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In Search for Priorities, Democrats Find a Split

By RICHARD L. BERKE
Special to The New York Times

WASHINGTON, March 16 — As Congress seeks to shift the country's political focus to domestic matters, a split is emerging between the Democratic leadership and rank-and-file members over what the party's legislative priorities should be.

Many Democratic lawmakers with a mix of ideology, seniority and geographic origins asserted in interviews this week that the issues the Democratic leadership is highlighting are little more than warmed-over proposals of the past.

Both the leaders and the rank and file cite many of the same issues when asked what they want in a domestic agenda. Their split is largely over emphasis: On which issues should the Democrats press the hardest?

Traditional Programs

Some members expressed concern that the leadership was pinning its political hopes on reviving traditional party programs, like mass transit, energy and rebuilding crumbling highways and bridges. They also questioned why the leadership was playing up issues like civil rights and family leave legislation which, for all their importance, may meet the same fate as last year: a veto by President Bush.

Instead, many members said the focus should be on more protracted problems, like the rising number of children who live in poverty, escalating medical costs and an inadequate education system.

While Senator George J. Mitchell, the majority leader, and House Speaker Thomas S. Foley talked of the need to address those issues, they defended their party's Congressional agenda, saying it was folly to abandon unresolved problems just to have something new for each new Congress.

As an example, Mr. Foley said of rebuilding roads, "That's not exciting for some people, and even gets sneered at as pork barrel, which it is not." But he said the issue is critical for the future of transportation and for making the nation more "competitive and productive."

But several Democrats said they did not believe their party was pushing hard enough to seize the initiative in domestic policy from a White House that is widely perceived as lacking interest in these issues.

'A Coherent Agenda'

"The leadership needs to get the major actors together, the committee chairmen, the activists in the party who are influential, to have a significant discussion with full give and take so a coherent agenda can be laid out," said Representative Les AuCoin, an Oregon Democrat. He was among those contending that the agenda needed more of a focus on underlying social issues like developing a national health care policy.

Senator Daniel Patrick Moynihan, a New York Democrat, talked of an "atrophy" of ideas in his party. As an example, he said, the party should press more aggressively for programs to help the growing needs of disadvantaged children.

"We are utterly enthralled to a set of issues where our prescription is spending money, and we have no money," he said.

More Basic Concerns

Representative Charles E. Schumer, a Brooklyn Democrat, asserted, "There should be some strong Democratic initiatives, not just the traditional ones."

Mr. Schumer said that he would push for a mandatory treatment program for drug offenders while they are in jail.

Mr. Mitchell and Mr. Foley insisted that there was nothing wrong with continuing to press issues involving traditional party interests.

"The notion that you have to have a 'brand new thing,' is really a press creation," Mr. Mitchell said. "I don't think the public thinks of it in those terms. They think of it in terms of who is concerned with the well-being and welfare of my family and my country. One could have made that very criticism the third, fourth, fifth, ninth year that Medicare was being considered."

Mr. Foley acknowledged that the problems addressed by the Democrats "are the same old problems that have been cropping up year after year," but he said there was nothing wrong with that.

"I'm a little impatient with the notion that there's some secret, dramatic, breathtaking, knock-down-all-opposition plan," he said. "We have watched the persistence of many of our national problems grow year by year."

No matter how much their new or old ideas catch on with the public, the Congressional leaders acknowledged that they are in many ways dependent on the Administration for support. They said that Mr. Bush's high ratings in public opinion polls for his leadership during the Persian Gulf war, even if fleeting, would make it easier for him to sustain his vetoes.

The way Senator Edward M. Kennedy sees it, without cooperation from the Administration, the Democrats' agenda will go nowhere.

'Challenges Here at Home'

"The real question," said Mr. Kennedy, the Massachusetts Democrat, "is whether the Administration is just going to try and coast in the polls from the gulf or whether they're really going to come to grips with the challenges here at home."

Representative Peter Hoagland, a Nebraska Democrat, put the importance of Mr. Bush's role more bluntly. "It's going to be difficult for us to pass any major bills over his objection," he said.

Senator Al Gore, a Democrat of Tennessee, said that it is harder for members of Congress to speak with one voice on a domestic agenda than it is for the White House to do so. "You always have to recognize that a Congressional agenda will inevitably lack the unity that an agenda put together by one person has," said Mr. Gore, who broke with many of his Democratic colleagues in voting for the use of force in the gulf and who is a possible Presidential contender in 1992.

Disagreement on Objectives

Mr. Gore's White House aspirations aside, the lack of unity on a domestic agenda for Democrats has been complicated by the dearth of leaders who have stepped forward to run for President and help to define the party's priorities.

The uncertainty among Democrats is related not only to picking issues, but to agreeing on an objective: Is the point to pass bills or to build support for issue positions?

"Fundamentally, they have to decide whether they want legislation or issues," said Richard F. Fenno Jr., a professor of political science at the University of Rochester who is an expert on Congress. "That decision will propel them either toward cooperation with the White House or emphasizing the differences."

Even in the leadership, there is some disagreement over how much to emphasize certain issues. Representative David E. Bonior of Michigan, who is the deputy Democrat whip in the House, said that of all the issues this session, "number one will be health care — there's general agreement that this should be a centerpiece of where we want to go domestically." But Mr. Foley, while also citing health care as a critical goal, said, "that's going to require more than one session and more than one Congress" to win approval.

Whatever issues they agree to emphasize, many Democrats said, what is important is that the party's lawmakers rally behind them.

"Our clear challenge has to be to put a Democratic agenda on the President's desk for his signature or his veto and help him define himself to American voters on matters of importance to their pocketbooks," said Representative Dennis E. Eckart, an Ohio Democrat. "The Democratic Congress has to produce a domestic agenda. If we don't, we are conceding much of the debate to him."

3/18/91
sent w/ JHS card

FAXED 1/8/91



CHIEF OF STAFF TO THE PRESIDENT

I thought the attached would interest you.

John H. Sununu

THE WHITE HOUSE

WASHINGTON

January 8, 1991

Dear Mr. Speaker:

The current situation in the Persian Gulf, brought about by Iraq's unprovoked invasion and subsequent brutal occupation of Kuwait, threatens vital U.S. interests. The situation also threatens the peace. It would, however, greatly enhance the chances for peace if Congress were now to go on record supporting the position adopted by the UN Security Council on twelve separate occasions. Such an action would underline that the United States stands with the international community and on the side of law and decency; it also would help dispel any belief that may exist in the minds of Iraq's leaders that the United States lacks the necessary unity to act decisively in response to Iraq's continued aggression against Kuwait.

Secretary of State Baker is meeting with Iraq's Foreign Minister on January 9. It would have been most constructive if he could have presented the Iraqi government a Resolution passed by both houses of Congress supporting the UN position and in particular Security Council Resolution 678. As you know, I have frequently stated my desire for such a Resolution. Nevertheless, there is still opportunity for Congress to act to strengthen the prospects for peace and safeguard this country's vital interests.

I therefore request that the House of Representatives and the Senate adopt a Resolution stating that Congress supports the use of all necessary means to implement UN

Security Council Resolution 678. Such action would send the clearest possible message to Saddam Hussein that he must withdraw without condition or delay from Kuwait. Anything less would only encourage Iraqi intransigence; anything else would risk detracting from the international coalition arrayed against Iraq's aggression.

Mr. Speaker, I am determined to do whatever is necessary to protect America's security. I ask Congress to join with me in this task. I can think of no better way than for Congress to express its support for the President at this critical time. This truly is the last best chance for peace.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tom Foley', written in a cursive style.

