

Originally Processed With FOIA(s):
2025-0373-S

FOIA Number:
2025-0373-S

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OA/ID Number: CF00555
Folder ID Number: CF00555-003b

Folder Title:
Briefing Book: STA/LTA Planning Book - 1/9/89 [2]

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Tab 12

INCREASE INVESTMENT FOR SAVINGS/GROWTH/JOB

- o Cut the capital gains tax rate to 15%. Our view is that this would gain revenue. Others estimate that it would be revenue neutral or even lose revenue. We need to coordinate among OMB, CEA, and the Treasury to develop a consistent figure before this can be introduced in Congress.
- o Renew emphasis on quality in American products. Minimal cost.
- o Improve vocational education to train students for the jobs of the future. Cost unknown. Current Federal vocational education spending is approximately \$1 billion.
- o Rural and urban enterprise zones. Cost unknown.
- o Make R&D tax credit permanent. During the campaign, we estimated that this would cost \$401 million per year. The Treasury Department uses figures showing revenue loss of \$400 million in FY90, \$700 million in FY91, and \$1 billion in FY92.
- o Deregulation.

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1/5/89
Tab 12

INCREASE INVESTMENT FOR SAVINGS/GROWTH/JOB

People to Meet

Quality experts in American business -- Corning Glass?
Florida Power and Light?

Vocational education teachers

Entrepreneurs (capital gains tax rate)

University researchers (R&D tax credit)

Possible Events

Meet with state and local officials to discuss enterprise zones

Meet with quality experts.

President gives out Baldrige Quality Awards

Message to Congress on capital gains tax rate

Constituency Groups

National Federation of Independent Business

National Venture Capital Association

Black Enterprise magazine

Hispanic Entrepreneur magazine

Vocational education teachers

Mayors (enterprise zones)

CRIME

- o Turn unused military bases over to the states for use as prisons. This initiative must await the results of the commission on closing military bases. Minimal cost.
- o Establish an anti-gang unit at the Justice Department. Estimated cost: \$20 million per year.
- o Ask Congress to reauthorize the Victims of Crime Act. This could provide us with an early victory on the Hill. Minimal cost.
- o Tighten the Federal furlough program, restricting eligibility for furloughs by type of crime or tightening process of approval for furloughs or transfer to halfway houses.
- o Double the current prison budget. The current prison budget is \$953,012,000 for "salaries and expenses" and \$300 million for "buildings and facilities." Given that the President-elect stated this promise in light of his commitment to increase prison construction, we have some leeway as to how we wish to interpret this promise, i.e., whether the entire budget should be doubled or only the portion concerned with prison construction. During the campaign, we estimated that this proposal would cost \$225 million per year.

During the campaign, the total cost of our crime initiatives, including those not listed here, was estimated to be \$245 million per year.

Here is a comprehensive list of the President-elect's anti-crime proposals:

- o Double the prison budget over the next five years and convert unneeded military bases into prisons.
- o Mandatory sentencing and certainty of sentencing.
- o Establish an Anti-Gang Unit in the Department.
- o Support a "good faith" exception to the exclusion rule.
- o Passing a drug test a requirement for bail, parole, or release from prison.
- o Separate first-time and repeat offenders in prisons.
- o Promote victims' rights, including the right to be informed and full restitution.
- o A Federal death penalty.
- o Fight insider trading and other white-collar crimes.

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Tab 13

CRIME

People to Meet

Police -- Chief Gates?

Victims of crime

Cliff and Angie Barnes, Donna Cuomo (?) (We don't want to be seen to dwell on the campaign issue, but we do want to show that the President-elect was serious, and we want it to be seen that the personal struggles of individual victims of crime are not in vain.)

Possible Events

Anti-gang event in conjunction with visit to Los Angeles or another city plagued by gang violence

Meeting with victims of crime

Visit with a Neighborhood Watch group

Executive Order tightening the Federal furlough program

Justice Department meeting on furloughs

Visit to a Federal prison

Constituency Groups

Police -- Fraternal Order of Police, local police unions

Victims of crime

Businesses in high-crime areas

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Tab 14

FSLIC

Quick action is required to reduce the FSLIC problem to manageable proportions within a reasonable period of time. A series of decisions should be made within the first six months of the Bush Administration in order to accomplish this purpose. The nature of the problem is such that postponing action will tend to make the eventual solutions much more costly.

Secretary Brady will propose a solution early in the Administration. However, it would be appropriate to inquire into possible executive actions which would enhance public confidence that the problem is being seriously addressed and that the Savings and Loan industry is being reformed and restored to a healthy and sound basis.

See the attached discussion of the FSLIC problem.

#

FSLIC

Savings and loan associations and savings banks (also known as thrift institutions or simply thrifts), are organizations that take deposits and make loans, the latter primarily for residential real estate mortgages. Although most thrifts are healthy, many are insolvent. Somewhere between \$50 billion and \$100 billion will be required to pay the actual projected insurance losses. The final Reagan budget will propose additional resources, but these resources are, in essence, a "placeholder" -- i.e., numbers placed in the budget without an explicit plan how to meet the problem. Instead, Secretary Brady, presumably working with the White House and OMB, will propose a solution early in the next Administration. This solution almost certainly will require new legislation.

The financial community expects and desires such a solution. The credibility and nature of any such plan will significantly influence the budget debate for Fiscal 1990 as well. To provide background on this crucial issue, this paper briefly discusses the problems and potential solutions.

Some History

State-chartered thrifts have existed in this country since 1831. By 1928, there were almost 13,000 such institutions holding assets of over \$8 billion -- mostly balloon loans with principal due in full at the end of a short period of time (typically one year) although generally renewed at maturity. Such financing could not survive the Depression. Over 1,700 institutions failed outright, and, by 1933, 40 percent of all housing loans were in default.

The Federal Government responded to the crisis with several statutes, including the Federal Home Loan Bank Act of 1932, which created the Federal Home Loan Bank system to provide liquidity to the industry, and the Federal Savings and Loan Insurance Corporation (FSLIC), overseen by the Federal Home Loan Bank Board (FHLBB or Bank Board), to insure deposits and thereby discourage runs on thrift institutions.

Recent Problems

At the beginning of the decade, interest rates were the predominant cause of the problems. A combination of surging interest rates and the removal of regulatory controls of competitive deposit interest rates made vulnerable an industry that funded long-term, fixed-rate mortgage loans with short-term deposits. Since the early 1980s, adverse regional economic conditions, fraud, mismanagement, and credit risk have replaced interest rate problems as leading causes of thrift failure.

