those in Connecticut are especially cynical because of conditions in their state, blamed primarily on liberal welfare programs.

The preferred solution would seem to involve more spending cuts than taxation, and at worst a seemingly equitable fifty/fifty combination. The clear message is that to tolerate any tax increases the public needs to be assured that this additional revenue would be directly applied to the national debt. Otherwise, there is concern that increased taxation will simply lead to increased spending.

When discussing taxation, people tend to think in terms of income tax. One common suggestion was a flat rate income tax. While not clearly understood or thought through, it was emotionally favored because it seemed more equitable.

There is also the problem that solutions like the Dole proposal may seem like the proverbial drop in the bucket against the total debt, and thus not worth the trouble.

A constitutional amendment to work from a balanced budget may be a start. But some are even cynical of this, figuring that Congress would somehow find a way around it or that it would be impossible to enforce.

How to effect any solution, at this point, seems unclear to people. The only option seems to be "write your Congressman," and the inherent doubts that route engenders.

SUMMARY

There is no "hot button" here as there was in the withholding issue. The dimensions of the problem seem to be more similar to those of the gasoline crisis -- people unsure whether or not there really is a problem, unsure of how it could be solved, and reluctant to sacrifice themselves because their effort would be meaningless unless others did likewise.

Relative to other problems, people seem to feel little inherent urgency to the problem of the deficit. It is a problem of long standing.

It would appear premature at this juncture to attempt a campaign to arouse the pubic to action. At this point, the problem is generating awareness and understanding. There is an education task to be done.

People do not seem to see banking or the housing or real estate industries as perpetrators of the deficit.

DEPARTMENT OF STATE
WASHINGTON

December 13, 1983

Dear Mr. Baker:

The Department's budget was prepared to support fully and carry out the President's Foreign Policy objectives while mindful of his guidance to hold down the growth of Federal spending.

In the Secretary's absence, I must appeal to the Budget Review Board the 1985 Budget passback from OMB that reflects an unprecedented reduction in the essential manpower and funding requirements needed to operate the Department effectively and execute the President's Foreign Policy. The Secretary views these reductions as reflective of a lack of appreciation by OMB for the important agenda that the President and current world events place on the Department.

The OMB employment and fund reductions of 524 FTE, and $15 million for supplemental funding in 1984; and 1,527 FTE and $365 million in 1985 reflect a sense of priorities that the Secretary neither understands nor accepts.

If held to the OMB allowance, we cannot conduct the vigorous, effective foreign policy so vital to our national goals and security. We must have a diplomatic capacity to:

-- effectively represent our country's interests;

-- negotiate the agreements necessary for regional stability and provide for military basing where needed;

-- support and contribute to intelligence activities;

-- report on political and economic developments of vital concern to our on-going policy formulation;

-- and last, but not least, protect the lives of our Foreign Service personnel and their families, our facilities, and sensitive national security information.

The Honorable
James A. Baker, III,
Chief of Staff and Assistant to the President,
The White House.

Today's bombings in Kuwait and recent events in Beirut dramatically underscore the difficult circumstances that we face around the world.

For 1984, the Department requested additional employment (222 FTE) and urgent supplementals of $73 million that were not considered previously in the OMB review process and for which no reprogramming flexibility exists. The detailed justification for these items has been provided to OMB.

Thus, 1984 requirements total $88 million and 447 FTE:

-- $4 million and 165 FTE for mandatory Passport Workload;

-- $10 million in security requirements for the Moscow Office Building;

-- $28 million for Refugee programs including: Indochinese Refugees ($10 million), African Assistance ($4 million), Lebanon ($5 million), and Latin America ($9 million);

-- $6 million and 11 FTE for Grenada post opening;

-- $9 million and 44 FTE for political and economic reporting and analysis;

-- $9 million for East Berlin property exchange;

-- $6 million for Protection of Foreign Missions and Officials in the United States;

-- $2 million for COCOM expansion;

-- $2 million for protection of Foreign Officials at the Summer Olympics;

-- $2 million and 2 FTE for support of the Conference on Disarmament in Europe; and

-- $10 million for the Federal pay raise.

--In addition, while we can accept a reduction of 77 FTE, we must have restored 225 FTE: overseas consular and administrative workload (135 FTE), post openings (12 FTE), communications and security (28 FTE), and GS vacancy rate adjustment (50 FTE).

For 1985, the Department requires an additional 141 FTE and $22 million related to annualization of the 1984 supplementals and for the Soviet/East European studies program.

Considering these requirements and difficult choices on program deferrals and savings, we are willing to accept reductions from our revised request of 311 FTE and $214 million for 1985.

Therefore, we seek restoration of $151 million and 1,216 FTE above the OMB allowance.

The categories of our 1985 appeal and required funding restorations are:

-- ADMINISTRATION OF FOREIGN AFFAIRS $114 million

Major elements include: employment (FTE); reporting and analysis; new posts in China, Micronesia, Angola, Namibia, and Comoros; overseas inflation; communications; security requirements; and chancery development projects overseas (for example, Muscat, Manama, and Belmopan).

-- INTERNATIONAL ORGANIZATIONS AND CONFERENCES -$31 million

Savings result from lower assessed contributions to international organizations and a reduction in the troop strength of the United Nations Interim Force in Lebanon (UNIFIL).

-- INTERNATIONAL COMMISSIONS $1 million

Restores funds for reimbursement to San Diego for treating Tijuana's sewage and for a Nogales plant expansion. OMB's view that these are not Federal responsibilities overlooks their domestic political importance and probable adverse impact on our relations with Mexico.

-- MIGRATION AND REFUGEE ASSISTANCE $32 million

Preserves the 50,000 ceiling on Indochinese admissions;

Restores the Thai anti-piracy program, funding for participation in the International Conference on Assistance to Refugees in Africa, and Afghan refugee programs in Pakistan.

-- INTERNATIONAL NARCOTICS CONTROL $8 million

Restores the marijuana and coca eradication project in Colombia, opium reduction efforts in Burma and Thailand, and the U.S. contribution to the U.N.'s efforts to control drug abuse.

-- BILATERAL SCIENCE AND TECHNOLOGY $2 million

Our joint program with Yugoslavia has been a visibly cost-effective way of encouraging greater Yugoslavian involvement with the West.

-- INDIA/US BINATIONAL FOUNDATION ($110 million off budget)

Provides a one-time direct appropriation of U.S.-owned Indian rupees to establish an endowment to extend the life of bilateral scientific research programs and cultural exchanges.

-- PANAMA CANAL STUDY $2 million

Restores the US share of a multi-year project with the Japanese, the Panamanians, and others to study alternatives to the Panama Canal as required by the Panama Canal Treaty of 1977.

-- SUBTOTAL: REQUIRED RESTORATION TO OMB ALLOWANCE................ $128.8 million

-- ADDITIONAL REQUIREMENTS.....................$ 22.3 million

Represents the ongoing costs related to the urgent 1984 supplementals and an increase of $1.5 million to $5.0 million for the Soviet/East European studies program.

-- TOTAL APPEAL............................ $151.1 million

In summary, the Department requires restoration of 447 FTE and urgent supplementals of $88 million for 1984, and 1,216 FTE and $151 million in 1985.