The Honorable Thomas S. Foley
Speaker of the House
House of Representatives
Washington, D.C. 20515

sent with JHS card - November 30, 1990

Document Originally
Attached to
Following Page

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

November 30, 1990

PRESS CONFERENCE BY THE PRESIDENT

The Briefing Room

11:32 A.M. EST

THE PRESIDENT: I have a statement, an opening statement, that is a little longer than normal, and I'd ask your indulgence and then I will be glad to respond to questions.

We're in the Gulf because the world must not and cannot reward aggression. And we're there because our vital interests are at stake. And we're in the Gulf because of the brutality of Saddam Hussein. We're dealing with a dangerous dictator all too willing to use force who has weapons of mass destruction and is seeking new ones, and who desires to control one of the world's key resources -- all at a time in history when the rules of the post-Cold War world are being written.

Our objectives remain what they were since the outset. We seek Iraq's immediate and unconditional withdrawal from Kuwait; we seek the restoration of Kuwait's legitimate government; we seek the release of all hostages and the free functioning of all embassies; and we seek the stability and security of this critical region of the world.

We are not alone in these goals and objectives. The United Nations, invigorated with a new sense of purpose, is in full agreement. The United Nations Security Council has endorsed 12 resolutions to condemn Iraq's unprovoked invasion and occupation of Kuwait, implement tough economic sanctions to stop all trade in and out of Iraq, and authorize the use of force to compel Saddam to comply.

Saddam Hussein has tried every way he knows how to make this a fight between Iraq and the United States, and clearly, he has failed. Forces of 26 other nations are standing shoulder to shoulder with our troops in the Gulf. The fact is that it is not the United States against Iraq, it is Iraq against the world. And there's never been a clearer demonstration of a world united against appeasement and aggression.

Yesterday's United Nations Security Council resolution was historic. Once again, the Security Council has enhanced the legitimate peacekeeping function of the United Nations. Until yesterday Saddam may not have understood what he's up against in terms of world opinion. And I'm hopeful that now he will realize that he must leave Kuwait immediately.

I'm continually asked how effective are the U.N. sanctions that were put into effect on August 6th. I don't know the answer to that question. Clearly, the sanctions are having some effect, but I can't tell you that the sanctions alone will get the job done. And thus, I welcome yesterday's United Nations action.

The fledgling democracies in Eastern Europe are being severely damaged by the economic effects of Saddam's actions. The developing countries of Africa and in our hemisphere are being victimized by this dictator's rape of his neighbor, Kuwait. Those who feel that there is no down side to waiting months and months must consider the devastating damage being done every day to the fragile economies of those countries that can afford it the least.

MORE

As Chairman Alan Greenspan testified just the other day, the increase in oil prices resulting directly from Saddam's invasion is hurting our country, too. Our economy, as I said the other day, is at best in a serious slowdown, and if uncertainty remains in the energy markets, the slowdown will get worse.

I've spelled out once again our reasons for sending troops to the Gulf. Let me tell you the things that concern me most. First, I put the immorality of the invasion of Kuwait itself. No nation should rape, pillage and brutalize its neighbor. No nation should be able to wipe a member state of the United Nations and the Arab League off the face of the Earth.

I'm deeply concerned about all the hostages -- innocent people held against their will in direct contravention of international law. Then there's this cynical and brutal policy of forcing people to beg for their release -- parceling out human lives to families and traveling emissaries like so much chattel.

I'm deeply concerned about our own embassy in Kuwait. The flag is still flying there. A handful of beleaguered Americans remain inside the embassy unable to come and go. This treatment of our embassy violates every civilized principle of diplomacy. It demeans our people, it demeans our country. And I am determined that this embassy, as called for under Security Council Resolution 674, be fully replenished and our people free to come home.

What kind of precedent will these actions set for the future if Saddam's violation of international law goes unchallenged? I'm also deeply concerned about the future of Kuwait itself. The tales of rape and assassination, of cold-blooded murder and rampant looting are almost beyond belief. The whole civilized world must unite and say this kind of treatment of people must end, and those who violate it -- the Kuwaiti people must be brought to justice.

I'm deeply concerned about Saddam's efforts to acquire nuclear weapons. Imagine his ability to blackmail his neighbors should he possess a nuclear device. We've seen him use chemical weapons on his own people. We've seen him take his own country -- one that should be wealthy and prosperous -- and turn it into a poor country -- all because of insatiable appetite for military equipment and conquest.

I've been asked why I ordered more troops to the Gulf. I remain hopeful that we can achieve a peaceful solution to this crisis. But if force is required, we and the other 26 countries who have troops in the area will have enough power to get the job done. In our country, I know that there are fears about another Vietnam. Let me assure you, should military action be required, this will not be another Vietnam. This will not be a protracted, drawn-out war.

The forces arrayed are different. The opposition is different. The resupply of Saddam's military would be very different. The countries united against him in the United Nations are different. The topography of Kuwait is different. And the motivation of our all-volunteer force is superb.

I want peace. I want peace, not war. But if there must be war, we will not permit our troops to have their hands tied behind their backs. And I pledge to you there will not be any murky ending. If one American soldier has to go into battle, that soldier will have enough force behind him to win, and then get out as soon as possible, as soon as the U.N. objectives have been achieved.

I will never -- ever -- agree to a halfway effort. Let me repeat: We have no argument with the people of Iraq; indeed, we have only friendship for the people there. Further, I repeat that we have no desire to keep one single American soldier in the Gulf a single day longer than is necessary to achieve the objectives set out above.

No one wants to see a peaceful solution to this crisis more than I do. And, at the same time, no one is more determined than I am to see Saddam's aggression reversed.

Lastly, people now caution patience. The United States and the entire world have been patient. I will continue to be patient. But yesterday's U.N. resolution, the 13th by the Security Council, properly says to Saddam Hussein: Time is running out. You must leave Kuwait. And we've given you time to do just exactly that.

Many people have talked directly to Saddam Hussein and to his Foreign Minister Tariq Aziz. All have been frustrated by Iraq's ironclad insistence that it will not leave Kuwait. However, to go the extra mile for peace, I will issue an invitation to Foreign Minister Tariq Aziz to come to Washington at a mutually convenient time during the latter part of the week of December 10th to meet with me. I'll invite ambassadors of several of our coalition partners in the Gulf to join me at that meeting.

In addition, I'm asking Secretary Jim Baker to go to Baghdad to see Saddam Hussein. And I will suggest to Iraq's President that he receive the Secretary of State at a mutually convenient time between December 15th and January 15th of next year.

Within the mandate -- within the mandate of the United Nations resolutions, I will be prepared, and so will Secretary Baker, to discuss all aspects of the Gulf crisis. However, to be very clear about these efforts to exhaust all means for achieving a political and diplomatic solution, I am not suggesting discussions that will result in anything less than Iraq's complete withdrawal from Kuwait, restoration of Kuwait's legitimate government, and freedom for all hostages.

Thank you very much. And I will be glad to respond to a few questions.

Q Mr. President, now that you have a clear-cut U.N. resolution on use of force, doesn't that force you into a position if these talks between the Secretary of State break down -- doesn't this force you into the position of having to use force on January 15th if Saddam Hussein hasn't left? And if not, won't we be perceived as the one who blinked first?

THE PRESIDENT: No, the date was not a date at which point force had to be used.

Q If I could just follow up with another question. Are you going to ask Congress for approval of this resolution -- would you like to see Congress pass the same kind of resolution that the U.N. passed?

