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Date: 3/1/99

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
1. chronology	re Commerce investigation 5 p.	nd	~~F7~~ B7
2. memo	re investigation 1 p.	3/24/83	~~F7~~ B7
3. memo	Don to Jim re the Fed 1 p.	2/13/84	~~P6~~, ~~F6~~ B6 (C) 10/5/00

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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U.S. Department of Justice

Federal Bureau of Investigation

Office of the Director

Washington, D.C. 20535

May 24, 1984

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

Dear Jim:

How very good of you to take time so promptly to write to me from Alaska when you heard the news of Drue's passing. Knowing that you had traveled this path before makes your thoughtfulness all the more meaningful to me.

Drue thought so much of both you and Susan. Susan, in her own thoughtfulness, had taken time to write Drue a cheerful letter and to send her a copy of one of the Marshal books. Unfortunately, it did not arrive in time but you can tell her that I will be the one to read and benefit from her.

With warmest regards,

Sincerely,

Bill

(Webster)

THE WHITE HOUSE

WASHINGTON

April 10, 1984

MEMORANDUM FOR JAMES A. BAKER III

FROM: CRAIG L. FULLER CF

SUBJECT: Department of Education finding on Operation PUSH-EXCEL Grant

The Department of Education began the investigation of Operation PUSH-EXCEL in 1982 as part of a routine audit. This procedure is followed for all grantees and contractors. It was conducted by the Department Inspector General. In addition, the Departments of Health and Human Services, Commerce and Labor began audits at about the same time. To streamline matters, the Education IG conducted the audit.

The initial finding by the Department of Education noted that $1.4 million was mis-spent. PUSH was given an opportunity to rebut this and they did. The final determination by the IG is that PUSH cannot substantiate $754,000. While the final totals are not yet in for the other departments, it is believed Labor will be due $434,000, Commerce $100,000 and an undetermined amount to HHS.

This investigation was conducted exclusively by the Education Inspector General. The next step for PUSH is a review before the Education Appeal Board, then the Secretary and, failing that, the Courts.

THE WHITE HOUSE
WASHINGTON

4/7/84

TO: JAB

FROM: *CRAIG L. FULLER*

☑ FYI

☐ Comment

☐ Action

DAYTON HUDSON CORPORATION
777 Nicollet Mall
Minneapolis, Minnesota 55402
612/370-6948

LOYD HACKLER
PRESIDENT
AMERICAN RETAIL FEDERATION
1616 H STREET, N.W.
WASHINGTON, D.C. 20006
(202) 783-7971

April 2, 1984

William P. Arnold
Chairman and CEO
Associated Dry Goods Corporation
417 Fifth Avenue
New York, NY 10016

Dear Bill:

On March 27, Henry Johnson and I, along with Phil Knox from Sears met with James Baker (Counselor to the President and The White House Chief of Staff) and Craig Fuller (Secretary of the Cabinet) to discuss trade issues and the work of our Special Trade Committee.

The meeting was prompted by reports that the textile and apparel industry had lobbied The White House to increase the number of calls on imports and to initiate a licensing system which would move the United States closer toward global quotas.

Our meeting was designed to convey to Messrs. Baker and Fuller, and through them to the Pesident, the concern which retailers have over the process and protectionist nature of decision-making regarding textiles and apparel.

We informed them of retailing's strong commitment to affect trade policy. They were receptive to the idea that retailers should play a bigger role in trade policy decisions and encouraged increased communications between The White House and retailers. We specifically asked them to open up the process for evaluating requests for trade action. We urged them to avoid global quotas and to resist efforts to institute a licensing system. In short, we asked them to be more professional in the way they conduct their trade policy decision-making and administration.

This meeting marks the beginning of what we hope will be a series of meetings with the Administration on trade policy as our Special Trade Committee becomes active.

Sincerely,

William A. Andres
Chairman of the Board

WAA:bm
cc: Steering Committee Members

THE WHITE HOUSE

WASHINGTON

April 5, 1984

Dear George:

I have reconsidered your request for military support during the NATO ministerial meeting, May 29-31, and have directed the White House Military Office to provide helicopter transportation. However, I feel it is the State Department's responsibility to provide the necessary ground transportation. Defense would be equally hard put to provide the cars and drivers.

I agree with you that it is important to the Administration that we host a successful ministerial meeting of the Alliance.

With warm regards.