Despite the continued health of the majority of thrifts, the losses of insolvent thrifts are overwhelming the capacity of the industry to manage and pay for its own problems. Losses are concentrated in a relatively small proportion of all operating institutions, especially in Southwestern states, particularly Texas.

FSLIC's Response

Over 300 thrifts were closed in the six-year period from 1980 to 1985. In 1982 alone, 70 thrifts were closed that involved costs to FSLIC; in that year, another 182 were merged with other thrifts with no FSLIC assistance. Many that did not fail suffered a severe depletion of their capital, remaining

technically solvent only with the addition of artificial capital certificates purchased by the FSLIC. In 1986, 49 thrifts were closed and in 1987 another 48. Since 1984, FSLIC has provided over \$20 billion to failing thrifts. In FY 1988 alone, FSLIC provided \$12 billion in commitments to over 200 institutions.

For several years, the FSLIC has lacked the financial resources to cover even a small fraction of the outlays required to close all insolvent thrifts simultaneously. Historically, when a bank or thrift failed, it was quickly closed. In the case of thrifts, the usual method of closure was to arrange for, and sometimes subsidize, purchase by a viable firm; in rare cases, the depositors were paid off and all assets of the failed thrift were put in receivership and eventually liquidated. Today, however, many thrifts remain in operation for long periods after they become hopelessly insolvent.

In 1986 and 1987, roughly 40 percent of all closures were by liquidation, compared with an average of 14 percent during the period 1982-1985. Liquidation generally is more costly than the other preferred form of resolution, assisted merger; the increased resort to liquidation after 1985 probably indicated that, in more and more cases, merger was no longer an option. However, in 1988, especially in carrying out its Southwest Plan for insolvent Texas thrifts, the FSLIC has employed a variety of techniques that permit it to avoid liquidation and to attract very modest amounts of private capital for acquirers of deeply insolvent institutions.

To provide more funds, a recapitalization plan passed Congress in August, 1987, allowing \$10.8 billion in resources (the Administration had requested \$15 billion) to the FSLIC over three years by borrowing against FSLIC's future income. This law created the Financing Corporation (FICO), a quasi-government enterprise chartered by the FHLBB, whose sole purpose is as a financing vehicle to recapitalize the FSLIC. After "persuasion" by several Congressional and Executive groups, the Congressional Budget Office agreed that FICO could be used to avoid immediate accounting of the full amount of borrowing as on-budget. Costs only show on-budget over many years, as the interest costs of paying back the bonds plus other FSLIC disbursements exceed any funds received. Because the cost of borrowing through FICO exceed the costs of borrowing through the U.S. Treasury, however, FICO is, on a present value basis, more expensive than simply adding to the on-budget deficit through Treasury borrowing.

Despite these efforts, the problem continues to grow and FSLIC lacks the resources to tackle it.

Issues in Framing a Solution

A full plan for dealing with FSLIC's problem requires at least five sets of decisions:

1. how quickly the insolvency backlog will be addressed;
2. in what manner the failed institutions will be dealt with;
3. where additional resources will come from;
4. who will have responsibility for various tasks; and
5. what reforms should be made to prevent any future insurance fund bailouts.

1. Pace of action:

Accelerated action, beyond the current resources and plans of the Bank Board, is required to reduce the problem to a manageable level within a reasonable period of time. Whatever the size of the ultimate resolution, FSLIC can probably address about \$15 billion a year of the problem at most.

2. Method of dealing with failed thrifts:

FSLIC has shifted to heavy reliance on long-term assistance agreements. Stretching out the assistance ultimately will result in larger case expenditures and thus higher cumulative outlays. Accordingly, if resources are available, many argue that front-loading costs through liquidation and so-called "whole bank" transactions is preferable.

3. Financing:

One choice to be made is whether to go on or off budget in the short-run. Although on-budget (either through a direct appropriation or through Federal Financing Bank borrowing, which may require Congressional action) is cheaper, many believe it would increase the pressure for a tax increase. Indeed, unless the borrowing occurred in FY 1989, substantial 1990 on-budget borrowing would greatly increase the difficulty of meeting the \$100 billion Gramm-Rudman-Hollings deficit target in FY 1990.

Another issue involves how the interest will be repaid. Simply borrowing through the Treasury implies that taxpayers will bear the full brunt of the costs. The thrift industry should be made to pay as much as possible.

The Department of the Treasury appears headed toward further use of FICO. To be successful, the bond holders would need to be guaranteed an income stream to pay bond interest. To continue FICO as off-budget, the interest income stream could not come from the Federal government. Increased assessments from the industry would be necessary and many believe some form of federal appropriation, and hence on-budget cost, will be necessary.

4. Organization:

Issues here involve whether FSLIC will continue to have full responsibility for closures and remain on-budget. Instead, the FDIC could either assist FSLIC or take on the tasks of closure and disposition itself. Another possibility is to give Treasury the responsibility for supervising closures and warehousing/disposing of the assets.

5. Reform:

Some combination of the following will probably be needed to avoid a future deposit insurance problem like the one we now face:

- Risk-based pricing;
- Market-value accounting;
- Removing barriers to diversification and innovation;
- Tighter regulation and/or supervision;
- Increasing market discipline of thrifts by --
 - higher capital ratios
 - risk-based capital requirements
 - mutual to stock conversions
- Reorganization

- Narrowing the range of investments covered by insured deposits; and
- Limiting the level of insurance protection.

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Tab 14

FSLIC

People to Meet

Government leaders -- FDIC, FSLIC, Federal Home Loan Bank Board

Henry Gonzalez (House Banking Committee), Donald Riegle (Senate Banking Committee)

Governor Clements

Industry leaders

Possible Events

Sign an Executive Order relating to the savings and loan industry

Message to Congress on the savings and loan industry

Reestablish the Task Group on Financial Institutions which the Vice President chaired in 1984

Constituency Groups

Savings and loan depositors

U.S. League of Savings Institutions

American Bankers' Association

Members of Congress from states most affected

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Tab 15

CENTRAL AMERICA/WESTERN HEMISPHERE INITIATIVE

The President-elect supported a hemispheric summit to fight drugs in a speech on March 24, 1988. He did not set a time for the summit. We estimate the cost of a hemispheric drug summit at approximately \$3-5 million.