THE PRESIDENT: I'd love to see Congress pass a resolution enthusiastically endorsing what the United Nations has done, yes. But we're in consultation on that and I have no plans to call a special session. I'm not opposed to it, but we're involved in consultations right now -- I have talked to several members of Congress, I've talked to leaders in the House, I've talked to several on the Republican side and Democratic side in the Senate, and I want to be sure that these consultations are complete.

Some feel a lame-duck session is not good, but the new members should have a right to have a say. Others feel that we ought to move right now. The Congress, as you know, in their adjournment resolution, had a provision in there that they could come back and take this up. They are a coequal branch of government; they can do that if they want to. But we will continue our consultations. They'll follow, incidentally, today this with a meeting with the leadership. So I'll get a little better feel for that as we go along.

Q Mr. President, you say you're confident that American troops will prevail against Saddam if they're called upon --

THE PRESIDENT: Oh, absolutely.

Q -- but at what price? How many Americans?

THE PRESIDENT: Oh, I can't give you that -- any figures, of course. But I can say that the movement of this additional force safeguards the lives of every American and every one of our allies in the Gulf.

Yes, Brit.

Q Mr. President, in recent days, senior members of the administration have emphatically rejected the idea of any special emissaries or diplomatic envoys to or from Iraq to discuss this on your part. What changed your mind, sir?

THE PRESIDENT: The United Nations resolution I think has a good chance of making Saddam Hussein understand what it is he's up against. I have not felt that he got the message. I hope this will do it. But I am convinced that these two direct meetings that I've discussed here will guarantee to all the people of the world, certainly to the American people, that Saddam Hussein not misunderstand, not misinterpret. I keep hearing, well, people won't give him the news. Unlike the President of the United States who gets good news and bad news very faithfully, I am told that Saddam Hussein's troops don't bring him the bad news and I'm told that he is somewhat isolated. And I think this U.N. resolution will help de-isolate him, and I think the two proposals that I have made here will help.

So it's just going the extra step, Brit, that's what it is. And it's a decision that I personally made.

Q You indicate that this date is not actually a deadline for the use of force, merely a date after which force would be permissible. How do you avoid the impression, should that date come and go without military action, that the U.S.-led coalition has, in fact, blinked?

THE PRESIDENT: Well, we've got to look at events at the time. But I don't think there will ever be a perception that the United States is going to blink in this situation. That's why I had some of the words in this statement that I had.

Q Mr. President, you've just spoken about the weapons of mass destruction -- nuclear weapons -- and also that one of your goals is to try to reach stability in the region. Can you reach stability in the region with Saddam Hussein in power?

THE PRESIDENT: I think most countries, members of the United Nations, feel that there have to be some safeguards put into effect in terms of guaranteeing the security and stability of the Gulf. And so I would think that the status quo ante will not be enough. And I think there will be -- there are sanctions in place now, and I think it would be very proper to discuss what those safeguards should be after there has been a total compliance with the United Nations resolutions.

Q Sir, could I just follow up. I just notice that when you -- originally when you outlined your goals, you included stability in the region. You seem to summarize them when you talk about these talks with Saddam Hussein, but you only mentioned the first three, you didn't mention stability in the region.

THE PRESIDENT: Well, was I talking about the U.N. resolution? Which security and stability I don't think was a part of the U.N. resolution. It is certainly part of the world's objective, however. I think that may be the technical difference. But, look, it is critical and it is very, very important.

Q Mr. President, I want to ask if your comments about

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the Kuwaiti Embassy -- whether it's fair to conclude based on those, that you will neither close the embassy nor permit those Americans to be starved out?

THE PRESIDENT: I will not say exactly what I will do or exactly what I won't do. There is a very interesting report that we got in this morning saying that some Iraqis showed up at the Kuwaiti Embassy, our embassy in Kuwait, and delivered fruit, vegetables and a case of Iraqi cigarettes to Embassy Kuwait. And apparently, there's going to be another delivery tomorrow including soda pop. And they asked what medical supplies were required.

Q No mail?

THE PRESIDENT: It doesn't say that. The embassy will apparently provide a list tomorrow. And the electricity is still cut off. So this is kind of an interesting little development. But I -- somebody said to me, well, hey, what about if there's some provocation -- they asked me in the leadership meeting. I said, consider me provoked when it comes to the United States Embassy. Consider me provoked when I see Americans without proper food and medical equipment.

Q May I follow? Do you take it from that communique that you've received there that the Iraqis have the message and want to eliminate that as a potential trip wire?

THE PRESIDENT: I don't know. It's too -- the best question, right on target; one that we were discussing inside. Let's try to be optimistic and say this could be a positive sign. But it's so far short of compliance with international law that I can't be rejoicing. But it is a very interesting development.

Q You've been getting some pretty negative comments up on the Hill from these hearings being held this week. Now, this morning you said this would not be a long, protracted Vietnam-type war. However, General Odom, the former head of the NSA, testified just this morning before the Senate Armed Services that, in fact, that we'd have to be there for decades. Now, presumably, he means even after military combat we'd have to have people in place there at least part of a peacekeeping force. Do you see our commitment there to extend that far?

THE PRESIDENT: No, I don't.

Q May I ask you something else? Al Gore yesterday takes issue with your comments and the comments of some of your aides, such as Brent Scowcroft, about Saddam being able to churn out a nuclear weapon within a matter of months. Gore, who has had some private briefings, apparently, from some of you people, indicates that your administration statements are misleading.

THE PRESIDENT: I disagree with the Senator. And if he wants to gamble on the future about the construction of atomic weapons by Saddam Hussein, I don't. I know what the intelligence says -- every bit of it. I can't share it, obviously, because we don't comment on intelligence matters. But I am concerned -- from the very first time I spoke on this subject -- I think in August, I mentioned weapons of mass destruction, I believe -- certainly early on -- and I am concerned about it. And if Senator Gore has a difference of opinion and is not concerned about it, we just have an honest difference there. I am concerned about Saddam Hussein's attempt to accelerate the construction or possession of a nuclear weapon. And I might as well share that as honestly as I can.

Q Sir, are you saying that he could develop a warhead next year?

THE PRESIDENT: I'm not giving you a time frame. But you've seen the estimates, some of which I guess are accurate, in the papers. And there's a lot of scientists that come down on different sides. Senator Gore, I'm sure, is an intelligence fellow, and he --

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but I don't think he has access to absolutely all; maybe he does. But I am not going to err on the side of underestimation when it comes to this question.

Q Mr. President, your announcement about Tariq Aziz and Secretary Baker -- have you had any signals, any indications from the Iraqis that they would welcome this -- that they are indeed looking for this kind of communication?

THE PRESIDENT: No. The only thing I've heard is that they want to talk. Here's an opportunity. But, no, I've not had any diplomatic signals or signals of other kinds.

Q And of those 26 nations that you list in the area, how many of those are equally committed to offensive action rather than just defensive action?

THE PRESIDENT: I can't give you the answer to that because I don't really know. But I expect that there is enthusiasm in all quarters of those countries for the U.N. action that was taken yesterday.

Q Well, with all respect, shouldn't you know how many would follow your troops into battle?

THE PRESIDENT: I know that what I said is true about if we have to go into battle. I'm satisfied I know enough about that. I went over in detail, as you well imagine a President should because I have the responsibility as Commander-In-Chief, what might happen if we have to use force.

I repeat: I hope we'll never have to have one single shot fired in anger.

Q Iraq has been constantly calling for dialogue. Aren't you concerned that those two missions, Tariq Aziz and James Baker, will lead Saddam Hussein to claim that the U.S. is showing a sign of weakness?

THE PRESIDENT: Because Baker goes to Baghdad?

Q Aren't you concerned that that will be the position of Saddam Hussein?