Sincerely yours,

Jim

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

The Honorable George P. Shultz
Secretary of State
Washington, DC

3/23

CF:

How can this guy suggest that Dept. of Ed. funds be used for this? Have you answered?

JAB

3/17/84

Jim — This resulted from my call to Alan Freeman at your request. My office will follow-up.

CF

EDUCATIONAL NEWS SERVICE

521 FIFTH AVENUE • SUITE 1700 • NEW YORK, NY 10175 • 212-682-5844

March 14, 1984

Mr. Craig Fuller
The White House
Washington DC 20500

3/27/84 He claims costs could be paid by schools....

Dear Mr. Fuller:

I enjoyed our telephone conversation last week. As you requested, I mailed several flyers on prior in-depth filmstrip series programs on energy and environmental topics. In this letter, I wish to describe the specific program that I discussed first on the telephone with Jim Baker last week and then with you.

We would like to propose a four part series in sound filmstrips entitled "Avoiding A Nuclear War" to be mailed free to 15,000 of the nation's junior and senior high schools reaching approximately fifteen million students and about 700,000 teachers.

The series will be an in-depth study of the various strategies for avoiding a nuclear war. It will study the history of disarmament--the treaties that have been negotiated between the US and USSR. It will cover the START talks. We will examine potential conflict situations--where and how a nuclear war can erupt. Freeze and deterrent thinking will be fully explained by the best resource persons available.

We would like to complete and mail this series during the next four to five weeks in order that schools have it by late April.

The cost of this series is $600,000, which amounts to $40.00 per school. The cost includes a sampling evaluation of pre and post tests given to the students at the schools measuring the students' comprehension of the program.

We will copy you on our response, but we are doing no more than make sure his proposal is considered.

CF

A second set of four filmstrips on the topic would be produced and mailed in September for use in October. This series would examine attempts at negotiations and developments with President Reagan and the new Russian leader, Chernenko.

A detailed explanation of Reagan administration nuclear thinking will be presented along with the Democratic presidential contender's nuclear weapons' policy. Comparative military strengths of the US and USSR will be compared. The cost structure would be the same as the first set of four filmstrips.

A one hour 16mm film would also be developed based on the same subject matter for use in the Spring with adult education in churches, synagogues, and colleges. The cost to produce the film is $400,000. Another film would be released in the Fall along the same content lines of the second set of filmstrips.

I also mentioned to you that we started a 16mm film on the American Gathering of Jewish Holocaust Survivors Gathering in Washington last Spring. We have footage of the President and the Vice President addressing the convention along with all other events of the conference. The cost to complete the production of this film is $250,000. This film would be shown to churches, synagogues, schools, and colleges. This Holocaust film could be released in late April for Holocaust Remembrance Days April 29 and again used in the Fall after the Jewish High Holidays, October 6.

The "Avoiding A Nuclear War" filmstrip and film program would serve a public need to help students and adults understand the very complex arms control and deterrents debate. The high school program ties in with the President's emphasis on quality high schools as it provides a quality curriculum on a vital topic. It also ties in with the President's concern with student drunken driving, drug abuse, classroom violence, etc. inasmuch as 30- and 60-second messages on these various topics can be inserted in these 15-minute filmstrips similar to commercials in TV programs. These messages could also help provide the funding for the programs as budgets may be available for these topics. The net series cost of each 30-second message is $25,000--there are six messages in each filmstrip. As we briefly discussed, the funds could possibly come from the Department of Education or other department's educational budgets. Funds may also come from private sources--corporate sponsors or philanthropists.

I hope you will be able to implement this program.

Very truly yours,

Alan Freeman
President

cc: James A. Baker

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

March 13, 1984

MEMORANDUM FOR: James A. Baker III
Chief of Staff and
Assistant to the President

Robert McFarlane
Assistant to the President
for National Security

SUBJECT: Export Administration Act Enforcement

On Saturday afternoon, we learned of a technology diversion case that demonstrates the importance of maintaining enforcement responsibilities for the EAA within the Department of Commerce because of the critical link between licensing and enforcement. That link cannot be maintained simply by communication and coordination between two separate departments. Equally important, the case demonstrates the urgent need to direct Customs to cooperate fully with Commerce in the implementation of last January's Memorandum of Understanding.

The attached chronology reveals not only that the current absence of cooperation on Customs' part seriously jeopardizes our security interests, but also that complete cooperation can provide the United States with an effective enforcement program.