While keeping the summit as a focus, we could also broaden this into a general initiative to build closer relations with the other countries in the hemisphere. Some subjects that would need to be addressed in a Central America/Western Hemisphere initiative include:

- o Fighting drugs
- o Developing country debt
- o Promoting democracy around the world
- o Free trade zones
- o The Caribbean Basin Initiative
- o Global diplomacy
- o Immigration
- o Foreign aid

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Tab 15

CENTRAL AMERICA/WESTERN HEMISPHERE INITIATIVE

People to Meet

Latin America experts

Latin American Ambassadors to the U.S.

Possible Events

Speech to the OAS

Constituency Groups

Police (drugs)

Hispanic Americans (immigration, etc.)

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Tab 16

INVEST IN OUR CHILDREN

- o Increase spending for maternal and child health to make all eligible up to 185% of the poverty line. Cost: During the campaign, improving Medicaid coverage for pregnant women and 1-year-olds was estimated to cost \$180 million in the first year and \$600 million annually after it is geared up.
- o Improve childhood immunization. Cost unknown.
- o Tighten standards on the use of lead in consumer products. Cost unknown.
- o Child Support Enforcement. During the campaign, we estimated this would cost \$30 million per year.

Please see attached memorandum for more detailed information on these issues.

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Health Care for Pregnant Women and Infants

Extending Medicaid Coverage:

- o Legislation exists to provide Medicaid coverage to pregnant women and infants up to 100 percent of the poverty line.
- o During the campaign Bush promised to phase in coverage to 185 percent of the poverty line.
- o In order to accomplish such a goal further legislation is needed.

Maternal and Child Health Block Grant:

- o During the campaign Bush promised to establish the use of intensive case management for pregnant women and infants up to a year.
- o Bush proposed to accomplish this goal by expanding the Maternal and Child Health Block Grant.
- o This act does not appear to require further legislation.
- o However, funding for the Maternal and Child Health Block Grant was \$554 million for FY 1989 and the FY 1990 budget proposal keeps it at \$554 million.
- o In order to accomplish Bush's goal funds would have to be reallocated within the grant or more money will to be appropriated to the Maternal Child Health Block Grant.

Radon

- o During the campaign George Bush promised to vigorously address the problems posed by radon both in home and at school.
- o Bush promised to accomplish such a goal by supporting legislation to provide states with \$10 million to develop radon programs.
 - Legislation will support technical assistance to states to provide public information for homeowners to administer tests which detect the presence of radon.
 - Legislation will also serve to:
 - maintain a high public awareness;
 - improve treatment measures; and
 - encourage EPA's dedication to the removal of radon.

Immunization

- o George Bush supports funding the Childhood Immunization Program to pay for vaccines to low-income children.
- o This does not require new legislation, but rather adequate appropriations.

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Tab 16

INVEST IN OUR CHILDREN

People to Meet

Secretary Sullivan, Administrator of Health Care Financing
Administration

Operators of low-income health clinics

Public hospital administrators

State and local welfare administrators

Possible Events

Visit to a city public hospital

Event promoting childhood immunization

Event promoting child support enforcement

Constituency Groups

State and local governments

Physicians (AMA)

Hospitals (AHA)

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Tab 17

DEFENSE REFORM

The President-elect should consider an Executive Order or Presidential Memorandum adopting some reforms in the Pentagon procurement process.

Pending Dennis Ross' report, we can note a few areas of possible action:

- o Congress must agree to biennial budgeting for the Defense Department.
- o Establish a commission with specific responsibilities.
- o Consideration should be given to some visual events, to show the President-elect's commitment to solving the problem.

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Tab 17

DEFENSE REFORM

People to Meet

David Packard
Pentagon whistleblowers?
Defense contractors
Members of Congress

Possible Events

Speech on procurement reform -- take a tough line on waste,
fraud, and abuse
Meet with Inspectors General of the services
Meet with defense contractors -- tough line

Constituency Groups

Good government groups -- Common Cause
Taxpayers
Defense contractors
Congress

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1/5/89

Tab 18

CLEANUP OF FEDERAL NUCLEAR WEAPONS-PRODUCING FACILITIES

The President-elect should consider an Executive Order or Presidential Memorandum to promote the speedy cleanup of Federal nuclear weapons facilities.

There are several reasonable options for visible Presidential action on this issue. Some of these might form the basis of an Executive Order; others would require action later.

- o A reaffirmation in the State of the Union address of his campaign commitment to hold all federal agencies to federal environmental standards.
- o The appointment of a distinguished chairman to the newly created Nuclear Facilities Safety Board.
- o Supplemental appropriations or reprogramming of funds for a cleanup. The FY89 budget appropriated \$425 million for "corrective actions" at the nuclear facilities. Actual spending is estimated to be about \$200 million higher. The FY90 budget will request \$478 million for corrective actions.
- o Developing a Federal Priority List of contaminated sites on the basis of the threat to human life.
- o The designation of a national laboratory as an Environmental Restoration Research Institute.
- o A Presidential trip to the Savannah River site.
- o A Presidential recommendation that the Congress create an Undersecretary of Energy for Defense Programs.
- o A Presidentially requested assessment of the feasibility of building production reactors at Savannah River with passive cooling features.

These and other options are discussed more fully in the following memorandum.

#

M E M O R A N D U M

TO: RICHARD ENGLISH
KATE MOORE

FROM: REID DETCHON *Reid*

RE: EARLY PRESIDENTIAL ACTIONS

DATE: DECEMBER 29, 1988

You asked for proposals to deal with the problems now being experienced in our nuclear weapons complex, particularly at Savannah River. There are three major challenges ahead --

(1) regaining our ability to produce tritium, a gas which is critical to the reliability and effectiveness of our nuclear deterrent and which needs to be replenished every 3 to 6 years because of its short half-life;

(2) bringing our nuclear weapons complex up to federal standards for protecting public health and safety and the environment; and

(3) beginning to repair some of the environmental damage already done.

From the standpoint of our national interest, clearly our first priority must be No. 1. However, from a political standpoint, the first step must be an effort to recapture public trust and support.

Accordingly, I recommend that:

1. The President should reaffirm in his State of the Union address his campaign commitment (Seattle, 5/16/88) to hold all federal agencies, DOE included, to federal environmental standards. He should also promise that Savannah River and other parts of the nuclear weapons complex will be operated in a way that does not endanger the health and safety of the workers or the public. That does not mean, however, immediate adherence to all federal standards -- for example, the operating standards set by the Nuclear Regulatory Commission for civilian reactors. That would be physically impossible short of a complete shutdown.