THE PRESIDENT: No, I'm not. I'm concerned some might say this is an ultimatum in which -- all it is, is an effort to be sure that he understands the commitment of the United States; that he understands that anything that is done must be done inside the confines of the United Nations resolutions that have been passed; that there will be no contingency; there can be no face-saving. That's not what this is about. This is to be sure that he understands how strongly the President of the United States feels about implementing to a tee without concession the United Nations position. Some have told me that he's not getting the message of how determined we are. I can't think of any better way to do it at this juncture, in the wake of the U.N. resolution, than this face-to-face meeting. I'm not sure he'll agree to it.

Q Today's press conference seems to amount to again more talk of preparations for war. Can you describe what you think your responsibilities are in terms of Congress as we head into this period, since they seem to think that, and agree that you're consulting, talking, but you seem reluctant to go and get a resolution that mimicks the U.N. resolution. What do you think your responsibilities are to Congress and to the people that elected them?

THE PRESIDENT: Full consultation. Get them in on the --

Q Any more than telling them before you do something?

THE PRESIDENT: I'm leveling with them on where I think matters are right now. You've put your interpretation on my remarks.

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There were plenty of comments in there about hoping that we will have a peaceful resolution -- that the best answer to get a peaceful resolution is to have Saddam Hussein know how determined everybody is.

You see, I think yesterday's U.N. resolution was a step towards peace, not a step towards war -- because I believe that when Saddam Hussein finally gets the message and understands what he's up against in terms of world opinion and other things that he will do that in Kuwait which he did in Iran.

Q Thank you, Mr. President. The Soviet Union did, indeed, vote on our side as far as the resolution, allowing force if it's necessary. Are we going to offer the Soviet Union any compromise on export credits? As you know, there's some concern that they think there is a de facto grain embargo going on because we won't offer export credits in their very needy time.

THE PRESIDENT: The matters are totally separate and unrelated. But I am concerned about this. And I've talked about -- with Mr. Gorbachev of a willingness to entertain proposals for food, particularly if the reports prove to be accurate in terms of the severe winter and the hardship that this will inflict on the Soviet people.

We -- I have asked our own top people here to come up with recommendations for me. Next week is what to do about Jackson-Vanik. It has been my position that the Soviets should pass the necessary emigration legislation. That has not taken place. But some are saying that I now have a clearer waiver authority than I thought. And I do not want to work hardship on any sector of the American economy. I'm one of those strongest proponents against a grain embargo, and yet I'm told that some in middle America think that our position of -- is really almost resulting in a grain embargo. And I want to dispel any notion that I am for the grain embargo.

The Soviets are concerned about many aspects of this legislation. So I'm facing a decision as to what to do. Should we try to waive Vanik, and should we then extend credits under the CCC. There are other agricultural programs that I think we can go forward with immediately without waiver of Jackson-Vanik. But it's a very -- it's an evolving issue -- question here. And I don't know exactly what I am going to do because we're caught between some strong and understandable economic interests at home and, on the other hand, a position of wanting to stand for free and fair emigration.

One thing that is important to note, however, is that the amount -- the exodus of Soviet Jews from the Soviet Union is high. And I'd like to take some credit for our administration in this because we've been steadfast in encouraging the exodus of Soviet Jews. And so that will weigh on my consideration when I get down to have to make this final decision about the waiver of Jackson-Vanik.

Q On that, would you consider another increase of the quota that -- the number of people that could emigrate to the United States? Would we increase the amount that we'd accept?

THE PRESIDENT: We're reviewing the whole policy at this juncture.

Q Mr. President, Arab experts suggest that Saddam Hussein has hinted in his remarks that he would like to have some sort of deal, but he wouldn't necessarily hold to his demands. Now you're saying you're willing to meet with him. Are you willing to offer him anything in these meetings in return for a pullout, such as a conference on the Middle East?

THE PRESIDENT: No. Those two items are totally separate. We've made that very, very clear. And what I have said is that this will be -- these discussions will be done within the U.N. mandate. I'm not all that hopeful that what -- that we'll get big

results out of all of this. It's going the extra mile. It's taking the extra step. But I can't tell you that I think we're going to have great success on all of this because our partnership in the world is together on the fact that we cannot stop short of total fulfillment without condition of the United Nations resolutions.

Q What then is the point of the meeting? Are you just delivering ultimatums?

THE PRESIDENT: No, this isn't an ultimatum at all. And I hope what it does is demonstrate that we are prepared to go face-to-face and tell him how committed we are to the United Nations resolutions. I've told you I don't think he has felt this commitment. As I said earlier, he may feel it a little more strongly now that we did what many skeptics thought couldn't happen -- that the United Nations Security Council did, and that is come together and pass this very important resolution.

So one thing is we got -- he has got to understand what the alternatives are to complying with the United Nations resolutions. And the best way to get that across is one-on-one -- Baker looking him right in the eye. I've been told that he doesn't necessarily believe that I am totally committed to what I've been saying. And here's a good opportunity to have him understand that face-to-face.

So we want to make the case to him directly for complying with the United Nations resolutions; make the case to him from a Secretary of State who's incessantly work to get this resolution through -- the strength of the commitment of the international community. And then try to persuade him that -- to reconsider his position and to take the steps necessary for a peaceful resolution of the crisis. But it isn't a trip of concession. When you've done what he's done, I don't see that there's room for concession, there's room for giving something to save face. That's not the way you treat with aggression. And we're not going to treat it with it any differently than I've outlined here.

Yes, and then Maureen. I told Maureen I'd -- you two and then I'll go peacefully.

Q With high oil prices hurting the world --

THE PRESIDENT: -- your whipsawed today; it's terrible. The statement was so long at the beginning. I apologize for that.

Q You don't have to give to everybody up front.

THE PRESIDENT: Well, Helen -- I mean, Sarah. Thank you, Sarah. I didn't see your hand up.

Q It sure has been up for an hour. (Laughter.)

THE PRESIDENT: Even before I got here? (Laughter.) Sarah, you get the last question. We did this before and I got in real trouble.

Go ahead -- two.

Q Mr. President, you mentioned the damage that high oil prices are doing to the world economy. Should Saudi Arabia and other producers share more of their windfall?

THE PRESIDENT: I think they're doing a pretty good job in underwriting the costs to various countries and helping third party countries that are -- that have been hurt by all of this. But I think everybody should go the extra mile to help others. And I was pleased when I was talking in Mexico, for example, with President Salinas, that he is selling oil, to try to help the burden by selling oil at bargain prices off this inflated world price. So I think everybody should try to help. And I think the Saudis have made a lot of commitments to countries in trying to help out. I hope they will

MORE

continue to do that, and I'm confident they will.

Q If I could follow, sir, should Saudi Arabia have a military draft?

THE PRESIDENT: That's for the Saudi Arabians to decide. I don't think the United States needs one, incidentally.

Q Mr. President, if you ultimately feel that you have to ask Americans to support the use of force, what that, of course, means is that you have to ask some parents to give up the lives of their children.

THE PRESIDENT: I know it.

Q What I was wondering was, we all know how important your children are to you. Do you feel that this issue is important enough to you that you could conceive of giving up one of their lives for it?

THE PRESIDENT: You know, Maureen, you put your finger on a very difficult question. People say to me, how many lives? How many lives can you expend? Each one is precious. I don't want to reminisce, but I've been there. I know what it's like to have fallen comrades and see young kids die in battle. It's only the President that should be asked to make the decision: Is it worth it? How many lives is it worth? Is it worth it to commit one life, put one life in harm's way to achieve these objectives? And that's why I want to get a peaceful resolution to this question.