The Administration's primary objective must be preventive enforcement; while successful criminal prosecution or administrative remedies are useful deterrents, no prison term, fine or loss of export privileges can replace critical technology lost through illegal transfer. Thus, Customs' continuing failure to provide Commerce with the names of suspect firms or individuals, preventing Commerce from screening more comprehensively pending export license applications, must be corrected as a matter of urgency.

I plan to discuss this with Don Regan immediately.

Secretary of Commerce

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THIS FORM MARKS THE FILE LOCATION OF ITEM NUMBER 1 LISTED ON THE WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.

UNITED STATE DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

MAR 17 1983

Mr. George C. Corcoran, Jr.
Assistant Commissioner
Office of Enforcement
U.S. Customs Service
1301 Constitution Avenue, N.W.
Washington, DC 20229

Dear George:

Although Customs and Commerce are working on a Memorandum of Understanding to resolve several issues related to the coordination of Commerce's Office of Export Enforcement (OEE) and Customs enforcement of the Export Administration Act, one particular matter deserves our mutual, special and immediate attention.

Neither OEE nor Customs is keeping the other adequately informed of their investigative activities. The result is that we occasionally trip over one another with embarrasing consequences. For example, recently, an OEE agent in Los Angeles obtained a search warrant. When he sought assistance in serving the warrant from Customs, he found that a Customs agent had already openly approached the target firm in answer to a lead.

A related problem is the need for Customs to keep Commerce advised of current investigations so that the Office of Export Administration (OEA) will be able to make appropriate licensing decisions. If we do not know of your interest in a target, we have no basis to deny an otherwise legitimate license application. A lengthy investigation can come to naught by an inopportune license determination. If you are to avoid this, OEA must be informed of your interest in a particular subject.

I urge you to provide us immediately with a list of all of the subjects of your open Export Administration Act cases. We, of course, will similarly provide you with a list of our cases. That way, we may determine if there are any targets whom we are both working and do not know it, and OEA may give due attention to any license applications now pending or which it may receive from suspected violators. Obviously, if we find such a situation, we would coordinate our efforts with you so that the left hand would know what the right hand is doing.

Although we both know there are several proposals in the Congress to change export enforcement jurisdiction, the present situation is that both Commerce and Customs are conducting investigations of violations of the Act. As long as this fact remains, I sincerely believe (as you do) that it is to our nation's interest to coordinate our efforts.

George, notwithstanding the forces that are at work to feed upon the sparks of interagency struggle between Commerce and Customs, permit me to say again that I believe the two agencies can and indeed need to work together as equal partners and be mutually supportive. The efficacy of our nation's strategic export control efforts depend on that kind of cooperation and mutual respect between our two agencies.

I await your early and hopefully, favorable response to this letter.

Sincerely,

Theodore W. Wu
Deputy Assistant Secretary for
Export Enforcement

P.S. Welcome back to Washington. I trust that your visit to the West Coast was productive and enjoyable.

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THIS FORM MARKS THE FILE LOCATION OF ITEM NUMBER 2 LISTED ON THE WITHDRAWAL SHEET AT THE FRONT OF THIS FOLDER.

THE WHITE HOUSE

WASHINGTON

February 28, 1984

MEMORANDUM FOR JAMES BAKER
ROBERT McFARLANE

FROM; CRAIG L. FULLER

SUBJECT: Update for the Cabinet on Irag and Iran

I have spoken with Don Hodel who indicates that the coordination yesterday worked well on the Iran and Iraq situation.

Don will be prepared to make brief comments. I suggest that Bud might make some brief comments on the situation in Iran and Iraq. (At this point, State is not planning to send anyone to the meeting).

Following their brief comments, the President will urge the continued close coordination that existed yesterday on this matter. Draft talking points are attached.

If you have any comments or concerns let me know.

[Note: I have not advised State that this may be discussed.]

TALKING POINTS ON IRAN AND IRAQ

--Before taking up the items on the agenda, I'd like to ask George Shultz [or Bud McFarlane] and Don Hodel to discuss briefly the Iran and Iraq situation and the implications for a disruption of energy supplies.

After their comments:

--I want to stress the importance of careful coordination on this matter. Misstatements can quickly make things worse.

--The coordination that occurred yesterday should serve as a model.

--State should take the lead in assessing and commenting on the situation in Iran and Iraq.

--Energy should have the lead in coordinating any comments on the implications an energy disruption would have here in the U.S.

--Any other comments?