2. He should appoint to the newly created Defense Nuclear Facilities Safety Board a chairman of established credibility and stature (e.g., Jim Schlesinger). Nominations to the Board are due to the Hill by March 22. However, the President should resist congressional efforts to transform the Board from an instrument of oversight to

one of control and should seek agreement from Board nominees on this point before sending their names to the Hill.

At the same time, the President should support a good-faith effort to clean up the contaminated sites. To show his serious intent on this point and on his commitment to meet federal standards in an ongoing way,

3. He should either announce a reprogramming or seek a supplemental appropriation for this purpose in FY 1989, and he should provide an increase for this purpose in his adjustments to the FY 1990 budget proposal. (Here are the parameters: The FY 1988 appropriation for environmental restoration was \$98 million; FY 1989, \$159 million; the Reagan budget will ask \$315 million in FY 1990 and \$325 million in FY 1991; Senator Glenn has said he thinks \$1.3 billion would be reasonable. The amount appropriated for "corrective actions" to meet environmental, safety, and health standards was \$425 million in FY 1989; actual spending will be at least \$200 million higher; the FY 1990 budget request contains \$478 million for corrective actions.

The revelations about contaminated federal sites can only compound public concerns that we are irretrievably fouling our own planet and that we have not been able to take any effective action to mitigate the damage.

4. The President should ask EPA, DOE, DOD, and other appropriate federal agencies to develop a Federal Priority List, comparable to the National Priorities List for Superfund, ranking all the contaminated sites owned by the federal government on the basis of their threat to human health. Funding for cleanup then could proceed on a less haphazard basis.

A dramatic initiative in the environmental area could capture the public's imagination and refocus attention away from the past (who did what, and how did they get away with it) to the future (what can we do to repair the damage).

5. The President should designate one of our national laboratories (e.g., Pacific Northwest Laboratory, operated by Battelle Memorial Institute) as an Environmental Restoration Research Institute. Such an institute could be a model for DOE-EPA cooperation on the energy-environment nexus. Scientists from all across the country would be pulled together at one site to work on the problem of neutralizing toxic and radioactive waste. With existing technology, we simply can't afford to clean up the mess we've made, but breakthroughs in technology could reduce costs by orders of magnitude. For example, highly concentrated sunlight has been shown to break up dioxin.

A long-term concern is that DOE lacks the technical

expertise to manage the nuclear weapons complex well enough to properly enforce environment, safety, and health standards or indeed simply to produce the best weapons at the lowest cost. The main reason cited by observers is that federal pay scales preclude DOE from competing for highly skilled technical and scientific personnel.

6. The President should ask Congress to exempt a limited number of DOE employees from federal salary schedules. The need to compete for skilled personnel is already acknowledged by the fact that the Department does all of its nuclear weapons work through contractors, who can pay market wages. It is unlikely that DOE will be able to find enough technically skilled people to supervise these contractors -- in matters of both production and regulatory oversight -- when its pay scales are only half as high.

At the same time, the President should make it clear that our first priority must be the stability and effectiveness of our nuclear deterrent. Toward that end,

7. He should go to Savannah River, tour the site, and deliver a speech on the importance of the program. He should emphasize the need to maintain the weapons that have kept the peace for more than 40 years, while reaffirming his commitment to upgrading the operating conditions at our aging production complex. He should attack those who would use the current crisis as a pretext to advance a goal of unilateral disarmament. An appropriate occasion would be April 1, when Westinghouse takes over from DuPont as the management and operations contractor at Savannah River.

8. He should ask Congress to provide the Department with an Undersecretary for Defense Programs. According to past practice at DOE, the Undersecretary serves as Chief Operating Officer of the Department and also supervises the defense programs. In the current crisis, that is too big an assignment for one person. While legislation is not the only way to achieve a reorganization, designating a separate Undersecretary for Defense Programs would underscore the importance of the nuclear weapons program and help in recruiting a nominee of stature and ability.

A lawsuit has been filed under the National Environmental Policy Act (NEPA) seeking to block DOE from restarting any of the reactors at Savannah River until an Environmental Impact Statement (EIS) is prepared. An additional lawsuit has been threatened unless DOE agrees to prepare an EIS for its entire modernization program, covering all of the nuclear weapons complex.

9. The President should ask Congress for the authority to temporarily exempt federal agencies from NEPA requirements when failure to do so would endanger national

security. He should emphasize that he will ask agencies to comply with all environmental requirements, but he cannot allow our nuclear deterrent to be weakened in the process. If the need for tritium becomes acute, the Savannah River reactors must be restarted. Beyond that, the quickest way to put the Savannah River reactors in mothballs is to get new production reactors on line, but the EIS process could delay construction considerably -- heightening concerns about safety at Savannah River and about the security of our nuclear deterrent.

Asking for such authority will alarm those who are concerned about the safety of the Savannah River reactors. To show his good faith,

10. The President should ask the Department and the Defense Nuclear Facilities Safety Board to assess the feasibility of building production reactors at Savannah River with passive cooling features. The current plan is to build a large new production reactor at Savannah River with existing heavy-water technology. It may be possible to build two smaller heavy-water reactors using a new design that is inherently safe -- so that they would shut themselves down in the event of a mishap. The Department and the Board would have to assess whether using a new design would add significantly to the time required to build the reactors and whether that is a risk worth taking.

I have presented this 10-point program as a series of mostly separate initiatives. However, with the exception of the Savannah River speech, they could be presented as a package at the time of the State of the Union address. Alternatively, they could be held until the Savannah River visit, but I believe the President should take the initiative on this issue before April 1.

The key is to keep the message balanced between the two conflicting objectives -- the commitment to health, safety, and the environment versus the legitimate national security need for a reliable and effective nuclear deterrent.

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Tab 18

CLEANUP OF FEDERAL NUCLEAR WEAPONS FACILITIES

People to Meet

Secretary of Energy-designate

Governors of Ohio, Tennessee, New Mexico, Idaho

Nuclear scientists

Possible Events

Meet with families affected by radiation

Visit a site

Constituency Groups

Families affected by radiation

Members of Congress from affected states

Corporations managing the plants

Justice Department -- will there be indictments?