Sincerely,

Ken

Kenneth W. Dam
Acting Secretary

Enclosure:
Appropriation Summary Table

FY 1985
Request/OMB Allowance Comparison and Appeal
(dollars in thousands)

	Department Request	OMB Allowance	Difference	Appeal Amount	Revised Request	
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Acquisition, Operation and Maintenance of Buildings Abroad (Special Foreign Currency Program)	23,353	23,353	--	--	23,353	
Emergencies in the Diplomatic and Consular Service	4,400	4,400	--	--	4,400	
Buying Power Maintenance	5,335	5,335	--	-5,335	--	
Payment to the American Institute in Taiwan	9,979	9,775	-204	+204	9,979	
Payment to Foreign Service Retirement & Disability Fund	106,738	106,738	--	--	106,738	
Subtotal	1,815,505	1,630,051	-185,454	+114,225	1,744,276	
INTERNATIONAL ORGANIZATIONS AND CONFERENCES:						
Contributions to International Organizations	555,700	555,700	--	-20,000	535,700	
Contributions for International Peacekeeping Activities	66,948	66,948	--	-11,000	55,948	
International Conferences and Contingencies	10,210	10,195	-15	--	10,195	
Subtotal	632,858	632,843	-15	-31,000	601,843	
INTERNATIONAL COMMISSIONS:						
International Boundary & Water Commission, U.S. and Mexico:						
Salaries and Expenses	11,839	10,814	-1,025	+1,000	11,814	
Construction	2,143	2,043	-100	+100	2,143	
American Sections, International Commissions	4,019	3,583	-436	+230	3,813	
International Fisheries Commissions	9,482	9,482	--	--	9,482	
Subtotal	27,483	25,922	-1,561	+1,330	27,252	
MIGRATION AND REFUGEE ASSISTANCE	368,135	319,450	-48,685	+32,000	351,450	
OTHER APPROPRIATIONS:						
Protection of Foreign Consulates in the U.S.	9,500	9,500	--	--	9,500	
International Narcotics Control	53,892	42,000	-11,892	+8,217	50,217	
Anti-Terrorism Assistance	5,003	5,000	-3	--	5,000	
The Asia Foundation	10,000	10,000	--	--	10,000	
Bilateral Science and Technology Agreements	4,000	--	-4,000	+2,000	2,000	
Compact of Free Association	423,294	421,694 a/	-1,600	--	421,694	
Soviet/East European Research	3,500	3,500	--	--	3,500	
India/U.S. Binational Foundation	110,000	--	-110,000	(+110,000)	(110,000)	Off Budget
Panama Canal Studies	2,000	--	-2,000	+2,000	2,000	
Subtotal	621,189	491,694	-129,495	+12,217	503,911	
Supplemental (FY 1984) Impact/Soviet East European Research b/	22,294	--	-22,294	22,294	22,294	
Subtotal Department of State	3,487,464	3,099,960	-387,504	+151,066	3,251,026	
Permanent and Trust Appropriations	420,628	420,628	--	--	420,628	
TOTAL, DEPARTMENT OF STATE	3,908,092	3,520,588	-387,504	+151,066	3,671,654	

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b/ Impact of FY 1984 supplemental requests ($20,794) and Soviet/East European Research ($1,500). Items not considered by OMB in initial passback (12/2/83)

Doc 0472D, 12/12/83

S/S 8338133

DEPARTMENT OF STATE
WASHINGTON

December 13, 1983

Dear Mr. Baker:

The Department's budget was prepared to support fully and carry out the President's Foreign Policy objectives while mindful of his guidance to hold down the growth of Federal spending.

In the Secretary's absence, I must appeal to the Budget Review Board the 1985 Budget passback from OMB that reflects an unprecedented reduction in the essential manpower and funding requirements needed to operate the Department effectively and execute the President's Foreign Policy. The Secretary views these reductions as reflective of a lack of appreciation by OMB for the important agenda that the President and current world events place on the Department.

The OMB employment and fund reductions of 524 FTE, and $15 million for supplemental funding in 1984; and 1,527 FTE and $365 million in 1985 reflect a sense of priorities that the Secretary neither understands nor accepts.

If held to the OMB allowance, we cannot conduct the vigorous, effective foreign policy so vital to our national goals and security. We must have a diplomatic capacity to:

-- effectively represent our country's interests;

-- negotiate the agreements necessary for regional stability and provide for military basing where needed;

-- support and contribute to intelligence activities;

-- report on political and economic developments of vital concern to our on-going policy formulation;

-- and last, but not least, protect the lives of our Foreign Service personnel and their families, our facilities, and sensitive national security information.

The Honorable
James A. Baker, III,
Chief of Staff and Assistant to the President,
The White House.

Today's bombings in Kuwait and recent events in Beirut dramatically underscore the difficult circumstances that we face around the world.

For 1984, the Department requested additional employment (222 FTE) and urgent supplementals of $73 million that were not considered previously in the OMB review process and for which no reprogramming flexibility exists. The detailed justification for these items has been provided to OMB.

Thus, 1984 requirements total $88 million and 447 FTE:

-- $4 million and 165 FTE for mandatory Passport Workload;

-- $10 million in security requirements for the Moscow Office Building;

-- $28 million for Refugee programs including: Indochinese Refugees ($10 million), African Assistance ($4 million), Lebanon ($5 million), and Latin America ($9 million);

-- $6 million and 11 FTE for Grenada post opening;

-- $9 million and 44 FTE for political and economic reporting and analysis;

-- $9 million for East Berlin property exchange;

-- $6 million for Protection of Foreign Missions and Officials in the United States;

-- $2 million for COCOM expansion;

-- $2 million for protection of Foreign Officials at the Summer Olympics;

-- $2 million and 2 FTE for support of the Conference on Disarmament in Europe; and

-- $10 million for the Federal pay raise.

--In addition, while we can accept a reduction of 77 FTE, we must have restored 225 FTE: overseas consular and administrative workload (135 FTE), post openings (12 FTE), communications and security (28 FTE), and GS vacancy rate adjustment (50 FTE).

For 1985, the Department requires an additional 141 FTE and $22 million related to annualization of the 1984 supplementals and for the Soviet/East European studies program.

Considering these requirements and difficult choices on program deferrals and savings, we are willing to accept reductions from our revised request of 311 FTE and $214 million for 1985.

Therefore, we seek restoration of $151 million and 1,216 FTE above the OMB allowance.

The categories of our 1985 appeal and required funding restorations are:

-- ADMINISTRATION OF FOREIGN AFFAIRS $114 million

Major elements include: employment (FTE); reporting and analysis; new posts in China, Micronesia, Angola, Namibia, and Comoros; overseas inflation; communications; security requirements; and chancery development projects overseas (for example, Muscat, Manama, and Belmopan).

-- INTERNATIONAL ORGANIZATIONS AND CONFERENCES -$31 million

Savings result from lower assessed contributions to international organizations and a reduction in the troop strength of the United Nations Interim Force in Lebanon (UNIFIL).

-- INTERNATIONAL COMMISSIONS $1 million

Restores funds for reimbursement to San Diego for treating Tijuana's sewage and for a Nogales plant expansion. OMB's view that these are not Federal responsibilities overlooks their domestic political importance and probable adverse impact on our relations with Mexico.

-- MIGRATION AND REFUGEE ASSISTANCE $32 million

Preserves the 50,000 ceiling on Indochinese admissions;

Restores the Thai anti-piracy program, funding for participation in the International Conference on Assistance to Refugees in Africa, and Afghan refugee programs in Pakistan.

-- INTERNATIONAL NARCOTICS CONTROL $8 million

Restores the marijuana and coca eradication project in Colombia, opium reduction efforts in Burma and Thailand, and the U.S. contribution to the U.N.'s efforts to control drug abuse.

-- BILATERAL SCIENCE AND TECHNOLOGY $2 million

Our joint program with Yugoslavia has been a visibly cost-effective way of encouraging greater Yugoslavian involvement with the West.

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Doc 0472D, 12/12/83

THE WHITE HOUSE

WASHINGTON

December 2, 1983

MEMORANDUM FOR: EDWIN MEESE III
DAVID A. STOCKMAN
JAMES A. BAKER III
RICHARD G. DARMAN
MICHAEL A. MCMANUS
JOHN A. SVAHN
FREDERICK N. KHEDOURI

FROM: CRAIG L. FULLER

SUBJECT: Reauthorization of Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA -- Hazardous Waste)

Attached is a paper to be presented by William Ruckelshaus and Lee Thomas relating to Administration strategy on the reauthorization of CERCLA.