--Return to the agenda and call on Ed Meese for the Cabinet Council on Management and Administration presentation.

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

FEDERAL RESERVE press release

For Use at 4:30 p.m. February 3, 1984

The Federal Reserve Board and the Federal Open Market Committee today released the attached record of policy actions taken by the Federal Open Market Committee at its meeting on December 19-20, 1983.

Such records for each meeting of the Committee are made available a few days after the next regularly scheduled meeting and are published in the Federal Reserve Bulletin and the Board's Annual Report. The summary descriptions of economic and financial conditions they contain are based solely on the information that was available to the Committee at the time of the meeting.

Attachment

See page 14

in July the Committee reconsidered the growth ranges for monetary and credit aggregates established earlier for 1983 in furtherance of these objectives and set tentative ranges for 1984. The Committee recognized that the relationships between such ranges and ultimate economic goals have become less predictable; that the impact of new deposit accounts on growth of monetary aggregates cannot be determined with a high degree of confidence; and that the availability of interest on large portions of transaction accounts may be reflected in some changes in the historical trends in velocity.

Against this background, the Committee at its July meeting reaffirmed the following growth ranges for the broader aggregates: for the period from February-March of 1983 to the fourth quarter of 1983, 7 to 10 percent at an annual rate for M2; and for the period from the fourth quarter of 1982 to the fourth quarter of 1983, 6-1/2 to 9-1/2 percent for M3. The Committee also agreed on tentative growth ranges for the period from the fourth quarter of 1983 to the fourth quarter of 1984 of 6-1/2 to 9-1/2 percent for M2 and 6 to 9 percent for M3. The Committee considered that growth of M1 in a range of 5 to 9 percent from the second quarter of 1983 to the fourth quarter of 1983, and in a range of 4 to 8 percent from the fourth quarter of 1983 to the fourth quarter of 1984, would be consistent with the ranges for the broader aggregates. The associated range for total domestic nonfinancial debt was reaffirmed at 8-1/2 to 11-1/2 percent for 1983 and tentatively set at 8 to 11 percent for 1984.

In implementing monetary policy, the Committee agreed that substantial weight would continue to be placed on the behavior of the broader monetary aggregates. The behavior of M1 and total domestic nonfinancial debt will be monitored, with the degree of weight placed on M1 over time dependent on evidence that velocity characteristics are resuming more predictable patterns. The Committee understood that policy implementation would involve continuing appraisal of the relationships between the various measures of money and credit and nominal GNP, including evaluation of conditions in domestic credit and foreign exchange markets.

The Committee seeks in the short run to maintain at least the existing degree of reserve restraint. The action is expected to be associated with growth of M2 and M3 at annual rates of around 8 percent from November to March. The Committee anticipates that M1 growth at an annual rate of around 6 percent from November to March will be consistent with its objectives for the broader aggregates, and that expansion in total domestic non-financial debt would continue at around its recent pace. Depending on evidence about the continuing strength of economic recovery and other factors bearing on the business and inflation outlook, somewhat greater restraint would be acceptable should the aggregates expand more rapidly. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that pursuit of the monetary objectives and related reserve paths during the period before the next meeting is likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Morris, Partee, Rice, Roberts, Mrs. Teeters and Mr. Wallich. Vote against this action: Mr. Martin.

Mr. Martin dissented from this action because of his concern that any tightening of reserve conditions and the associated increase in interest rates would present a threat to the sustainability of the economic expansion: needed business investment would be more expensive, international debt servicing more burdensome, and interest-sensitive housing more vulnerable.

2. Authorization for Domestic Open Market Operations

At its previous meeting the Committee had voted to increase from $4 billion to $5 billion the limit on changes between Committee meetings in System Account holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the authorization for domestic open market operations, for the intermeeting period ending with the close of business on December 20, 1983. At this meeting the Committee voted to retain the $5 billion limit for the upcoming intermeeting interval beginning on December 21, 1983.

Votes for this action: Messrs. Volcker, Solomon, Gramley, Guffey, Keehn, Martin, Morris, Partee, Rice, Roberts, Mrs. Teeters, and Mr. Wallich. Votes against this action: None.

This action was taken on the recommendation of the Manager for Domestic Operations. The Manager had advised that substantial net sales of securities were likely to be required during the weeks ahead in order to absorb reserves that had been provided recently to meet seasonal needs for currency in circulation.

A Fed Governor Ponders the Past

Nancy Teeters has not always agreed with Fed policy, but she still praises its inflation fight.