You ought to read my mail. It is so heart-moving. Supportive, and yet, please bring my kid home. Please bring my husband home. It's a tough question. But a President has to make the right decision. These are worldwide principles of moral importance. I will do my level-best to bring those kids home without one single shot fired in anger. And if a shot is fired in anger, I want to guarantee each person that their kid, whose life is in harm's way, will have the maximum support, will have the best chance to come home alive, and will be backed up to the hilt.

Because of that question that weighs on my mind, I added that language this morning about how this will not be a Vietnam. They can criticize me for moving force. And if we've got one kid that's apt to be in harm's way, I want him backed up to the hilt by American firepower, and others as well. That's why I'm working as hard as I am not only to hold this coalition together, but to strengthen it. The best way to safeguard the lives of Americans is for Saddam Hussein to do that what he should have done long ago. And if force has to be used, the best way to safeguard lives is to see that you've got the best and you're willing to use it. That's my posture.

Q Sir, why do you seem to be avoiding the people's representatives having an opportunity to talk on this and to express their opinion? You know Congress, and yet you're avoiding it. You know that the Constitution gives the power not only to declare war, but to provide the money and to say other things about what shall be done with troops. That's the Constitution. Yet, you seem to be avoiding that. The experts on Capitol Hill say that what you have done by prenotification, calling two or three members and saying we're on the way -- you've already made the decision, you're notifying them -- that's prenotification. That's not consulting with Congress. They say you should sit down and have a back-and-forth with them. And I want to remind you that when Foley speaks as Speaker of the House, he may be Speaker of the House, but he sure as hell doesn't represent Florida and Texas.

THE PRESIDENT: Sarah, therein, you've properly brought up the dilemma I face. There are 435 members of the United States Congress, there are 100 --

Q But --

MORE

THE PRESIDENT: May I finish, please? There are 100 members of the United States Senate. Each one has a view as to what I ought not to do. And that's fine. They have the power under the resolution of adjournment to come back 20 seconds from now, and to take a voice, to stand, to take a common position.

If they want to come back here and endorse what the President of the United States has done and what the United Nations Security Council has done, come on, we're ready. I'd like to see it happen. But what I don't want to do is have it come back and end up where you have 435 voices in one House, and 100 on the other saying what not to do and saying -- kind of a hand-wringing operation that would send bad signals. I welcome these hearings. We're having hearings. We're consulting. I've told you I'm consulting. I'll be honest with you -- I cannot consult with 535 strong-willed individuals. I can't do it, nor does my responsibility under the Constitution compel me to do that. And I think everyone would agree that we have had more consultations than previous administrations.

Q Sir, we have a majority rule in this country, and you seem to be afraid of it.

THE PRESIDENT: No, I'm not afraid of it at all. We have a tripartite form of government. And I know my strengths and I know the limitations on the presidency. This is an interesting debate, Sarah. (Laughter.) And I know my limitations. And I know what I can do and I know what previous presidents have done. And I am still determined to consult the extra mile. You want to continue to debate?

Q You seem to give -- you and Jim Baker give the other countries a chance to talk and you give the United Nations a chance to talk, but you won't give the United States people a chance to debate with you.

THE PRESIDENT: We'll now, that's a absurd comment, Sarah, from a bright person like you. That is absolutely absurd. They're holding hearings, they're talking. They have the power under the adjournment resolution to reconvene this minute. Some in the House want to come back now, some want to talk about it later on. Some in the Senate want to come right back now and immediately endorse what the President has done and what the Security Council resolution is, and I'm for that. But some don't. And so consultation is going on. Please do not assign to me improper motives. They're talking right now. They're having endless hearings by endless experts up there. Each one with a slightly different view, and that's the American way. And that's fine. And I know what the responsibilities of the President are, and I am fulfilling those responsibilities.

Q What about China?

THE PRESS: Thank you.

THE PRESIDENT: Thank you.

END

11:41 A.M. EST



OFFICE OF THE VICE PRESIDENT
WASHINGTON

November 29, 1990

NOTE TO: WHITE HOUSE STAFF

FROM: BILL KRISTOL *K/BK*

Here's the text of the speech the Vice President is delivering today at Seton Hall University. The speech discusses U.S. Persian Gulf policy in the broader context of our strategic objectives in the Middle East for the past 40 years, and addresses some of the moral issues at stake.

OFFICE OF THE VICE PRESIDENT

Embargoed until delivered -- 12:00 p.m. EST, November 29, 1990

PREPARED TEXT OF REMARKS BY THE VICE PRESIDENT

**SETON HALL UNIVERSITY
South Orange, New Jersey**

Thank you. As always, I am happy to once again talk with the student body of an outstanding American University -- I did so last month at DePauw. As Vice President, I do a lot of international travel. Nothing makes me more proud than to hear the international community rave about America's colleges and universities.

Our finest schools have kept firmly in mind what Dr. Samuel Johnson, the great eighteenth century British man of letters, termed the "supreme end of education: expert discernment in all things -- the power to tell the good from the bad, the genuine from the counterfeit, and to prefer the good and the genuine to the bad and the counterfeit."

I am honored to have the opportunity to address the Seton Hall community -- a community which truly strives to promote "expert discernment in all things." Since your founding in 1856 by Bishop James Roosevelt Bayley, you have understood that questions of good and bad, right and wrong, are not just minor add-ons to the serious business of life. Rather, they constitute its very core. As the eighth largest Catholic university in the U.S., you have drawn on a rich tradition to promote a greater sense of moral discernment throughout your community and your

country. Your motto puts it in perspective: "Advance despite difficulties."

As all of you know, our country, along with the rest of the international community, currently faces a grave crisis in the Persian Gulf. This crisis carries with it the risk of war. Some in this country have questioned whether the U.S. has any interest in the Gulf that is worth fighting for. Today, I would like to step back a bit from the current debate. I'd like to speak to the larger perspectives of the subject that is too often presented in ten second soundbites on television. Why is the region so important? What have the strategic goals of U.S. Middle East policy been over the last forty years? And how do these goals apply in the current crisis?

The Middle East, as everyone knows, is the source of much of the oil on which the industrialized world and developing nations depend. It is a region of striking contrasts: Vast wealth and grinding poverty; secular radicalism and religious fundamentalism; hatred of the West and emulation of the West. Most importantly, perhaps, the Middle East is caught up in a vast process of change, as ancient societies and cultures strive to adapt to the modern world. This process of adaptation, which entails much turmoil and instability, is what makes the Middle East such an interesting place. Unfortunately, it also makes the Middle East a dangerous place.

Since the onset of the Cold War, the United States has had three strategic objectives in the region. The first objective

was to contain Soviet expansionism. In 1947, the Soviet threat to one regional state, Turkey, played a role in President Truman's decision to issue the doctrine that bears his name. Thirty-three years later, the threat of Soviet encroachment on another region of the Middle East -- the Persian Gulf -- led President Carter to proclaim the equivalent of the Truman Doctrine for the Gulf. The Carter Doctrine, which was also reinforced by President Reagan, warned that, "Any attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force."

But the Cold War is over. And because it is over, because one of America's strategic objectives has been realized, some commentators have assumed that all of our objectives have been realized. They could not be more mistaken. For in addition to containing the Soviets, American foreign policy has traditionally pursued two other strategic objectives in the Middle East. It has sought to prevent any local Middle East power from achieving hegemony over its neighbors; and it has sought to secure the uninterrupted supply of oil at a reasonable price. Let me describe both of these objectives in greater detail.