The meeting will be held in the Roosevelt Room on Monday, December 5 at 4:00 PM. The meeting will last 60 minutes with the first 40 dedicated to CERCLA and the last 20 to general EPA environmental issues.

attachment

JAB & EM are only expected to attend the last 20 minutes

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA)

Options for Reauthorization

December 1, 1983

INTRODUCTION

Issue

EPA believes it is appropriate to consider an early Presidential decision on whether the national program to clean up hazardous sites should be continued. Key Republicans and Democrats on both sides or the Capitol have indicated their intention to pursue reauthorization during 1984.

Background

When Congress enacted CERCLA in 1980, they recognized that its Trust Fund would be insufficient to clean up all sites and directed EPA to set priorities and to conduct only cost-effective cleanups. Best estimates are that fewer than half the minumum number of 400 sites EPA was directed to designate for cleanup will be addressed by the current fund. Current estimates are that there may be an additional 1,000-1,800 sites which pose hazards equal to or greater than those so far evaluated and designated for clean up.

There has been substantial media attention focused on the problem of hazardous sites and EPA's cleanup actions. Although a more favorable view is evolving, there has been impatience with the early pace of cleanup.

A threshold decision to continue Federal efforts to address what is widely accepted as the most serious remaining environmental problem may yield substantial political dividends. The conceptual outline of the program could be specified now, with details to be developed over the next several months.

In order to analyze proposed legislative options for CERCLA reauthorization, the Administration must first make a determination on the type of problem it wishes to address. The Administrtion may base its position either on the size of the problem, or on the management of the problem. EPA recommends that the management, not the size, of the problem (both of which are discussed below) should form the basis of the Administration position at this time. The Agency then presents three legislative options for dealing with the management of the problem.

I. Size of the Problem

EPA's CERCLA Task Force (Phase I) concluded that the National Priority List (NPL) will eventually grow from the current size of 546 sites to between 1400-2200 sites.

Rationale for EPA Projection (Chart 1)

EPA maintains a conputerized inventory called the Emergency and Remedial Response Information System (ERRIS) which lists all sites that have at some time reportedly accepted hazardous substances for transport, storage, treatment, or disposal; or where hazardous substances have been either accidently or illegally spilled or dumped. The Agency estimates that ERRIS will continue to expand (from the current 16,000 sites) to approximately 22,000 entries.

In assessing the potential size of the NPL, EPA, in conjuction with the States, uses the following procedure. A Preliminary Assessment is scheduled for each ERRIS entry. Based on the results of the assessment, a Site Investigation may be conducted. Program experience indicates that a Site Investigation is required at approximately 30% of all sites that go through a Preliminary Assessment. During this investigation each site is given a ranking under our Hazard Ranking System.

Currently, 28.3% of the sites that have gone through Site Investigation have been determined to be serious enough to be listed on the NPL. Our experience indicates that a greater proportion of the new sites being evaluated have a lower hazard ranking than before, while fewer sites have high hazard rankings. We anticipate, therefore, that the percentage of sites which will be found serious enough to be placed on the National Priority List will drop from the present 28.3% to perhaps 20%.

Extrapolating from our experience to date, if the ERRIS inventory of potential Superfund sites reaches 22,000, the NPL would include at least 1,400 sites. We estimate this to be the lower end of the range of potential NPL sites. Several factors, not currently included in the determination of NPL sites may raise the number considerably. Because of the uncertainty surrounding the impact of these additional factors, we conclude that the NPL could eventually include 1,400 to perhaps 2,200 sites.

EPA's estimates of the eventual size of the NPL are consistent with estimates proposed by others. In a 1983 study commissioned by the Chemical Manufacturer's Association, Arthur D. Little, Inc. has estimated between 1,000 and 1,500 NPL sites. These estimates assume, of course, the same parameters that EPA used in reaching the 1400 figure. As yet imcomplete data from another recent study indicate that State Officials believe that as many as 6,000 sites Nationwide may require some type of remedial action.

<u>Total Program Costs (Chart 2)</u>

The Agency's analysis in Chart 2 shows the costs associated with the total clean-up at all NPL sites under differing projections of NPL growth rates. The two variables in this chart are:

(a) The <u>size</u> of the NPL
(b) The <u>level of groundwater treatment</u> required

<u>Size</u>

The current NPL contains 546 sites. The projected cost associated with this size NPL is between $3.0 billion and $3.6 billion (in addition to the $1.69 billion currently authorized). As the NPL expands the cost projections associated with clean up grow correspondingly.

<u>Groundwater</u>

Most sites so far identified have contaminated or threatened groundwater. The Agency has attempted to quantify the expected costs of ground water treatment and the short term operation and maintenance (O&M) requirements of potential solutions. Actual ground water remedial action clean up costs were not known until recently.

Chart 2 shows two possible levels of ground water responses and the costs associated with each level. The Agency has determined that 56% of the NPL sites have some ground water contamination. Current program projections are that at least 23% of the sites on the NPL will require some capital investment to remedy the ground water problem. However, if it is subsequently determined that all 56% of the NPL sites with ground water contamination will require engineering solutions to remedy the hazard at the site, the higher cost estimates must be accepted.

Program Duration after 1985: Options (Charts 3 and 4)

In analyzing the costs associated with clean up of the hazardous substance problem, there are two other variables to be reviewed: (a) Program duration and (b) level of clean up activity each year. Charts 3 and 4 show the budget impact of changes in these variables.

Chart 3 assumes a constant level of clean up activity each year and shows the impact on projections regarding program duration based on that activity level, for different NPL sizes. The top of Chart 3 assumes that 145 Remedial Investigation/ Feasibility Studies (RI/FS)* will be performed each year. The RI/FS initiates clean up action at each site through a comprehensive engineering evaluation of the contaminiation problem and all potential solutions.

The bottom of Chart 3 assumes that 120 RI/FS (the current operating level of the program) will be performed each year and shows the impact on program duration.

Chart 4 assumes a fixed program duration and shows the impact on the level of activity performed each year. The top of Chart 4 assumes a ten year program (after 1985) and indicates the corresponding level of activity necessitated each year to complete clean up within ten years, given different NPL sizes.

The bottom of Chart 4 assumes a seven year program and shows the level of the activity required to complete clean up within that time period. Again, this is set forth for different NPL sizes.

It is important to note that, under any of the scenarios discussed thus far and depicted in Charts 2, 3 and 4 (i.e. the constant rate of RI/FS per year or program durations of either seven or ten years), the Agency and the Administration are put in the position of defining the size of the problem by choosing the size of the NPL (546-2200 sites). EPA considers this unacceptable for two reasons:

---

* (The RI/FS acronym combines two information and data collection efforts performed at each site. The Remedial Investigation (RI) is designed to collect and analyze the data necessary to justify remedial action and to support the development of alternatives in the feasibility study. The Feasibility Study (FS) involves (a) the development of remedial alternatives, (b) the screening of alternatives on the basis of costs, health and environmental effects, and technical feasibility and (c) the recommendation of the alternative offering the most favorable results at the least cost.) The average cost of an RI/FS is $700,000 per site (1983 dollars). Once the RI/FS is completed, design and construction of the remedial action (estimated costs: $4.5 million per site not including groundwater treatment) can begin.

- The insufficiency of hard data needed to determine the size of the problem accurately; and

- The lack of resource availability (financial and technical) for dealing with a larger NPL at significantly accelerated activity levels.

Therefore, EPA suggests that the Administration adopt a management strategy for CERCLA reauthorization, and proposes three legislative options for considertion.