Nancy Teeters, whose Fed term ended in Janaury.

By JONATHAN FUERBRINGER

WASHINGTON

THE Board of Governors of the Federal Reserve is losing one of its more frequent dissenters — Nancy Hays Teeters. The 53-year-old economist, who has spent more than 25 years in Washington working for such agencies as the Office of Management and Budget and the Council of Economic Advisers, was the first women to serve as a Fed governor.

Mrs. Teeters was appointed by President Jimmy Carter in 1978, when she was chief economist for the House Budget Committee, and was seen as one of the more liberal members of the Fed. In her more than five years on the board, she often disagreed with monetary policy decisions, particularly when she thought the Fed was pushing interest rates too high.

However, despite her dissents, she generally went along with the central bank's tight monetary policy of the early 1980's, having decided that the less stringent Fed policies of the 1970's had not been successful in curbing inflation.

Her term as a governor ended last month, and Mrs. Teeters plans to leave as soon as her replacement is appointed by President Reagan and confirmed by the Senate. In an interview last week, she reflected on her years at the Fed. Excerpts follow.

Q. How would you describe yourself as a Federal Reserve Board governor?

A. I was probably more concerned than the other governors about the impact of very high interest rates in 1980 and 1981, and the possibility of causing a great deal of damage to both the domestic economy and then later on to the international economy. If you look at my voting record, it was usually when the rates started getting very high that I would dissent on policy decisions. I don't really have any basic disagreement with the thrust of the policy. It's just that I think we could have accomplished the same thing without the rates going over 15 or 16 percent.

It may have taken a little bit longer, but I think that you would have gotten essentially the same result without the extraordinary high rates.

Q. Do you think, though, that the Fed's anti-inflation policy has worked?

A. Yes. And I think it was almost inevitable, given the very sharp price increases that had occurred both in the mid-70's and again in the late 70's, that a major adjustment was necessary in order to force inflation out of not only the United States economy but the world economy as well.

Q. Do you think it's better that it happened even if the adjustment was severe?

A. It's better that it happened. You always have a hope that you'll be able to break the back of an inflation without causing a recession. As you look back, it's very depressing to conclude that we've never been able to do it since World War II. Moreover, we really had to stop the inflationary spiral in the decade of the 70's or we would have had more severe consequences later on. I think it was the right policy. My reservations were always on the degree.

Q. Do you think that the projected budget deficits threaten to undo the Fed's accomplishments on inflation?

A. They certainly are a major threat. The structural deficit [the deficit that remains after the economy has achieved full growth at low inflation rates] is going up. And we're going to end up with structural deficits that we haven't seen since World War II.

Q. What does that mean?

A. It means a lot of pressure on the credit markets, which at present I don't think has shown up. Well, it has shown up because I think the whole level of interest rates is higher than it ever was in a recovery. But it hasn't reached any sort of unmanageable proportion because the rising corporate profits have provided a very substantial cash flow for the corporations to meet their investment requirements. One of the sources of financing that I certainly didn't anticipate being available to us is this very large flow of international capital to the United States. And for the richest nation in the world to be a major importer of capital does not strike me as acceptable.

Q. Is there reason to believe, as some people suggest, that the dollar will turn around soon and that this capital flow may disappear?

(cont)

(Cont)

A. We've been expecting the value of the dollar to drop for 18 months. The deepening current account deficit would indicate that there should be some downward pressure on the dollar, and there should have been some downward pressure on the dollar for quite some time now, except it hasn't developed.

Q. Do you believe that the economy can grow at the 4.5 percent rate that the Fed, the Administration and most private forecasters expect this year with a $180 billion deficit projected for 1984 and again for 1985?

A. I think our current interest rates are high and we're getting a substantial recovery even with fairly high levels of interest rates.

Q. Does that mean that deficits are not that bad?

A. No, I think it's a matter of the deficits catching up with us at some point. Very high deficits, which were heavily cyclical up until, say, this year, were not a major problem because you didn't have very much private demand for credit. But when you get a rapidly recovering economy on a growing deficit base, you're going to have more demand for credit than is domestically available. And as the foreign capital backs out, then the pressure on the domestic markets — by that I mean including the interest rates — is going to be even stronger.

I'm much more concerned about 1985. I sat down to do my economic forecast and was surprised that, independently, I had the same view as the Fed staff of what a drag our net exports are going to be. Net exports are a vulnerable sector in the economy, and greatly depressed exports is something we have never had any experience with. It's quite possible that we'll have some sort of very unpleasant surprise.