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1/5/89
Tab 19

YES PROGRAM

The President-elect should consider an Executive Order or Presidential Memorandum on the YES program, in particular establishing a national advisory board as a preliminary to establishing the program formally.

Please see the attached memorandum for further information.

#

MEMORANDUM

12/30/88

TO: Richard English

FROM: Gretchen Pagel *Gretchen Pagel*

RE: Early Presidential Actions on YES

Youth Entering Service to America (YES) is a challenge grant proposal designed to spur more young people to serve their communities. Below are options for implementing this proposal. All actions are to take place within the first 100 days of the Bush Administration including immediate declaration of the executive order and immediate introduction of legislation.

OPTION I

- o President Bush will create the YES to America White House office.
- o President Bush will establish the President's YES to America Advisory Board. This Advisory Board will consist of a distinguished balance of leaders in the private sector, education, religion and government. President Bush will chair this board. The advisory board will oversee the YES to America Foundation.
- o President Bush will initiate a YES to America conference. This conference will call together a YES working group which will include some of the creative and talented individuals who make up the thousand points of light as well as the White House Thousand Points of Light person to decide upon strategy for accomplishing the YES goals.
- o President Bush will pursue the establishment of the YES to America Foundation which the Advisory Board will run. This foundation will be a public/private venture and will be responsible for accomplishing the YES goals and assuring active private sector participation. The president will continuously challenge the private sector to maintain involvement. The Foundation will recognize exceptional volunteer programs and community service projects and will offer models of these to communities striving to improve existing programs or implement a new project. When grant money is appropriated to YES, the Foundation will be responsible for awarding grants to existing successful programs which apply and qualify.
- o A bipartisan group of Members of Congress will introduce the YES to America legislation. This legislation will provide for \$100 million in federal funds for the YES to America Foundation to match on a one-to-one basis with private donations up to \$100 million.

- o **PRESIDENT'S ROLE:** Chairman of the YES to America Foundation and Advisory Board. Director of the White House YES office. The most important aspects of his leadership role include high visibility and commitment of time and energy.

OPTION I PROS (PROS 1 and 2 same for all options):

- o YES will promote the ethic of community service among youth of all backgrounds while addressing community needs and giving youth a sense of accomplishment and self worth.
- o YES will reward and focus on successful programs and committed volunteers and will provide models of exceptional programs to be duplicated throughout the country.
- o Minimizes bureaucracy.
- o Keeps focus at the local level.
- o High visibility for the President.
- o The Foundation will assure that the legacy of YES will continue after Bush leaves the White House.
- o Local projects and communities will do the fund-raising, which allows donors to give within the community to a specific project. This is consistent with basic philanthropic tendencies.

OPTION I CONS (CONS 1 and 2 are same for all options):

- o During this critical time of dealing with the budget deficit, any initiative which asks for federal money should be carefully thought out.
- o Before undertaking a youth/citizen service initiative it is imperative for the President to decide the role of the ACTION agency (especially the VISTA program which includes a youth service component) in the Thousand Points of Light. During the Reagan Administration ACTION underwent substantial budget cuts and freezes and an unsuccessful Administration attempt to eliminate VISTA. It is a sensitive budget time for ACTION and Bush may seem hypocritical if he comes forward with YES while not intending to sustain or increase the ACTION budget.
- o Direct budgetary line item to a Foundation outside of government may have legal complications as well as create precedent and pressure for other Congressional line items to preexisting foundations or volunteer entities.
- o Federally appointed Board raising administrative funds will compete with other philanthropic program needs. Philanthropic competition is a very sensitive area.

- o Under this model, if compared to an organization such as the Peace Corps, it will be a challenge to point to an actual YES project which a YES volunteer is undertaking and give the President credit.

OPTION II

- o President Bush will establish the President's YES to America Advisory Board. Bush will serve as Chairman.
- o President Bush will convene a YES to America conference.
- o **Legislation** will be introduced to create an independent federal agency in Washington called the YES to America Foundation, modelled after the National Endowment for the Humanities or the National Endowment for the Arts. The Federal agency itself would make the grants of Federal funds to applicants. Members of the YES to America Foundation would not be involved in direct fund raising for selected programs. The recipients would raise funds in their communities to match at least one-to-one Federal grants.
- o **Legislation** will be introduced to provide \$100 million in federal funds to be appropriated to the YES to America Foundation/agency which will administer the grants.

OPTION II PROS:

- o Independent agency would give distinct visibility.
- o Assumes that feds do not directly compete in private sector fund-raising and allows donors to give to selected groups in their community.

OPTION II CONS:

- o Creates a new federal bureaucracy which will be dependent upon the whims of Congress.
- o Risks possibility of lesser association with Bush by virtue of status outside White House.

OPTION III

- o President Bush will create the YES to America White House office (same as option I).
- o President Bush will establish the President's YES to America Advisory Board. This working board will consist of 25 to 30 entrepreneurs, all founders of successful profit and nonprofit enterprises. Bush will serve as Chairman. The board will be cycled by 1/3 every 2 years.

- o President Bush will initiate a YES to America conference (same as option I).
- o President Bush will establish the YES to America Foundation which will be an independent public/ private foundation in Washington D.C. with rotating field offices in 6 cities. A goal of the foundation should be to become self perpetuating after 8 years.
- o Introduce **legislation** to fund the foundation for four years with "sunset legislation" at \$100 million a year or \$400 million for the first term.
- o President Bush will **challenge** the top 2000 CEO's of U.S. industry, and their foundation equivalents to match the \$100 million by pledging 1% of their annual after-tax surplus in support of Youth Entering Service.
- o The Foundation will hire a superstaff of 25-35 year olds beginning with a core staff chosen from the best young leadership of National Youth Service programs. Cycle the staff, 1/4 each year, eventually to bring the best youth managers into service for their generation.
- o The Foundation will be run like an investment bank. Treat youth as entrepreneurs -- innovative, energetic, problem-solving investments, made by a nation in its own future.
- o The awards will be granted to individuals and service projects. To be eligible for the program the individual must be: 1. A U.S. citizen or permanent resident; 2. 15-24 years of age; 3. Sponsored by a Mentor (a non-relative adult, nonprofit agency or corporation), willing to provide matching funds, evaluate youth performance, and submit resume to the Youth Talent Bank, each using 3 local mentors/references.

OPTION III PROS:

- o Maximizes Presidential credit because there will be YES volunteers working on specific YES project.