II. Management of the Problem - Regardless of Size (Charts 5 and 6)

EPA proposes that the problem we face be conceptualized differently. Rather than developing the Administration position by first defining the ultimate size of the problem, EPA proposes to focus on what can be accomplished during a specified time frame regardless of the size of the problem. Accomplishments and projections for the current Fund (see chart 5) indicate that we will be unable to complete design and construction (clean up) at a significant number of the 546 sites currently on the NPL prior to FY 86 when the authority to collect taxes under the statute expires. If we were to accept the proposition that no new sites will be added to the list, it would still take the Agency five years to move all sites now on the NPL through design and construction. Our analysis indicates, further, that an additional $3.0 billion (over and above the currently authorized $1.69 billion) would be required over five years to remedy the sites now in the pipeline.

However, we must assume that some number of sites will be added to the NPL. CERCLA requires that the NPL be updated at least annually. In the latest update (September 1983) 133 sites were proposed for the NPL. If we accept the most conservative estimate of the amount of growth the NPL may experience between 1986 and 1991 (five year reauthorization), the NPL will grow to a possible total of 1,000 sites. The pipeline analysis (Chart 6) shows what will be accomplished in terms of clean up and how much of the problem will remain after five years (using a variation of the rate at which those sites can be managed). This is best demonstrated by varying the number of RI/FS performed each year by the program.

Three options might be considered:

1. Decelerated Rate: 60 RI/FS per year

2. Current Rate: 120 RI/FS per year

3. Accelerated Rate: 145 RI/FS per year

Option 1.

Under Option 1, 60 RI/FS will be performed each year. In effect, this option slows down the rate of clean up each year. Assuming an NPL of 1,000 sites, total program costs over the five-year extension (FY 1986-1991) is $3.4 billion. This is $400 million more than the amount required to complete clean-up of the current NPL of 546 sites.

With an NPL of 1,000 sites, however, the problem remaining to be addressed at the end of the five-year extension would be considerable. Almost 270 sites would still require an RI/FS, and the government would be facing an additional $2.8 billion program. In addition, the public and Congressional outcry that would result from this perceived "slowdown" in addressing the hazardous waste problem renders this option unacceptable. Scheduling only 60 RI/FS in FY 86 after having accomplished 130 in FY 85 would emphasize this deceleration.

Option 2.

Option 2 is the current program RI/FS rate of 120 per year. The cost of the program at this rate of clean up is increased to $4.5 billion over five years. This rate will permit an RI/FS to be completed at all of the 1,000 NPL sites during the five year reauthorization period. However, the size of the problem remaining in FY 91 is $1.6 Billion.

Option 3.

Option 3 is an accelerated program of 145 RI/FS per year. The costs to the government is only $200 million more over five years than the current rate Program outlined in Option 2. This is possible because of the relatively low cost of RI/FS when compared to the higher costs of design an construction. The size of the problem remaining to be addressed after the five-year extension is $1.4 billion. The public and Congressional perception that the Administration is accelerating the clean-up of hazardous waste sites under this option is an important additional benefit to Option 3.

EPA recommends the acceptance of Option 3.

III. Advantages of Conceptualizing the Problem as a Management Issue and Accepting EPA's Preferred Option.

The Administration does not need to take a position on the ultimate size to which the NPL may grow. Regardless of the number of sites "out there," we can only handle those sites at a certain rate. By determining, at this time, the rate at which the sites will be addressed, EPA is in a better position to effectively discharge its responsibilities, thereby minimizing crisis management. By accelerating the rate at which we will address problem sites (i.e., by accepting Option 3), we gain considerable public benefits at the modest cost increase of only $200 million (over the five-year period) over the current rate.

Reauthorization of CERCLA for five years forces the Congress to reexamine the equity of the tax structure by 1991. While a tax scheme passed by Congress in 1984 might be equitable at that time, changing economic and environmental conditions may require that the tax structure be re-evaluated in future years. Option 3 would require that such a reevaluation be conducted prior to FY 1991.

By tying the reauthorization to what can be accomplished over a five-year period, we limit the amount of funds required to approximately $1 billion per year. (Over the five-year period, this is less than $2 billion more than would be required simply to finish the sites identified in our current baseline of 546 NPL sites.) If we were to tie reauthorization to a projected "size of the problem," Congress might attempt to pass a much larger annual tax collection. To establish annual revenue collections at a level that greatly exceeds the rate at which the Agency is able to expend those funds would not contribute to sound management.

At the end of five years, the Agency will be in a better position to define the size of the problem that remains to be tackled. Since current Agency projections are that all Site Investigations will be completed by the end of FY 86, the eventual size of the NPL should be known by FY 87 or 88. This will affect the size of the problem in FY 91, not the management of the problem during FY 86-90.

EPA, therefore, recommends that the Administration adopt a management strategy for dealing with CERCLA reauthorization and that the program be accelerated to a constant rate of 145 RI/FS per year.

RATIONALE FOR EPA PROJECTION

Potential ERRIS Inventory

22,000 sites

Program Experience To Date

6,800 preliminary assessments completed

2,000 site inspections completed

$\simeq$ 30% PA $\longrightarrow$ SI

$\simeq$ 28% SI $\longrightarrow$ NPL (546 sites)

Program Projections

15,200 PA $\xrightarrow{(30\%)}$ 4,560 SI $\xrightarrow{(20\%)}$ 912

546 NPL + 912 additional = 1,458

Target: SI Completion by end of FY 86

CHART 1

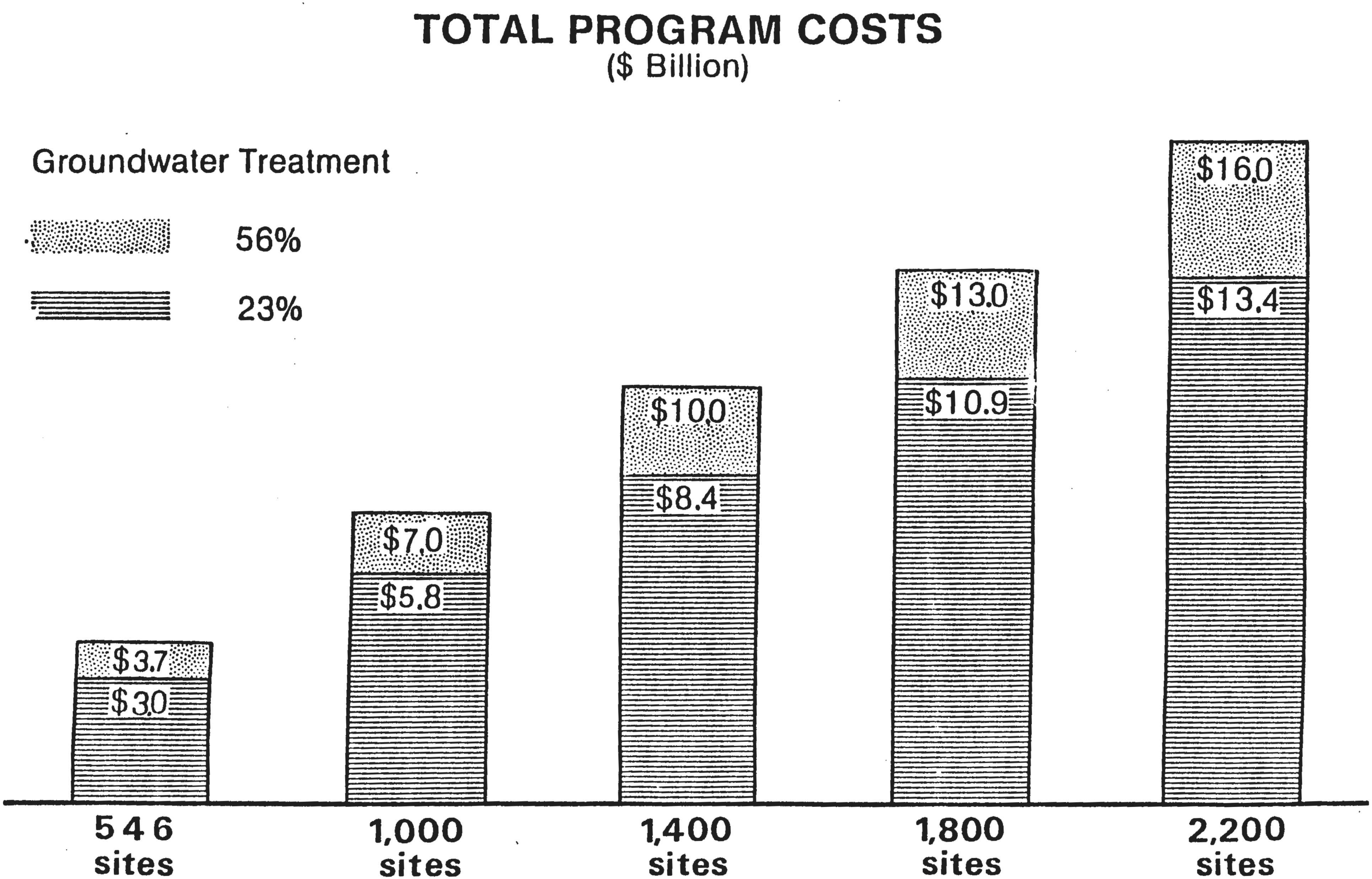
TOTAL PROGRAM COSTS
($ Billion)
Groundwater Treatment
56%
23%
$3.7
$3.0
$7.0
$5.8
$10.0
$8.4
$13.0
$10.9
$16.0
$13.4
546 sites
1,000 sites
1,400 sites
1,800 sites
2,200 sites