Q. So is the President's three-year $100 billion reduction enough for this year? And what happens by waiting for further major cuts in the deficit until 1985, after the election?

A. My opinion is we should be doing more sooner. We should never have gotten into a position of a high and rising structural deficit and so the quicker we correct them the better off we will be.

Q. Can you put a finger on what that translates into?

A. Getting the deficit down to $50 billion by 1989 would fit my rule of thumb.

Q. Given the projected deficits, what do you think the economy looks like after 1984?

A. I would guess that what you're going to have is a continued sluggish housing market, and a continued slowdown in the rate of business fixed investment.

Q. Another recession?

A. You might have another recession, or you just may get down to very low rates of growth. Now, theoretically, you face the idea that you could come down to low but sustainable rates of growth in the future. Historically, it's never happened that way. It either goes up or it goes down.

Q. Is it important to have a woman on the Fed?

A. I think it's been important to have a woman on the board but not particularly for feminist reasons. I think it's important as a breakthrough of equality of access to jobs. We don't get a lot of feminist issues around here really. But the fact that women are as qualified as men to serve in appointed jobs, it seems to me, is important.

Q. Do you think your successor should be a woman?

A. My successor should be a person who's very well qualified for the job. I hope that turns out to be a woman.

Q. It seems that the Fed is beginning to pay more attention to the specific growth in the money supply. Is this good?

A. I'm speaking again for myself. I think the behavior of the economy is more important than any measurement or particular component of it. Basically, what monetary and fiscal policy are aimed at is maintaining an acceptable real rate of growth which absorbs our labor force and produces a rising standard of living for our people with as low an inflation rate as we can get.

The monetary aggregates always have to be an intermediate target because we can't give instructions to the trading desk at the New York Fed to achieve a certain gross national product in the second quarter of 1984. So you have to express those instructions in a number of ways, and in the past, we've used different ways of doing it. In the 1960's we focused on crude reserves, in the 1970's we focused on Federal funds. From 1979 to 1982, we focused on the aggregates. All of them are imperfect. If I had my druthers, I would have some sort of amalgam of all of these because I think they are all important. And to judge whether you have the right policy or not you have to see what the effect of it is.

I think fluctuating interest rates that are associated with strict monetarism did cause a lot of damage. And I would be reluctant to go back to them. I would be equally reluctant to go back to pinpointing the Federal funds rate.

(Cont)

VOLCKER'S **VAGUE PROMISES**

WASHINGTON

Some of the people who monitor the actions of the Federal Reserve most closely suspect that its chairman, Paul A. Volcker, would acquiesce under White House pressure to aid President Reagan's re-election. Senator William Proxmire, Democrat of Wisconsin and ranking minority member of the Senate Banking Committee, tried to examine the question with Mr. Volcker last week during testimony. The following is a transcript of their discussion.

Proxmire: Chairman Volcker, some have argued that the Federal Reserve has historically tried to help the incumbent in the White House in a Presidential election year by easing monetary policy. There was one conspicuous exception to that.

In October of 1979, the new chairman of the Federal Reserve Board [adopted] a policy of slowing down the greatest increase in the supply of money, and I don't think Paul Volcker could argue that Paul Volcker did anything helpful to Jimmy Carter in 1980.

Do you have any understanding with the Administration explicit or tacit that will involve accommodative policies in 1984?

Volcker: No sir.

P: Do you agree to report to this committee and to the House Banking Committee any instances of the Administration bringing pressure on the Federal Reserve to relax its policy?

V: I don't know what context you're thinking of exactly. We have close contact with Administration officials and we discuss fiscal policy and in many cases we discuss monetary policy. I don't interpret that as pressure. I don't assume you would interpret those continuing discussions as pressure.

P: What I'm talking about [is what they] are saying to you privately or in public statements . . .

V: For political purposes?

P: For political purposes. It's 1984.

V: I understand. I will not make a commitment that everytime I have a conversation with somebody in the Administration that I make a report on what the nature of those conversatioins were because we have a continuing discussions on various aspects of . . .

P: I mean pressure when you see it.

V: That's why I make a distinction between a kind of continuing discussion which I think is normal and something one would interpret as part of the election campaign. I think sometimes I can tell the difference. [Laughter]

P: Well how about letting us in on it. Will you do that?