Today, all the states of the Middle East face a major threat in Saddam Hussein's Iraq. Saddam's ambitions are not confined to Kuwait. Rather, his goal is to dominate the Persian Gulf region and use its vast wealth to become the greatest Arab hero of

modern times, the leader of a new Arab superpower. To that end, he spent some fifty billion dollars on arms imports during the 1980's alone. He has launched two wars of aggression during this period, against Iran and against Kuwait, at a cost of some one million lives -- thus far. He has built the sixth largest military force in the world. He has acquired a sizeable stockpile of both chemical and biological weapons, and is estimated to have employed several thousand tons of chemical agents against Iranians and against his own people -- Iraqi Kurds -- in the 1980's. And he has launched a massive program to acquire nuclear weapons.

The United States opposes Saddam Hussein's bid for regional hegemony for the same reasons that we have opposed other bids. We do not think any government has the right to impose its political will on other countries through subversion or conquest. We do not think Israel's existence, or the existence of other friendly regional states, should be threatened. And, of course, the prospect of Saddam Hussein strutting across the world stage at the head of a malevolent global power, armed to the teeth with weapons of mass destruction, and controlling a large portion of the world's energy supplies, is something no sane person would welcome. That is why we are working to contain Saddam Hussein's bid for hegemony today -- just as we worked to contain other bids for hegemony yesterday.

Of course, no discussion of America's strategic objectives in the region is complete without mention of oil, so let me turn

to that issue now. A key strategic goal of U.S. Middle East policy has been to assure the uninterrupted flow of oil at reasonable prices. This does not mean, as some cynics have suggested, that we are risking war to prevent the price of oil from going up a few cents a gallon. During the Arab oil embargo of 1973-74, and during the 1979 oil price shock that came in the wake of the Iranian revolution, the price of oil went up much more than that. But we never thought of going to war because the price of oil was too high. We were confident that market forces would eventually bring the price of oil down -- and we were right.

We did prepare for all contingencies, however, when the Soviet invasion of Afghanistan, coupled with instability in Iran, brought Soviet forces within striking distance of the Persian Gulf -- hence the Carter Doctrine. For if "any outside force", as the Carter Doctrine put it, could control the flow of Persian Gulf oil it would, as President Bush said, place our independence and way of life at risk. No nation should be willing to tolerate such a state of affairs, just as no individual should be willing to allow anyone to hold a gun to his or her head.

That is why President Carter was willing to commit the United States to preventing a single power -- the Soviet Union -- from controlling the Gulf. And that is why President Bush has dispatched American troops to Saudi Arabia to prevent another power -- Iraq this time -- from doing likewise. Neither President was prepared to jeopardize American security by

permitting, in President Bush's words, "a resource so vital to be dominated by one so ruthless" -- either Leonid Brezhnev of Moscow, or Saddam Hussein of Baghdad.

So far, I have talked about traditional U.S. strategic objectives in the Middle East. But there is another strategic American objective in the current crisis that is not traditional -- that has only emerged, in fact, as a result of the end of the Cold War. This objective might be described as strengthening the foundations of world order. Let me explain what I mean.

When the Cold War was still raging, any regional crisis in the Third World contained within it the seeds of a possible Soviet-American confrontation. That is why, in the Middle East and elsewhere, both the United States and the Soviet Union often made significant efforts to restrain their clients from rash behavior. These efforts were part of the unwritten "rules of the game" that prevented Soviet-American competition from getting out of hand during the Cold War.

With the end of the Cold War, the chances of a Soviet-American clash in any Third World conflict, including the Middle East, have greatly diminished. Unfortunately, so have the traditional restraints that the superpowers used to impose on their regional clients. As a result, unless the U.N. Charter's rules about using force are not reaffirmed and defended fairly quickly, we face the dangerous prospect of a new, post-Cold War world that is actually more anarchic, and more violence-prone, than the world which preceded it.

Iraq's invasion of Kuwait is the first crisis of the post-Cold War world. One way or another, it is bound to set a precedent -- either on behalf of greater world order or on behalf of greater chaos. If Saddam Hussein succeeds in his aggression, it is likely that his success will embolden other dictators to emulate his example. But if he fails -- and believe me, he will fail -- others will draw the lesson that might does not make right and that aggression will not be allowed to succeed.

This is why President Bush has sought to rally the international community against Iraq's aggression. This is why the U.N. Security Council has passed ten resolutions condemning Iraq, and is considering yet another resolution today. This is why scores of nations have agreed to contribute economically or militarily to the joint effort against Saddam Hussein. And this is why twenty-seven nations have sent troops or military materiel to the Persian Gulf. Everyone recognizes that this is a test case. Everyone can see that, beyond America's traditional objectives in the region, what is at stake is nothing less than the shape of tomorrow.

None of these considerations, of course, frees us from the responsibility to proceed carefully. The moral and human implications of war -- any war -- are very grave. No reasonable effort should be spared in the quest for a peaceful solution. That is why, despite the use of American hostages as human shields, despite the outrages against our embassy, despite Iraq's

continued barbarism in Kuwait, we have refrained from military action against Saddam Hussein.

But even as we exercise patience and restraint, we must also be alert to the moral costs of such a course. Consider, for example, the fate of the people of Kuwait. With every day that passes, their plight grows more desperate. Being patient with Iraq allows Saddam Hussein to prolong their agony. Is this a moral course of action?

Or consider the fate of American military personnel in Saudi Arabia. The longer we refrain from action against Iraq, the more time Saddam Hussein has to tighten his grip on Kuwait, and the harder it may be to break that grip, if and when war comes. Does patience today risk greater American casualties tomorrow? And if so, is this a moral course of action?

Or consider Iraq's drive for nuclear weapons. As President Bush told American troops in Saudi Arabia during Thanksgiving, "Each day that passes brings Saddam one day closer to realizing his goal of a nuclear weapons arsenal...And we do know this for sure: He has never possessed a weapon that he didn't use." Will continued patience with Iraq help make the world vulnerable to nuclear blackmail by Saddam Hussein? And if so, is this a moral course of action?

Please don't misunderstand me. I believe that every reasonable effort must be made to resolve this crisis peacefully. I also think that there must be limits to our patience. And those limits are reached when our restraint threatens to

undermine other, equally moral goals. These goals, as I said, include ending Kuwait's agony as soon as possible; minimizing American casualties in the event of war; and preventing Saddam Hussein from adding nuclear weapons to his already formidable arsenal of mass destruction. It is in order to prevent Saddam Hussein from thwarting these goals that the U.N. Security Council is expected to adopt a resolution today endorsing the use of force against Iraq if Saddam does not withdraw his forces from Kuwait.

The challenge the civilized world faces today is very grave. But it is not unprecedented. In 1936, the world faced a rather similar challenge when Adolf Hitler, who had only recently come to power, moved German troops into the Rhineland, in open defiance of the treaties of Versailles and Locarno. British and French leaders faced a major dilemma. To confront Hitler militarily could mean war. Not to confront him meant acquiescing in a cynical breach of international law. What to do?

But while British and French leaders vacillated between their hopes and their fears, one voice rang out loud and clear. On March 13, 1936, Winston Churchill called on the League of Nations to take tough action against German aggression. His words deserve to be quoted at some length:

"If no means of lawful redress can be offered to the aggrieved party," Churchill wrote, "the whole doctrine of international law and cooperation upon which the hopes of the future are based would lapse ignominiously..."

But the risk! No one must ignore it. How can it be minimized? There is a simple method: the assembly of an overwhelming force, moral and physical, in support of international law...If the forces at the disposal of the League of Nations are four or five times as strong as those that the aggressor can yet command, the chances of a peaceful and friendly solution are very good...