CHART 2

Program Duration After 1985: Options
(Groundwater Assumption—38%)

	546 sites	1,000 sites	1,400 sites	1,800 sites	2,200 sites
Constant Rate: 145 RI/FS per year					
Average cost per year	$669 m	$797 m	$830 m	$850 m	$860 m
Work years per year	905	1,022	1,080	1,090	1,100
Program duration (years)	5	8	11	14	17
Total cost (billions)	$ 3.3	$ 6.3	$ 9.1	$ 11.8	$ 14.5
onstant Rate: 120 RI/FS per year					
Average cost per year	$566 m	$711 m	$715 m	$750 m	$773 m
Work years per year	795	936	943	977	1,000
Program duration (years)	6	9	13	16	19
Total cost (billions)	$ 3.4	$ 6.4	$ 9.3	$12.0	$14.7

CHART 3

Program Duration After 1985: Options
(Groundwater Assumption—38%)

	546 sites	1,000 sites	1,400 sites	1,800 sites	2,200 sites
Accelerated Rate: 10 year program					
# RI/FS per year	30	106	183	239	306
Average cost per year	$397 m	$663 m	$898 m	$1,135 m	$1,367 m
Work years per year	576	867	1,152	1,415	1,679
Total cost (billions)	$ 4.0	$ 6.6	$ 9.0	$ 11.3	$ 13.6
Accelerated Rate: 7 year program					
# RI/FS per year	60	212	346	479	612
Average cost per year	$ 514 m	$892 m	$1,235 m	$1,570 m	$1,900 m
Work years per year	717	1,142	1,550	1,900	2,300
Total cost (billions)	$ 3.6	$ 6.2	$ 8.6	$ 10.9	$ 13.3

CHART 4

	CURRENT FUND					PIPELINE ANALYSIS 546 NPL Sites					
	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90	Total
RI/FS	21	30	115	135	130	115					546
Design	8	8	9	48	75	84	79	35	15		363
Construction	1	13	6	24	50	75	84	75	30	5	363
Total Program Cost (millions)	**$40**	**181**	**230**	**510**	**753**	**$862**	**837**	**740**	**396**	**197**	**3.0 bil.**

CHART 5

PIPELINE ANALYSIS
1,000 NPL Sites

	FY 86	FY 87	FY 88	FY 89	FY 90	Total	Remaining Problem
(60 RI/FS per year)							
RI/FS	60	60	60	60	60	731	269
Design	84	81	64	36	36	449	169
Construction	75	84	81	64	36	434	184
Total Program Cost (millions)	**$820**	**905**	**890**	**755**	**535**	**3.4 bil.**	**$2.83 bil.**
(120 RI/FS per year)							
RI/FS	120	120	120	120	89	1.000	—
Design	84	81	76	72	72	533	85
Construction	75	84	81	76	72	482	136
Total Program Cost (millions)	**$875**	**965**	**950**	**915**	**850**	**4.5 bil.**	**$1.66 bil.**
(145 RI/FS per year)							
RI/FS	145	145	145	134		1.000	—
Design	84	81	84	84	84	565	53
Construction	75	84	81	84	84	502	116
Total Program Cost (millions)	**$900**	**985**	**985**	**980**	**860**	**4.7 bil.**	**$1.4 bil.**

THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: November 23, 1983 **Number:** 175199CA **Due By:** --

Subject: Requests for Use of Military Aircraft

	Action	FYI
ALL CABINET MEMBERS	☐	☑
Vice President	☐	☐
State	☐	☐
Treasury	☐	☐
Defense	☐	☐
Attorney General	☐	☐
Interior	☐	☐
Agriculture	☐	☐
Commerce	☐	☐
Labor	☐	☐
HHS	☐	☐
HUD	☐	☐
Transportation	☐	☐
Energy	☐	☐
Education	☐	☐
Counsellor	☐	☐
OMB	☐	☐
CIA	☐	☐
UN	☐	☐
USTR	☐	☐
GSA	☐	☑
EPA	☐	☑
OPM	☐	☑
VA	☐	☑
SBA	☐	☑

	Action	FYI
CEA	☐	☑
CEQ	☐	☑
OSTP	☐	☑
	☐	☐
	☐	☐
	☐	☐
Baker	☐	☑
Deaver	☐	☐
Darman *(For WH Staffing)*	☐	☐
Jenkins	☐	☐
Mc Farlane	☐	☐
Svahn	☐	☐
	☐	☐
	☐	☐
	☐	☐
	☐	☐
	☐	☐
CCCT/Gunn	☐	☐
CCEA/Porter	☐	☐
CCFA/	☐	☐
CCHR/Simmons	☐	☐
CCLP/Uhlmann	☐	☐
CCMA/Bledsoe	☐	☐
CCNRE/	☐	☐

REMARKS:

Please see attached.

RETURN TO:

☑ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☐ Katherine Anderson ☐ Don Clarey
☐ Tom Gibson ☐ Larry Herbolsheimer
Associate Director
Office of Cabinet Affairs
456-2800

THE WHITE HOUSE

WASHINGTON

November 23, 1983

MEMORANDUM FOR THE CABINET MEMBERS
AND HEADS OF SELECTED AGENCIES

FROM: CRAIG L. FULLER

SUBJECT: Requests for Use of Military Aircraft

Recently there has been some confusion about White House policy for use of military aircraft. Our general policy is that commercial airline accommodations will be utilized, since they are the most economical. In exceptional cases, such as when commercial accommodations are not available or are inappropriate for the type of mission required, the following procedures will apply for Cabinet members.

1. Written requests should be sent through the Office of Cabinet Affairs to the Director of the White House Military Office. They in turn will coordinate with DOD and forward a recommendation to the Chief of Staff.

2. On approval, the White House Military Office will direct DOD to operate the mission, and also notify the Cabinet member involved.

The Department of Defense has been instructed to schedule and operate White House missions only when directed by the Military Office and to refer all requests to the Military Office. They will not schedule military aircraft for a White House mission unless the procedures outlined above are fully complied with.

Thank you for cooperating with us in this matter.