V: If I can see the distinction. [Laughter]

(Cont) 19

So, I guess the one thing that I have learned is that there are no simple rules for running monetary policy, much as the outside world would like to think. There have been so many times the board has done this or that and something completely different happened.

When you don't have rules, then you have to rely on the judgment of the people who make the policy. That doesn't bother me as long as policy makers have to explain their decisions to Congressional inquiries. But I have not yet spotted a rule that is a replacement for judgment.

Q. It appears that Fed policy since December has been aimed at holding the line and that the main worry of the Federal Open Market Committee is that the economy might begin to grow too fast. How do you feel about that?

A. We had two back-to-back quarters of very rapid growth. If that had continued, then I would have begun to worry. But I fully expected that the rate of growth would drop off to something that was much more sustainable, like 4 percent.

Now I think what's going to be difficult to interpret over the course of 1984 is whether this is happening. Very rarely do you get a very nice even 4 percent rate of growth.

When you look back to the 1975 experience, at the time in the recovery of 1975 and into 1976, the current numbers in the G.N.P. see-sawed by quarters. You'd have a good quarter, then you'd have a bad quarter. But nonetheless, it seems to me that we're more likely to have a continuation of economic data that is hard to interpret.

Q. So where is the Fed now?

A. Every individual member has a different position, and my position right now is to wait and see what happens. What I would like to see is for the rate of real-growth to come down to something in the 3.5 to 4.5 percent range.

Q. How crucial was Paul Volcker to the policy of the last four and a half years?

A. Paul has provided a lot of leadership, but it really is a collegial group. First of all, the level of staff analysis is excellent. And we're all basically working off of a common base of information.

At an Open Market Committee meeting, the members of the committee, including the nonvoting presidents, give their views as to what they think ought to be done. With a few exceptions, the chairman usually speaks last. And one of his functions is to develop the consensus — take into account all of the advice and information, and then to develop a consensus as to what the policy should be for the next period of time. He's very good at that.

Q. What are you going to do now?

A. Look for a job.

Q. What do you want to do?

A. Well, I don't honestly know. There are a number of possibilities. I'm an economist by training and I do enjoy it, so I suppose it'll be in the general area of economics.

Q. More government?

A. I doubt it.

GRACE COMMISSION REPORT BACKGROUND

Positive Aspects of Report

- Re-focuses budget emphasis on spending reductions and reduced waste
- Puts the political heat on Congress
- Provides hundreds of constructive recommendations for reducing federal budget costs

Reasons for Caution on Huge Savings Numbers

- For the most part the $424 billion does not consist of budget numbers which can be translated into reduced outlays and deficits over the next three years (FY 1985-87).
- $141 billion or 33% is attributable to DOD.
    - Many of the proposed procurement, management and personnel reforms are being implemented already, but the "savings" are being recycled into other defense requirements.
    - Unless the DOD topline approved for FY 1985-89 is cut further (it is already $60 billion below last year's target), any current and prospective Grace Commission savings will result in "more bang for the buck" but not lower deficit levels.
- $58 billion or 14% of the 3-year savings are attributable to sweeping reforms of military and civilian retirement.
    - But three-year savings of this magnitude do not begin until about 2000-2003.
    - If Grace Commission retirement reforms were enacted in FY 1985 they would save only $420 million -- with savings growing to about $2 billion per year by 1990.
- $52 billion is attributable to federal civilian staff reductions, reduced bureaucratic layering and inefficiency and improved personnel policies.
    - But to actually realize outlay savings of this magnitude would require eliminating 426,000 or roughly 21 percent of the federal civilian work force -- half of which is at DOD.

- By comparison, three years of Administration efforts have resulted in only a 75,000 reduction from prior non-DOD levels. DOD is actually up by 83,000 from the 1980 level.

- If the 426,000 reduction were split proportionately between DOD and non-DOD, DOD civilian employment would drop to 14% below the Carter 1980 level and non-DOD employment would have to be reduced nearly 3 times more than we have already achieved with great difficulty.

o $19 billion is attributable to structural reforms of Medicare, Social Security, and railroad retirement that have been largely enacted into law. The FY 1985 deficit estimates already largely reflect the following savings recommendations:

- Prompt payment of State and local FICA taxes ($1.7 billion);

- prospective reimbursement under Medicare or DRG ($5.6 billion);

- tripling Pension Benefit Guarantee Corporation premium ($324 million);

- solvency reform of the railroad retirement system ($3.6 billion);

- prospective annual earning test and strengthened compliance to reduce Social Security overpayments ($4.0 billion -- but Administration has rejected proposal to charge interest on overpayments);

- tighten Social Security disability procedures and processing ($3.6 billion -- but Administration CDI program under serious legislative threat).

o $26 billion is attributable to radical change in the Federally owned Bonneville and other public power Administrations.