OPTION III CONS:

- o Once again, the YES Foundation should be sensitive to not taking away scarce resources from existing community projects.

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Tab 19

YES PROGRAM

People to Meet

Loret Ruppe, Governor Romney, Donna Alvarado
Organizers of community service programs

Possible Events

Sign Executive Order on the YES program
Visit a school to talk about the importance of public
service
Visit a community service center

Constituency Groups

Schools/teachers
Social workers
Community service centers

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1/5/89

Tab 20

CHEMICAL WEAPONS

The President-elect should consider what action he wishes to take to restrict the proliferation of chemical weapons, including the possible unilateral suspension of chemical weapons production.

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1/3/89
Tab 20

CHEMICAL WEAPONS

People to Meet

Negotiators to chemical weapons conference in France
Army officials responsible for chemical weapons
Kurdish refugees?
Anti-terrorism experts
Holocaust survivors

Possible Events

Visit the U.S. chemical weapons storage site (Utah?)
Address to chemical weapons conference
Meet with anti-terrorism experts in White House

Constituency Groups

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LEVERAGED BUYOUTS PROPOSAL/CAPITAL GAINS INITIATIVE

Given that Congress is likely to consider measures to restrict leveraged buyouts, it makes sense for Secretary Brady and the Administration to get in front of the Congressional push for a crackdown on leveraged buyouts by proposing an LBO reform of our own.

However, we should strive to put our own pro-market, pro-growth imprint on the looming legislation. We could combine this with our support for a capital gains tax rate reduction and possibly removing the double taxation of dividends and reducing or eliminating the deductibility of interest payments. We could call it the "Anti-Takeover, Pro-Entrepreneurship Act of 1989."

We believe the capital gains tax rate reduction proposal will be revenue positive. Certainly revenues increased after the passage of the Steiger Amendment in 1978. Eliminating the double taxation of dividends has long been supported in the financial community. These first two proposals (on capital gains and dividends), then, are aimed at redressing the difference in the tax treatment of debt and equity which encourages the use of debt. By doing so, more companies would finance their operations with equity, resulting in greater financial stability.

A cut in the capital gains tax rate would further increase the incentive for companies to use equity instead of debt to finance their operations. Further, by requiring a six-month or one year holding period, this proposal would reward stockholders who invested for the long term.

The elimination of the interest deduction is, of course, a corporate tax increase. This tax increase could be linked to a reduction in the double taxation of dividends and a cut in the capital gains tax, thereby making the overall proposal revenue neutral.

A proposal structured in this manner could be a way to limit the restrictions on corporate takeovers, enhance the financial stability of corporate America and achieve a reduction in the tax on capital gains.

PROS:

- o Avoid more serious anti-takeover legislation by leading with our own proposal.

2-2-2

- o Enhance the financial stability of corporate America by redressing the imbalance in tax incentives for the use of debt rather than equity.
- o Increase the likelihood of achieving a cut in the capital gains tax.

CONS:

- o Make the passage of anti-takeover legislation a virtual certainty.
- o Increase the tax burden on corporations in an uneven and arbitrary fashion. The proposal is revenue neutral from the perspective of the Federal government but would probably not be so from the standpoint of an individual company.
- o Where the tax burden on an individual company increases -- as it would in the case of most highly leveraged companies -- financial instability and the risk of bankruptcy would also increase.

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Tab 21

LEVERAGED BUYOUTS/CAPITAL GAINS INITIATIVE

People to Meet

Rudolph Giuliani, U.S. Attorney in New York City
John Phelan, Chairman, New York Stock Exchange
Entrepreneurs

Possible Events

Meeting with entrepreneurs
Justice Department initiative on white-collar crime
Treasury Department report on LBO effects on the economy and competitiveness
Event with Janet Steiger (widow of Rep. Steiger, author of the Steiger Amendment) emphasizing the importance of cutting the capital gains tax rate

Constituency Groups

National Federation of Independent Business
National Venture Capital Association
Black Enterprise magazine
Hispanic Entrepreneur magazine

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1/5/89
Tab 22

MEDICAID BUY-IN

The President-elect should consider developing a plan to permit low-income Americans to purchase health insurance through Medicaid.

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1/5/89
Tab 22

MEDICAID BUY-IN

People to Meet

Secretary Sullivan

Administrator of the Health Care Financing Administration

Administrators of public hospitals

Possible Events

Visit to a public hospital

Message to Congress

Small business event -- tie in to need to preserve jobs

Constituency Groups

Hospitals -- American Hospital Association

Physicians -- American Medical Association

Small business -- National Federation of Independent
Business, U.S. Chamber of Commerce

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1/7/89
Tab 23

NISEI INDEMNIFICATION

- o During the campaign, the President-elect supported a bill to accept the findings and recommendations of the Commission on Wartime Relocation and Internment of Civilians to provide apologies and reparations to innocent Japanese-Americans (Nisei) who were interned in relocation camps.
- o The legislation which President Reagan signed will pay \$20,000 tax free to each of the 62,000 survivors.
- o The bill authorized \$1.25 billion for the restitution, but no more than \$500 million may be paid out in one year. Older individuals will be paid first.
- o The Reagan budget is expected to recommend spending only \$20 million in FY90 on reparations. The President-elect should consider doubling this to \$40 million. This will raise from 1000 to 2000 the number of individuals who will receive payments under the first budget.

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1/7/89
Tab 23

NISEI INDEMNIFICATION

People to Meet

Nisei who were interned during World War II

Rep. Mineta, Rep. Matsui, Sen. Inouye, Sen. Matsunaga

Nisei brigade which was the most decorated U.S. unit in
World War II

Possible Events

Meet with Nisei at White House

Present first checks to survivors?

Constituency Groups

Japanese American Citizens League

Veterans' groups

DISABLED AMERICANS

- o It appears that some Federal agencies have not fully complied with the 1973 Rehabilitation Act (as amended in 1978) which requires federal agencies to conduct their own activities in ways that are not discriminatory to people with disabilities. (e.g. can a deaf person reach the agency by telephone? can a person in a wheelchair get to a public meeting held by the agency?). By regulation, federal agencies are required to issue their own regulations for meeting access requirements; they are supposed to conduct evaluations to assess whether their facilities, programs, policies and practices are non-discriminatory to people with disabilities.
- o George Bush would send a powerful signal to the disabled community by issuing a memorandum calling for 100% compliance. The memorandum could be directed to a) delinquent agencies or to b) the Department of Justice, which has the lead on this. The marginal cost should be virtually zero, since this should be absorbed within the administrative budgets of the agencies.
- o There may be others kinds of similar administrative action that George Bush could undertake, and further research should be undertaken.