THE WHITE HOUSE

WASHINGTON

November 18, 1983

MEMORANDUM FOR JOHN HERRINGTON

THROUGH: CRAIG L. FULLER CLF

FROM: KATHERINE M. ANDERSON KMA

SUBJECT: National Transportation Safety Board

Richard Ferris, Chief Executive Officer of United Airlines, in a meeting today with James A. Baker III, mentioned an upcoming vacancy on the National Transportation Safety Board. Ferris highly recommended Donald R. Segner for the position.

Segner is presently serving as Associate Administrator for Policy and International Aviation at the Federal Aviation Administration, Department of Transportation.

Mr. Baker asked that I pass this information along to you.

bcc: Jim Baker

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

Jim Baker only

November 7, 1983

EXTREMELY SENSITIVE
FOR ATTENTION OF THE PRESIDENT ONLY

MEMORANDUM FOR THE PRESIDENT

FROM: David A. Stockman DAS

RE: Follow-up on Meeting with 18 Conservative GOP Senators

Purpose of This Memo

The tone of Thursday's meeting with the 18 Senate conservatives was highly disturbing because many of the comments implied that the Administration does not have a program to reduce the deficit. While this is patently wrong -- we now have pending before Congress $160 billion in 1984-88 spending cuts -- their failure to acknowledge this or display confidence in our January plan is quite significant and revealing.

The fact is that many of our friends at the Thursday meeting do not support many of the specific cuts we have proposed. I, therefore, offer the following review of the record in strictest confidence because I believe you should know that, increasingly, the anti-spending rhetoric of even our strongest friends is not being translated into legislative action.

This is not meant as criticism of the individual Senators listed because in most cases there are compelling reasons of belief or political necessity which explain their actions. But it does illustrate a critical dilemma: we have now reached the point -- after $288 billion in enacted spending cuts -- where even the small, hard-line conservative minority in Congress is divided about where further cuts should be made and consequently is nearly totally ineffective in helping to implement our budget plans.

While they would not explicitly agree to the proposition that there is almost no legislative base of support for the bulk of our additional spending cuts, I believe that implicit recognition of this state of affairs is the underlying reason for their apprehension and worry about future deficits. The following cases illustrate that despite the substantive merits of our budget reduction plan, we are not making much progress -- or even getting consistent help from our conservative friends in implementing these savings measures. More and more people are beginning to realize this, and are doubting the viability and credibility of our plan to steadily reduce the deficit.

Case I: 1984 Agriculture Appropriations Bill

Our January budget plan targets $16 billion over 1984-88 in cuts from the built-in spending line for soil conservation subsidies, agricultural research, the extension service, rural housing and development, subsidized farm loans and REA (Rural Electric). The pending agricultural appropriations bill is $3.4 billion over our budget for 1984 alone and rejects nearly all of the cuts that would generate the $16 billion in five year savings.

Wednesday night Senator Jepsen met with Ed Meese and me and pleaded against a veto. He strongly supports the soil conservation subsidies which are funded in the bill at $332 million or 62% above our January budget plan. When the bill was considered by the Senate, we signaled a veto but 11 of the 18 at Thursday's meeting voted for the bill and against the Administration. Those voting for a $3.4 billion add-on to your budget request included:

- Wilson
- Denton
- Grassley
- Hatch
- Boschwitz
- Jepsen
- Kasten
- Mattingly
- Rudman
- Trible
- Warner

Note: Ironically Senator Jepsen raised the question "When are you going to veto something?" at Thursday's meeting.

Case II: Helms 10% Across-the-Board Cut on Budget Resolution

Senator Helms complained about Administration opposition to his amendment last April to cut the budget 10% across-the-board -- excluding Social Security, DOD and net interest. This episode illustrates the problem with political gestures as opposed to real budget reductions. We opposed because the Helms Amendment would have wrecked too many of our priorities for which we are seeking spending increases or no cuts:

- Military Grant Aid and FMS
- Economic Support Fund and related Security Assistance
- DOE nuclear warheads production program and civil defense funding
- Space shuttle and other NASA initiatives
- Departmental budgets for State, Board for International Broadcasting, and USIA (Charlie Wick)

- FBI, Drug Enforcement Administration, and President's Organized Crime and Drug Enforcement program

- Veterans pensions

- General Revenue Sharing and many others

It is also interesting to note:

- One of the loudest critics at the meeting -- Paul Trible -- voted against the Helms Amendment because it would have cut military retirement pensions by 10% and there are large numbers of retirees in Virgina.

- This Amendment was to the Budget Resolution and therefore only a symbolic gesture. It would have taken subsequent Congressional action to change hundreds of laws to actually reduce Medicare and Medicaid by $50 billon over 5 years (10%); cut wheat, cotton, dairy and other price supports by 10%; reduce Coast Guard uniformed personnel (military) by 10%; cut GI education benefits by 10%; etc.

Case III: Health Benefits for the Unemployed

As you have frequently said, the built-in structural deficit is due to automatic entitlements voted in the 1960's and 1970's which we can't stop unless Congress changes the law. Therefore, we have strenuously opposed the proposed new multi-billion entitlement providing health benefits for the unemployed unless linked to an equal built-in source of funding.

An amendment to start this program without a built-in source of funding was considered by the Senate last summer on the Supplemental appropriations bill. Despite strong Administration oppositon eight of the eighteen voted for it -- including:

- Grassley
- Hatch
- Hecht
- Jepsen
- Kasten
- Murkowski
- Warner
- Wilson

- This resulted in an overwhelmingly favorable Senate vote, but we managed to get the House Democrats to insist that it be dropped in Conference -- staving it off temporarily.

- Unfortunately, the loss of this Senate "test" vote by 75 to 23, has backed Bob Dole and the Finance Committee into a corner in trying to control this legislation. Proponents are using the Senate "mandate" contributed to by conservatives to force them to report an unacceptable bill.

Case IV: Confusion and Rationalizations on the Specifics

One of our most important spending control setbacks was the Senate's override of your veto of the 1982 Supplemental appropriations bill. That bill added $1 billion for domestic spending that we opposed (because it was in addition to already enacted full-year funding) and cut several billion from urgent defense supplementals that we asked for.

Hatfield and the Senate moderates rationalized voting to override on the grounds that on a net basis the bill was below your budget. Unfortunately, the following three conservatives fell for that argument -- despite our clear explanation to the contrary. We lost the veto override by one vote. Those voting to override were:

- Grassley
- Rudman
- Jepsen

Subsequently, the defense money was obtained but the domestic add-on got built into the spending base. More importantly, we have lost bargaining power in the appropriations process as illustrated by the high levels we had to accept in the Interior Appropriations bill you signed Friday.

Case V: The Impact of a Strategic Vote

Senator Rudman has supported us on much of the spending cut program -- but as a former Attorney General he believes strongly in the Legal Services Corporation. Unfortunately, he is a member of Paul Laxalt's subcommittee on State, Commerce and Justice Apropriation which has funding jurisdiction.

Next week Paul Laxalt will ask you to sign the 1984 bill -- despite the fact that it is $800 million or 10% over your budget request. $260 million of this increase is due to full funding of the legal services corporation at Senator Rudman's insistance. Senator Laxalt originally went so far as to vote against his own bill in subcommittee but has now concluded that it is at the lowest "politically realistic" level achievable.

Again our January budget assumed five-year (1984-88) savings of $3.3 billion for Legal Services Corporation and two other major programs that Laxalt has been unable to cut -- EDA and NOAA (weather service and oceans). In light of this, it is difficult to see how these cuts will ever be achieved.

Case VI: The Impact of a Strategic Chairman

Our January budget calls for $500 million in savings over five years by keeping Jobs Corps program on a straight line of $590 million/year -- rather than having annual increases. With unemployment coming down and inflation low, we believe a "no increase" budget is fully justified. Moreover, this program is highly inefficient because it transports inner city youth often 500 to 1,000 miles from home to "Jobs Corps Centers" -- resulting in an annual cost per enrollee of $13,000 or the equivalent of Harvard tuition and room and board (includes $2,000 "pocket money" allowance).