- Grace proposes both 100%+ increase in customer rates and sale of power systems to the private sector.

- Modest adjustments to cost of borrowed Federal funds and customer electric rates are feasible -- but not wholesale unravelling of 40 years of utility history in five different regions of the country as required by the Grace recommendations.

- $8 billion is attributable to effective legislative repeal of labor protections.

    - These include cargo preference on government shipments, Davis-Bacon and the related Walsh-Healy and Service Contract Acts.

    - Recommendations contradict current Administration policy which has been "no legislative change."

- $26 billion is attributable to sound free market economics based recommendations but would involve radical changes in government functions or long-established agency missions. Five- to ten-year phase in periods would be needed to overcome political/legislative/regional/industry opposition -- and ultimate savings would likely be smaller than Grace Commission "cold turkey" estimates:

    - Privatize Coast Guard search and resuce operations and navigation aids maintenance ($1.3 billion);

    - sell National and Dulles airports ($450 million);

    - abolish fee-for-service physician reimbursement under Medicare and replace with fixed prospective rates ($3.3 billion);

    - radically re-organize VA health care system using means-test, private contract hospitals, and internal budget allocation system based on Medicare prospective payment ($5.7 billion);

    - full cost recovery user fees for inland navigation, deep ports and Coast Guard services (savings estimate is $2.9 billion which is 4 times larger than similar user fees included in the FY 1985 Budget which have been rejected three times);

    - risk-related pension guarantee premiums ($3.2 billion -- but would involve radical increase in premium for many small businesses and declining industries. No chance of feasibility in pure form).

- $76 billion is attributable to revenue increases resulting from enhanced tax collection and compliance, user charges, asset sales, taxing currently tax-exempt Federal agencies and debt collection

    - Many sound individual item recommendations but dramatically overstate near-term feasibility (i.e. before 1988);

- o Numerous Grace recommendations in this category already in FY 1985 Budget -- but savings estimates are lower by orders of magnitude.

o $11 billion is attributable to welfare reform (food stamps, AFDC, child nutrition) and to reduce waste and abuse

- o To reduce FY 1985-87 deficit these savings would come on top of $18 billion in three-year savings already implemented into law since 1981 and an additional $4.3 billion in new three-year cuts proposed in FY 1985 Budget.

- o Full implementation of Grace recommendations in addition to above budget savings would result in 31% cut from Carter levels over three years -- probably beyond the range of feasibility.

THE WHITE HOUSE

WASHINGTON

February 23, 1984

MEMORANDUM TO: SECRETARY REGAN

FROM: JAMES A. BAKER, III

Lew Lehrman brought this in today. Would you please look at that amd then discuss them with me.

Thanks.

JAB, III

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

SECRETARY OF EDUCATION

1-19-84

Dear Jim -

Following our conversation in your office I have arranged my personal affairs so that I can remain in my position at least until June.

If our family business is doing o.k. I will try to stay past the November 4 election date. If I am in trouble with my two sons' management of our business I will come talk to you.

Many thanks for the opportunity to talk this matter through with you.

Ted Bell

THE SECRETARY
WASHINGTON, D.C. 20202

January 16, 1984

The Honorable James A. Baker, III
White House Chief of Staff
The White House

Dear Jim,

It has been a great privilege to serve the President during the past three years as his Secretary of Education. As you know, I came here with the understanding that the President planned to abolish the Department of Education. My personal business affairs as well as my professional plans were centered around this concept.

While I have no regrets that my tenure in office has gone on so long, many professional and business interests have been neglected. Additionally, I feel that whatever I might be able to contribute to this Administration has already been made. Since education has been the central focus of my entire adult life it has surely been a highlight for me to hold this position and I am most grateful to the President.

It seems to me that we are reaching a propitious time for me to conclude my period of service and provide the President an opportunity to select a new Secretary of Education.

When it is convenient to you, let's get together to discuss a termination.

The President has my full loyalty and support, and I want to plan my resignation to meet his wishes at the same time that I try to meet my own needs.

Sincerely,

Ted

T. H. Bell