DISABLED AMERICANS

People to Meet

Attorney General Thornburgh (implementation of the law)

Chairman, Architectural and Barriers compliance Board
(William Tangye)

Evan Kemp, Commissioner, U.S. Equal Employment Opportunity
Commission, Co-Director, Transition Outreach Program

Possible Events

Issue memorandum on disabled access to federal programs and
buildings

Constituency Groups

Disabled Veterans

National Council on the Handicapped

American Foundation for the Blind

Society for the Hard of Hearing

National Association of the Deaf

National Association of Retarded Citizens

Paralyzed Veterans Association

National Easter Seal Society

National Federation of the Blind

United Cerebral Palsy

Epilepsy Foundation of America

National Mental Health Association

1/5/89
Tab 25

VICE PRESIDENT QUAYLE -- LABOR FORCE OF THE 90S

- o Vocational education emphasis?
- o An initiative on child care.
- o Job training -- the report on JTPA is due soon and will probably include recommendations on better targeting, a campaign idea.
- o Worker retraining -- regulatory implementation of the WRAP bill passed last summer and supported by the President-Elect.
- o Private pensions -- the President could appoint a commission to develop a National Retirement Policy.
- o Personal savings -- A Presidential initiative on savings, perhaps including the ISA proposed during the campaign, might be attempted.

For further information, see the attached memorandum.

#

MEMORANDUM

December 28, 1988

TO: KATE MOORE
RICHARD ENGLISH

FROM: RICHARD PORTER *RWP*

SUBJECT: AGENDA FOR THE '90S -- THE WORKFORCE

I) INTRODUCTION

In the past, labor issues were typically seen through the lens of class conflict: workers vs. employers, proletariat vs. bourgeoisie. Within this implicit policy framework, it's no surprise that the Department of Labor was widely considered the Department for Labor Unions.

Three trends have rendered this outlook obsolete. First, the United States is not the dominant economic power it was in the 1950s and '60s. Today we are one of several major players in an interdependent global economy. American industry finds it has to struggle to keep business and to keep costs competitive. In this fiercely competitive environment, the interests of worker and manager coincide rather than collide. Both the employer and the employed worry about making a company survive and spend less time fighting over how to split the profits from a cash cow. We are finding that class cooperation, not conflict, is the byproduct of a well-developed capitalist system. It is thus no surprise that unions represent fewer and fewer workers -- and tend to be less confrontational than they were in an earlier age.

Another byproduct of a dynamic capitalist system is mobility -- of capital and of workers. People entering the workforce today can expect to have several more jobs than their parents had over the course of their working lives. This means that the workers of the '90s will have to continually "retool" themselves -- naturally they will have different concerns than workers who expect to spend their entire working lives with one company. This raises issues about both job training and pensions.

Second, the jobs of the '90s will demand greater skills, on average, than the jobs of the '70s. This is largely due to the driving force of technology, which is the engine behind the shift to a service economy. As man's muscle is replaced by machines, the value of unskilled labor declines. But at the same time the demand for those who can manage the machine increases. The labor market of the '90s will put a greater premium on literacy and education. Even though education is increasingly valuable, the system -- particularly in inner city, largely black and hispanic neighborhoods -- continues to decay.

Third, the demography of the workforce is changing in three significant ways. More women are entering the workforce as traditional barriers fall and as single parent families increase.

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This is important because women workers have a slightly different set of concerns than men workers. They tend to be more mobile in and out of the workforce than men as they bear children. And, because women still tend to be the primary care givers for children after birth, they often have different concerns about the terms and conditions of employment -- about both the hours worked (number and flexibility) and the allowance for child care.

The workforce is aging as the birth rate continues to slow. If this trend is combined with the increasing mobility of the workforce, vital questions about those who will retire in 2020 arise. How will we pay for it? Do we have a comprehensive national retirement policy? Are private pensions and IRAs a matter of retirement policy or tax policy?

Finally, more minorities -- especially hispanics -- will enter the workforce, as demand for labor continues to grow, discriminatory barriers continue to fall under the pressure of competition and as immigration increases. This trend -- like mobility and the increasing demand for skilled labor -- points toward a greater need for literacy and education, particularly in the inner city.

As a result of these trends, labor policy isn't just about unions anymore. It's about human resources -- developing and cultivating an important and diverse economic resource. No longer is the capital vs. labor distinction relevant. Rather, we are moving to a recognition of two types of capital -- financial and human.

II) FRAMEWORK FOR PROPOSALS

The workforce issues President-Elect Bush will confront are all being driven by these demographic changes. The Democrats would like to ride this change back into power by seizing the initiative on these issues. Many of their proposals are perverse (they hurt the intended beneficiaries) or run counter to important Republican values (choice). I am told that their strategy is to throw these issues at us one at a time -- piecemeal.

The problem with a piecemeal approach is that it will put a double whammy on workers and on business, as will be the case if Congress passes mandatory benefits legislation and an increase in the minimum wage. Further, it assumes that each issue is created by a discrete problem when in fact the needs of the workforce are actually quite complex. For instance, child care concerns stem from concerns about income, working conditions, government regulation, liability rules and insurance.

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Furthermore, if Senator Metzenbaum pursues his "any amendment to get the bill passed" approach, we will get flawed, inconsistent and vague laws, as occurred with the Plant Closing Bill.

To combat this, the President-Elect should propose a package of workforce initiatives. His workforce of the 90's program should be comprehensive. He should also insist that the legislation be considered as a package.

Pros

This will leave the President room to maneuver on independent components of the legislation which may be inconsistent -- or simply too much too fast -- without appearing to be insensitive to the needs of the workforce. Also, because it would be so big, Congress would inevitably move slowly and with more care.

Seize political initiative and frame debate.

Cong

The legislation may develop a life of its own -- and it may be harder to fight individual objectionable features than some think, as we discovered with plant closing in the trade bill. It may be that by moving fast on a couple of the best programs, we will fill up the legislative calendar and simply squeeze the bad ideas off the agenda.