Unfortunately, one of the largest Jobs Corps centers which train Chicago ghetto teenagers is in Utah, and Senator Hatch is Chairman of the Authorizing Committee. He strongly insists on annual funding increases in order to insure that the Utah Center is not closed. I do not expect we will ever achieve any savings in Jobs Corps because our only alternative is to ask the Appropriations subcommittee chairman to eliminate the increase. The latter is Senator Weicker!

Case VII: Reluctance to Support Actual Cuts From Existing Budget Levels

You have made the point many times that our basic budget strategy is to limit the growth in spending rather than cutback on what is here now. This is true in general -- but in many cases we have proposed to cutback sharply from existing levels in order to off-set our priority program increases (e.g. law enforcement and space) and still get overall budget savings from the built-in line.

One such example is a program to help pay heating bills of low-income elderly and others. It was funded at $1.8 billion per year when we got here after starting at $100 million in 1978. Our proposal was to cut this by 30% -- down to $1.3 billion by eliminating most funding for Florida, Texas, Arizona, Puerto Rico and other warm states and retargeting a lower funding level to the cold-winter states. This cut was opposed by so many House Republicans that we had to drop it to get votes for the Gramm-Latta Reconciliation bill.

Unfortunately, we not only failed to achieve any cut from the Carter level, but later in FY 1982 Senator Kennedy proposed to increase the built-in Carter level by $123 million. 10 of 15 Senators at Thursday's meeting voted for the Kennedy amendment including:

- Denton
- Grassley
- Hatch
- Humphrey
- Jepsen
- Kasten
- Rudman
- Murkowski
- Warner
- Boschwitz

In FY 1983 this higher level was again appropriated but in the December CR Senator Warner offered an amendment to add another $200 million on top of the now $1.9 billion level for heating aid and a related program to buy and install insulation for low-income families, hospitals and schools. Although we strongly opposed this amendment, 10 of the 15 at Thursday's meeting again voted for another increase. These included:

- Grassley
- Hatch
- Humphrey
- Jepsen
- Warner
- Kasten
- Mattingly
- Murkowski
- Rudman
- Boschwitz

Despite these setbacks our January budget stuck with the 30% cut/$1.3 billion annual funding level. Over 5 years this amounts to $2.7 billion of the savings we are asking from Congress. However, I see no way this will ever be achieved given the above votes and despite the merits of our case.

Case VIII: The Influence of Special Interests

We strongly opposed pump-priming programs during the worst of the recession in 1982 on the grounds that they only increase the built-in spending level and do not have an impact until the recession is already over. One good example was the $5 billion mortgage subsidy program designed to stimulate housing proposed by Senator Lugar in July 1982. This program would not have been completed until 1987 and would be just starting right now had you not vetoed it twice in the summer of 1982.

However, when it first came to a vote in the Senate 7 of 15 who were at the Thursday meeting voted for the Lugar bill despite our strong opposition. These included:

- Grassley
- Hatch
- Helms
- Jepsen
- Boschwitz
- Kasten
- Rudman

From my many phone calls to plead for negative votes, I know that most of them knew it was a bad idea but were under so much pressure from the homebuilders that they had no choice. While your vetoes saved the day, they also contributed to the climate in the Senate that lead to the Supplemental override 2 months later.

Case IX: The Impact of Log-Rolling

The single most out-of-control program in the federal budget is dairy price supports for which we will spend $2.6 billion in 1983 or $216 for every cow, calf and heifer in the country. The result: 17 billion pounds of cheese, butter, dried milk, and other dairy products in government storage.

This disaster stems from violating the laws of economics: the price support a $13.10/hundred weight is so far above the cost of production that vast excess supply is being generated which the government is obligated to buy in unlimited quantities.

We saw this situation coming in 1982 and supported an amendment to the farm bill to lower the price support by $1.10/hundred weight -- thereby reducing the economic incentive for over production and bringing supply and demand into line. Unfortunately 7 of 15 Senators at Thursday's meeting voted against the amendment, including:

- Grassley
- Hatch
- Jepsen
- Boschwitz
- Kasten
- Nickels
- Warner

Most of these Senators know the dairy program is out of control but had to vote against the amendment because the bill contained things they wanted for other farm programs including a paid diversion for not growing wheat and an export subsidy fund. This is a classic case where log-rolling leads to increased spending despite broad support for reductions in individual programs (e.g. Dairy).

Overall Implications for our FY 1985 Budget

Based on the foregoing observations, I do not believe the sense of apprehension and profound worry about future deficits will go away after we submit a new budget in January -- even if the Cabinet comes through on your mandate of last Tuesday to re-submit all of the savings that we had planned for 1985 and the out-year. On paper these savings would amount to $148 billion (the same as our January budget less the amount for 1984 which for the most part has not been achieved). But as you can see from the table below, each of the four categories accounting for these savings is confronted with a large road block:

- The $30 billion in social insurance savings are almost entirely in Medicare. We are not going to get more than a billion or two of these before 1985, and even after the election the Republican mainstream will not be of a mind to risk creating a "1986 issue" for the Democrats by pushing too hard for our deep cuts.

- The $23 billion in means-tested benefit savings (AFDC, Medicaid, food stamps, low-income heating aid and child nutrition) simply cannot be achieved at all until there is a sizeable Republican majority in the House. The House Democratic committee chairmen and rank and file have drawn the line at our 1981-82 reforms, and there is no feasible way to get around it either before or after the election -- unless there is a 100 seat turn-around in the House in November, 1984.

- The minor $1.8 billion in savings for Security Assistance, Economic Aid, space and defense related programs (non-DOD) will turn into a $5-15 billion add-on by the time we complete our own internal budget decisions in January. The commitments we have already made will cost more than we allowed for 1985 and the out-years in last January's budget.

- The largest category of savings is for agriculture and rural programs and other discretionary domestic spending. This category accounts for 63% of our planned savings but it involves cuts of the type that even the conservative Senate Republicans have not supported us consistently on -- as detailed above.

1985-1988 SAVINGS IN OUR EXISTING JANUARY BUDGET PLAN

	Budget Component	Road Block	1985-88 Savings (billions)	% of Total
1)	Social Insurance (mostly Medicare)	Rank-and-File GOP fear Democratic attack ala 1982 and public backlash	-$30	20%
2)	Means-Tested Welfare (AFDC, Food Stamps, Medicaid, etc.)	House Democratic Committees have closed the door -- only GOP House control with large margin will change prospects	-$23	16%
3)	Security Assistance, Economic Aid, Space and Defense Related	We will need <u>increases</u> not decreases to fulfill our commitments	-$2	1%
4)	Agricultural and Rural Program and other Domestic Discretionary Spending	Moderates and liberals oppose further cuts -- Conservatives divided and inconsistant, thus undermining veto weapon	-$93	63%
5)	Total January Budget Plan	-----	-$148	100%

None of this discussion of the <u>legislative infeasibility</u> of our spending cut program detracts from the <u>substantive merits</u> of our planned budget savings. But if we are to retain the <u>confidence</u> of the conservative majority -- to say nothing about the country at large -- that we have a viable deficit reduction plan, then we have to either find a way to make our current plan legislatively feasible or develop a revised plan which is. The urgency of this is not effected by whether we are contemplating <u>pre-election</u> or <u>post-election</u> implementation of our existing plan. The forces arrayed against us are not likely to be significantly altered by the Congressional election outcome.

~~CONFIDENTIAL~~

THE WHITE HOUSE

WASHINGTON

November 1, 1983

Dear Bill:

The attached copy of a memorandum from Larry Speakes is self-explanatory, and is forwarded for your information.