The constabulary of the world is at hand. On every side of Geneva stand great nations, armed and ready, whose interests as well as whose obligations bind them to uphold, and in the last resort enforce, the public law. This may never come to pass again. The fateful moment has arrived for choice between the New Age and the Old."

Tragically, most leaders did not see the stakes as clearly as Churchill did. They did not force the issue to a head in the League of Nations. Instead, they acquiesced in Hitler's aggression. When, many years later, Churchill called World War II the "unnecessary war", it was the failure of British and French statesmanship during the Rhineland crisis that he had in mind.

Today, the U.N. Security Council stands poised at an historic juncture not unlike that faced by the League of Nations in 1936. We are hopeful -- indeed, we are confident -- that it will not fail the test. Some will thoughtlessly say that a vote for today's U.N. resolution is a vote for war. We reject this idea. Saddam has shown that he understands no language other than the language of force. Today's U.N. resolution is our last and best hope for peace -- for a genuine peace, not the false peace that is only a prelude to another "unnecessary war."

Thank you, and God bless you.

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THE WHITE HOUSE

WASHINGTON

November 16, 1990

Dear ^F3^,

Enclosed please find a fact sheet, talking points, and a New York Times article detailing the specifics of the recent budget agreement. Since this agreement will shape much of what we can expect to accomplish over the next several months, it would be worthwhile for you to take a look at it and get comfortable with the specifics.

We're also in the process of looking ahead to the winter and spring. I would like your thoughts regarding what themes, issues or initiatives should be addressed, either in the President's State of the Union speech, or more generally in the next 90 days. The State of the Union material is coming together quickly and it would help to hear from you by December 15th. Please direct your responses to Ed Rogers. (For your convenience, our fax number is (202) 456-2397.)

This is important - for all of us - so I hope you will spend some time on it.

I'm asking this very small group to provide this valuable feedback so, please let me know what you think.

Regards,

John H. Sununu
Chief of Staff

^F1^

^F2^

TEN POINTS RE: HALF TRILLION DOLLAR DEFICIT REDUCTION PROGRAM

- (1) Deficit Reduction: The largest reduction program in history -- almost half-a-trillion dollars -- seven times more permanent savings than in the previous record for a reconciliation bill under G-R-H.
- (2) Entitlement Reform: The first comprehensive and substantial reform of mandatory/"entitlement" programs -- about \$100 billion in long-sought savings from:
 - o Farm program reforms;
 - o FHA reforms;
 - o Student loan reforms;
 - o Veterans Program reforms;
 - o Postal subsidy reforms;
 - o Federal Employee benefit reforms;
 - o Medicare reforms.
- (3) Discretionary Program Caps: Five-year caps on overall discretionary spending -- in law, on day one -- bringing total discretionary spending down from 10.7% of GNP in '91 to about 7% in '95.
 - o Automatic "mini-sequesters" -- in law -- to keep domestic and international spending from growing any faster than inflation;
 - o "Nunn levels" for defense to allow orderly defense build-down without threatening national security.
- (4) Credit Reform: a new federal accounting and budgeting system to expose and limit previously hidden (and rapidly growing) liabilities.
- (5) Enforcement and Process Reform: toughest enforcement system ever; Gramm-Rudman extended and strengthened -- with caps, mini-sequesters, credit reform, and pay-as-you-go.
- (6) Energy Security: incentives for both conservation and for exploration and development of domestic energy resources.
- (7) Child Care: a major reform and expansion of child care -- with emphasis on tax credits to people, special credits for children under one, block grants to states, and vouchers.
- (8) Social Security: Social Security fully protected and taken off-budget.
- (9) Tax Changes: A tax rate cut -- from 33% to 31% -- for about 3.5 million middle/upper-middle income taxpayers; an overall decrease in taxes paid by those with incomes under \$20,000; disincentives for consumption of gas, tobacco, alcohol; tax increase for wealthy. Total taxes: 28% of package (versus total outlay reduction: 72%).
- (10) Threats avoided: income tax rate increase; indexing delay; excessive national security hit; sequester; higher interest rates; etc.

The Budget Agreement: Process Reform

- The "categorical sequester" means that for the first time, when a sequester occurs, "the offender pays." From now on, runaway growth in entitlement spending will stop eating away at our ability to invest.

Under the old Gramm-Rudman-Hollings law, when a sequester occurred, regardless of its cause, it applied to all government programs, unless they were exempt. Many of the big entitlements -- Social Security, Medicare, Medicaid, Food Stamps -- were either exempt or largely exempt from sequester. Thus big sequesters were being applied to a narrow base -- which explains why a \$100 billion sequester on a \$1.2 trillion budget would have caused a 38% sequester this year, instead of a 9% sequester. The result was that unanticipated growth in entitlement spending, including the creation of new entitlement programs, caused sequesters that primarily affected appropriated (discretionary) programs -- roads, bridges, universities, environmental protection, the space program, etc.

The budget agreement corrects this imbalance. Under the budget agreement, if mandatory spending is greater than planned because of a program expansion, then *mandatory programs only* will be subject to a sequester. If defense spending is greater than the agreed-to cap on defense, then *defense programs only* will be subject to a sequester. If non-defense discretionary spending exceeds its cap, *non-defense discretionary spending* will be subject to a sequester.

Further, the sequester base has been broadened. A larger proportion of mandatory programs will be subject to a sequester, should it occur.

These two changes will combine to have one important effect: from now on, the sequester will become more realistic, more usable, and more effective.

- **Mandatory entitlement spending will now be subject to a "pay as you go" rule.**

The single biggest area of runaway spending growth in the last 30 years has been in mandatory entitlement spending. It has gone from about 25% of the budget in 1960 to nearly 50% of the budget today. The budget agreement tries to address this unrestrained growth. From now on, any new entitlement

program or existing program expansion must be paid for with either cuts in other entitlement spending or a new revenue source.

- **The budget agreement caps *spending* in the major areas of government -- and not just deficits.**

The President has long believed that spending growth is the principal cause of the deficit. Where the old Gramm-Rudman-Hollings contained deficit targets for each fiscal year, the new budget agreement contains caps on *spending* in the categories of domestic discretionary, international, and defense. This is a much more effective and enforceable tool -- especially for OMB, which will be responsible for scoring the spending associated with appropriations bills and thus determining if a sequester is triggered.

- **The budget agreement gets control over supplemental appropriations.**

Under Gramm-Rudman-Hollings, once the final sequester snapshot is taken at the beginning of the fiscal year, all discipline was removed from the system. There was no effective method, short of a Presidential veto, for the executive branch to control supplemental appropriations and prevent them from becoming "Christmas trees" which sharply increased the deficit. Thus, the experience of the last few years has been that *actual* end of the year deficits have been much higher than *estimated* beginning of the year deficits.

Under the new budget agreement, only supplementals which reflect funding needed for "dire emergencies" -- *as defined by the President* -- are permitted. Thus, the President can now send forward a request for emergency assistance in response to an earthquake or a foreign policy crisis with the confidence that it won't become loaded up with unrelated domestic pork. Any additions to a supplemental beyond the Presidentially defined "dire emergency" would be subject to a Budget Act point of order and would require a supermajority vote to be approved.

- **The budget agreement retains the basic structure of Gramm-Rudman-Hollings for future years.**

One goal of those who advocate more Federal spending was to eliminate the bothersome constraint of Gramm-Rudman-Hollings. Under the new budget agreement, fixed targets (as in Gramm-Rudman-Hollings) are maintained for fiscal years 1994 and 1995. In 1991, 1992, and 1993, a system of categorical sequesters and spending caps applies, with adjustments permitted for various economic and technical reestimates.