III) SPECIFIC POLICY PROPOSALS

The following is a list of policy areas that might be a part of a package, or that might be advanced individually. I would be happy to expand my analysis of them at a later date:

1) Children

A) Child Care -- we have a detailed proposal from the campaign that was widely praised and could be moved rapidly. There is a danger that the Democrats will view this as a supplement to their child care bill, not a replacement.

B) Parental Leave -- mandating leave may have the perverse effect of making it harder for women to get jobs. Some tax incentives for companies may be a better way to address the issue.

C) Education -- we have a detailed set of proposals from the campaign that we could move on rapidly.

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2) Adult

A) Job Training -- the JTPA is under review now, with a report due out in the next month or two. It is expected to recommend ways to better target the JTPA to the workers in greatest need of job training. Targeting is our idea anyway, so why not pick it up and run with it now? It could also be sold as part of an anti-poverty program.

B) Worker Retraining -- we supported the WRAP bill which passed last summer. This will require regulatory implementation and working with states to develop a rapid response system for large plant closings. This is already under way at the Dept. of Labor, but we could raise the profile on the activity.

C) Health Care -- we need to nip the Kennedy mandatory benefits bill in the bud. We have our own proposals from the campaign on how to incrementally extend coverage to the uninsured.

D) Transportation -- the dilemma of high ghetto unemployment at a time when service jobs are going begging in the suburbs is in large part a transportation problem. Either transportation doesn't exist or it's prohibitively expensive. A creative government/private sector approach could help reduce this unnecessary barrier to employment.

3) Seniors

A) Private pensions -- this is one area crying out for attention. Currently, two Departments (DOL and Treasury) and one agency (PBGC) are regulating pensions. There is little or no coordination between them and the key Department -- Treasury -- doesn't even have a political appointee focusing on pension policy. There, pensions are treated as a matter of tax policy, not retirement policy. Two ways we can improve on this: Appoint a Presidential Commission to develop a National Retirement Policy or appoint a White House coordinator for retirement policy. Other issues in the pension arena, which I believe we would be wise to avoid during the first 100 days, are:

-- pension security (a knotty question with no easy answers. How do you make pensions more secure without discouraging employers from offering them?)

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-- pension portability (again, no easy answers. True portability would spell the doom of defined benefit plans, which are the biggest pension plans today. That might not be so bad, but we should carefully analyze this before plunging ahead.)

B) Social Security

C) Personal Savings -- This may be a vehicle for introducing the ISA, which we proposed (to some ridicule) during the campaign.

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Tab 25

VICE PRESIDENT QUAYLE -- LABOR FORCE OF THE 90S

People to Meet

Secretary Dole

Labor leaders

Vocational education teachers

Possible Events

Quayle speech

Visit to a job training center, vocational education class

Event to encourage personal savings

Constituency Groups

Labor

Industry

Schools -- vocational education

Banks, brokerages -- private pensions and personal savings

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12/29/88

MEMORANDUM

RE: Goals for the First Months

This memorandum will present some goals for the first months of the Bush Administration in a chronological order. It will give some suggestions as to what we hope to have accomplished by the end of each month of the new Administration.

Inauguration Day

By Inauguration Day, we hope to have:

- o Conducted a series of meetings with key groups to reaffirm the President-elect's concern for their concerns.
- o Begun our effort to provide a "new day" in civil rights by either speaking at the Ebenezer Baptist Church on January 16, the Martin Luther King, Jr., Federal holiday; approving reauthorization of the Martin Luther King, Jr., Federal Holiday Commission, which is scheduled to expire on April 20, 1989; or proposing a national memorial to Dr. King.

February 1

By February 1, eleven days into the Bush Administration, we hope to have:

- o Taken action on Inauguration Day or in the first days on issues such as the homeless and ethics, possibly through Executive Orders or Presidential Memoranda.
- o Reestablished the National Space Council, as required by law, under Vice President Quayle's chairmanship.
- o Named the team of budget negotiators and begun budget negotiations.
- o Reached a conclusion on fetal tissue research and/or begun our adoption initiative, perhaps in conjunction with National Right to Life Day, January 23.

March 1

By March 1, we hope to have begun initiatives on a number of issues. The following list is divided into two parts: first, several major issues and a list of secondary issues which we might also address.

2-2-2

Major Issues

- o Budget reform/deficit reduction
- o Education
- o Environment
- o A "kinder, gentler" America, including child care
- o World peace
- o Drugs

Other Issues

- o Science and Technology
- o Increase investment for savings/growth/jobs
- o Crime, especially reform of the Federal furlough program
- o Homeless follow-up
- o FSLIC
- o Central America/Western Hemisphere Initiative
- o Invest in Our Children
- o Labor Force of the 90s
- o Campaign finance reform
- o Nuclear weapons facilities cleanup

April 1

By April 1, we hope to have continued on these issues and won some early victories on the Hill.

May 1

By May 1, President Bush will likely have gone to Europe for a NATO summit commemorating the 40th anniversary of NATO.

Summer/Fall

By the summer, we hope to have held the education conference with the governors, business, and academics. Planning for other summits, including the global environment summit and the hemispheric drug summit, should now be well under way if the summits themselves do not take place during the summer. (The President-elect has proposed two other summits besides those mentioned here: an "early" U.S.-Soviet summit, and urging that the Economic Summit in France in July be devoted to agriculture.)

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LOWER PRIORITIES

- o Individual Savings Accounts

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LONG-TERM

(Post August 1989)

September 1989

- o Deadline for extending the Voluntary Restraint Agreement on steel.
- o September 1 -- 50th anniversary of the beginning of World War II. Possible Presidential speech?

October

- o October 1 -- Beginning of Fiscal Year

1990

- o U.S. hosts Economic Summit -- Place?
- o Vietnamese promise to withdraw from Cambodia

Other Issues to Consider in the Long Term

- o AIDS -- research, costs
- o Long-term health care (possible Congressional pressure)
 - tax changes
 - education
- o Medicaid Buy-in

SUMMITS

Here is a list of summits to which the President-elect committed himself during the campaign:

- o Agriculture Summit: Urge that the 1989 Economic Summit focus on agriculture.
- o Drug Summit: Seek a hemispheric summit on drugs.
- o Environment Summit: Global conference on the environment to address global warming, acid rain, and other challenges.
- o NATO Summit: Propose to convene an early NATO Summit as one of his first acts as President.
- o U.S.-Soviet: Seek an early summit with Soviet leader Gorbachev.
- o Education Conference: White House Conference with Governors