Sincerely,

Jim

James A. Baker, III
Chief of Staff and
Assistant to the President

The Honorable William J. Casey
Director
Central Intelligency Agency
Washington, D.C.

cc: Bud McFarlane

THE WHITE HOUSE

WASHINGTON

October 31, 1983

~~CONFIDENTIAL~~

MEMORANDUM FOR JAMES A. BAKER III

FROM: Larry Speakes

In all of this controversy over the Grenada invasion, the most disturbing element is how CBS got the tip to ask the White House and other government officials about the possibility of a U.S. military action in Grenada.

Bill Plante made an inquiry with me at about 4:00 pm on Monday, 13 hours before the first U.S. contingent landed. His inquiry concerned the possibility of Marines on Grenada that afternoon and the possibility of an "invasion" on Tuesday morning.

In conversations with him he alluded to the fact that this tip had come from "CIA people or people who formerly worked with the CIA and retained some connection with the agency."

Bob Scheiffer, the CBS State Department reporter, made a similar inquiry with Bob Sims of the NSC staff and Les Janka also received telephone calls from CBS people.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

DATE: 10/28

TO: Jim Baker

FROM: Wright

Followed Up Per
Your Request.

Joe

OMB FORM 38
Rev. Aug 73

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

October 28, 1983

Mr. Fitzgerald Bemiss
P. O. Box 1156
Richmond, VA 23209

Dear Mr. Bemiss:

Joe Wright and I have looked into the NACOA appointments situation and I'm happy to be able to tell you that appointments will be made to fill the vacant positions. Currently, there are six tentative selections undergoing the clearance process; there is every intention to fill the remaining six. It seems probable that your inquiry will have the effect of expediting that process somewhat, although, as you know, it can be a lengthy one.

I appreciated the opportunity to hear your views regarding the value of NACOA and to get a glimpse, firsthand, of how very well the President's policies are being served.

Please give me a call if I can be of any further help.

Sincerely,

Constance Horner

Constance Horner
Associate Director
Economics and Government

cc: Joe Wright

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

October 28, 1983

Dr. John A. Knauss
Dean, Graduate School
of Oceanography
Narragansett Campus
Kingston, RI 02881

Dear Dr. Knauss:

Joe Wright and I have looked into the NACOA appointments situation and I'm happy to be able to tell you that appointments will be made to fill the vacant positions. Currently, there are six tentative selections undergoing the clearance process; there is every intention to fill the remaining six. It seems probable that your inquiry will have the effect of expediting that process somewhat, although, as you know, it can be a lengthy one.

I appreciated the opportunity to hear your views regarding the value of NACOA and to get a glimpse, firsthand, of how very well the President's policies are being served.

Please give me a call if I can be of any further help.

Sincerely,

Constance Horner

Constance Horner
Associate Director
Economics and Government

cc: Joe Wright

10 pm Call Ferris

Letter to him saying looked into at RR's request.

Fuller will do.

THE WHITE HOUSE

WASHINGTON

October 24, 1983

MEMORANDUM FOR JAMES A. BAKER III

FROM: CRAIG L. FULLER CLF

SUBJECT: Chicago O'Hare Airport Operations

I believe that Lynn Helms has taken the prudent course with regard to slots at Chicago's O'Hare Airport. Concerns raised by United Airlines are being dealt with and it is difficult to see how the FAA's approach could be altered without putting the operation in the Chicago area at risk.

Lynn has spoken with United's representatives and made the following points:

-- Chicago was the hardest hit area in the controllers' strike.

-- United's operations are back to the level they were at before the strike.

-- O'Hare now has 1,900 operations a day. They will be at 2,000 by December and 2,200 on April 1 if all goes as planned. With as many new controllers as the FAA now has, Helms just does not believe it is advisable to suggest that the schedule will be advanced and he does not believe that locking into an April increase in operations (by saying that "at least by April 1...") is appropriate.

-- Lynn Helms and the FAA have done extensive briefings for Congressman Rostenkowski and other members of Congress from the area. They, too, had been contacted by United; however, they are now reported to support the FAA's plan. (Since they are both knowledgeable and supportive, any change in the approach taken by FAA would attract their attention.)

-- Lynn indicated that United also wants the FAA to eliminate the "high density rule" that O'Hare operates under. There is a proposed rule out to do this, but it will not be implemented until the controller strength is greater.

-- Lynn has not told United yet, but it is possible that the neighboring Midway Airport will be cleared for more traffic in February and this would provide some relief to O'Hare and possibly more slots for United--however, Lynn is not certain.

cc: Ed Meese

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON

October 19, 1983

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

Dear Jim:

I am enclosing a copy of the memorandum I sent Bud McFarlane yesterday, for your information.

Very truly yours,

WILLIAM E. BROCK

WEB:cb

RONALD W. REAGAN LIBRARY

THIS FORM MARKS THE FILE LOCATION OF ITEM NUMBER 3 LISTED ON THE WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.

THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

October 17, 1983

Mike
Item #
8639068

MEMORANDUM FOR THE HONORABLE JAMES A. BAKER, JR.
CHIEF OF STAFF AND ASSISTANT
TO THE PRESIDENT

FROM: DONALD T. REGAN DTR

SUBJECT: DOLE TAX PROPOSAL

Senator Dole has a proposal which he showed to me while travelling in Kansas on Friday. It consists of raising abut $15 billion in taxes in FY'84 trhough '86 starting out with raising aobout $4 1/2 billion in FY'84 and ending at $5 1/2 billion in FY'86. In addition to these tax increases, he also has some spending cuts on items over which his Committee has jurisdiction. These include actions on deferring COLA's for 18 months (except for social security) and several items in the health area. These would cut about $5-7 billion over the same three fiscal years, FY '84 - '86. He claims that Roth in his Government Affairs Committee has proposals which if enacted would cut amounts to the tax increases.

Dole proposes to couple this tax increase with contingency taxes that would be for FY '85 (in part) and for '86, '87 and '88. The contingency taxes would be eliminated after FY'88.

He intends to sweeten this by adding an amendment which would give the President expanded budget control through rescision powers. He would notify the Congress of his intentions to rescind certain items if both houses have not overridden it within 45 days the rescision would become effective.

Deails of the contingency tax are as follows:

1. Contingencies (to be projected on May 1, 1985) which must occur to trigger the tax are:

a. Both OMB and CBO must project real GNP growth of 3 percent for calendar year 1986, measured fourth quarter to fourth quarter;

b. Either OMB or CBO must project a current law base line deficit for fiscal year 1986 of greater than 2.5 percent of GNP (currently estimated at $108 billion); and

c. Both OMB and CBO must project that current law base line outlays will not exceed 23 percent of GNP for fiscal year 1986.

2. If triggered, contingency taxes, intended to raise $44 billion, are proposed as follows:

a. 5 percent surtax on indviduals.

b. 2.5 percent surtax on corporations.

c. 5 percent cutback in corporate tax preferences.

d. reduction of regular investment tax credit from 10 percent to 8 percent.

e. 1 percent sales tax on retail sales of tangible personal property other than food, clothing and prescription drugs.

The proposed effective date is July 1, 1985. (The Administration's contingency tax plan would become effective October 1, 1985.)

The amounts would be raised are:
$8.7 billion in '85
$38 billion in '86
$44 billion in '87
$48 billion in '88

Dole claims he should be able to get all Republicans on his Commitee as well as some Democrats to vote for this. He would like to put his proposal on a fast track and have it on the Senate floor within two weeks. Then if the Senate passes it and if the House did nothing about it, then the Democrats could not claim they are against deficits. By this proposal, the Senate and the Republicans are being responsive to deficits.

On individual items in the contingency tax he would be willing to change or modify them if the Administration can propose alternative taxes that would raise approximately the same amount.

The answer is
to reduce Math + Science
by $375 M.