- The budget agreement allows the government, for the first time, to begin accurately account for and control its various contingent liabilities.

The budget agreement contains an entire set of provisions related to "credit reform." Until now, when the government guaranteed loans in areas from education to agriculture to power generation, it never recorded any liability until the borrower defaulted. Thus, the government has been carrying and indeed increasing a huge portfolio of risk without any method of recording it. Under the new credit reform package, the subsidy value of these loan guarantees will be scored at the time the loan is made, and reforms will be required to increase the creditworthiness of borrowers and thereby limit the risk to the government.

Substantial Power on Spending Is Shifted From Congress to Bush

Procedure Intended to Guarantee Cuts Are Made

By SUSAN F. RASKY

Special to The New York Times

WASHINGTON, Oct. 29 — Congress has ceded substantial power over spending decisions to the Bush Administration's Office of Management and Budget under procedures approved as part of the \$490 billion deficit reduction package.

The procedures, intended to insure that spending cuts agreed to in the package are made, are a complicated variation on the existing Gramm-Rudman-Hollings balanced budget law. Like that 1987 law, they would require automatic spending cuts if Congress fails to meet its deficit reduction commitments, but there are important differences.

Under the new system, for three years Federal spending is divided into three broad categories — domestic, military and foreign aid — each of which has its own spending cap already agreed to by lawmakers and the White House. Rather than subject the entire budget to automatic spending cuts if a particular deficit target is not met each year, the new system imposes automatic spending cuts only in the category where a breach has occurred.

Something for Everyone

Therefore, cuts in military spending could not be used to offset overruns in domestic programs. If Congress should decide, for example, that housing programs need more Federal dollars, the money would have to come from other domestic programs. Under the old law, the money could come from military spending, so long as the overall deficit target was met.

Politically, the new budget process provides something for everyone. The sponsors of the original budget-balanc-

ing bill get to say that it is not dead. The Democrats are liberated from thinking about deficit targets that can sometimes be arbitrary. And the Administration can say it has put into place a true enforcement mechanism.

Under current budget procedures, the Congressional Budget Office and the Joint Committee on Tax, Congress's in-house budget experts, are responsible for the estimates of how much a particular spending program will cost or how much a particular tax increase will provide in new revenue. But the new rules leave these decisions largely in the hand of the Administration.

"It may sound like green-eyeshade stuff," said a senior aide on the Senate Budget Committee, "but you're talking about potentially billions of dollars in how the costs of these programs are figured."

In addition, the Office of Management and Budget will be the agency deciding whether on nuclear power, for example, research is a military program or a domestic one. Including it under the domestic cap would leave less money for domestic programs and provide leeway for military programs.

Similarly, on the question of taxes, if the Congressional tax-writing committees decide they want to cut the Social Security tax, it is the Office of Management and Budget that will decide how much money need be raised elsewhere to offset such a cut.

If a breach occurs, O.M.B. would dictate how much be cut, and Congress would have to comply within 15 days.

"I don't think people realize just how

Continued on Page A22, Column 1

Decisions on Spending Shift to the Administration

Continued From Page A1

much power has been shifted from one end of Pennsylvania Avenue to the other," said one senior Congressional aide involved in the negotiations on the new enforcement rules. Democrats promoted the changes as a way of warding off the White House insistence on a line-item veto, he said, adding: "but I think we may find that in a subterfuge sort of way the White House actually got what it wanted."

In the new process, new Gramm-Rudman deficit targets for each of the next five years will remain on the books. But Congress will no longer be responsible for achieving these largely arbitrary numbers that can change by billions of dollars in the course of a year. Instead, Congress will be responsible for meeting what lawmakers regard as much more concrete objectives — the spending caps in each of the three budget categories.

Rudolf G. Penner, a former director of the Congressional Budget Office, said the new enforcement system is far more practical than the across-the-board cuts stipulated under the Gramm-Rudman-Hollings law.

"The problem with Gramm-Rudman is that it was too severe," he said. "That's why we never had a full-fledged sequester," the automatic spending cuts.

"I can imagine, however, how this could work," Mr. Penner said. "The new rules are subject to accounting gimmicks, too, but there should be less incentive for it."

Allen Schick, a professor of public policy at the University of Maryland and an author of the 1974 legislation that created the framework for the current budget system, is less convinced. The problem, he said, is that the new procedures take aim at the wrong part of the budget and do not address the rapidly growing entitlement programs, which provide benefits to anyone who meets the criteria. These programs, like Social Security and Medicare, account for an increasing share of overall Federal spending.

Under the new procedures, entitlement programs will be subject to a "pay as you go" system, requiring Congress to offset any additional benefits it may want to provide with cuts elsewhere in entitlement programs. Given the difficulty that lawmakers had this year in finding ways to restrict the growth in Medicare and the refusal to even consider limiting the growth of Social Security, many in Congress worry that it will be impossible to make any fundamental changes in entitlement programs.

Senator Phil Gramm, the Texas Republican who was one of the authors of the Gramm-Rudman-Hollings law, said he remains hopeful. "It may be that we can now start having the kind of debates on real policy that we have not been able to have," he said. "I think the next few years are going to be very interesting."

For Democrats who are already concerned that the spending caps for mili-

tary programs and foreign aid were set too high, there will be an opportunity to adjust the system for the 1994 fiscal year, which begins Oct. 1, 1993. Under the enforcement system, the final two years of the budget agreement stipulate that spending for the military, foreign aid and domestic programs be consolidated under a single cap. This will permit lawmakers to reallocate money among the three divisions.

"We're almost certainly going to have to rethink everything after 1993," the Democratic budget strategist said.



8/10/90

CHIEF OF STAFF TO THE PRESIDENT

I thought the attached would interest you.

John W. Sumner

August 8, 1990

THE S&L CRISIS: MAJOR ADMINISTRATION ACCOMPLISHMENTS

Eighteen days after taking office, President Bush stepped forward with a comprehensive solution to the S&L crisis. In the year since the Congress passed his legislation, the Financial Institution Reform, Recovery, and Enforcement Act (FIRREA), significant progress has been made.

1. The Depositors Have Been Protected.

- o All federally insured depositors have been protected against loss.
 - Six million accounts, representing the savings of millions of American families, have been made whole.
 - Depositors have received protection on \$62.8 billion of deposits that would have experienced losses without federal deposit insurance.
 - The average account protected is about \$10,000.
- o The integrity of the deposit insurance system has been preserved.
 - No insured saver has lost a dime due to the failure of a federally insured savings and loan.
 - The U.S. Government is standing behind its commitment to protect the federally insured savings of Americans.
 - Confidence in the Government's guarantee remains strong.
 - The Government's commitment and the resulting public confidence have kept the financial system operating continuously and efficiently.

2. The System Has Been Reformed.

- o Savings and Loans now have higher, more stringent capital requirements.
 - Real capital requirements have been put in place to require thrift owners and operators to give greater protection to depositors and put more of their own money at risk.

- The key reform in FIRREA -- requiring standards for genuine and substantial capital invested by owners of thrift institutions -- has been implemented.
- o Regulatory oversight has been tightened.
 - The regulatory function has been isolated from the depositors' insurance fund to provide greater protection and objectivity.
 - The thrift examiners have been absorbed by the Office of Thrift Supervision and placed under the general oversight of the Treasury Department.
 - The thrift insurance funds -- Federal Savings and Loan Insurance Corporation (FSLIC) and the Savings Association Insurance Fund (SAIF) -- have been brought into the Federal Deposit Insurance Corporation (FDIC).
- o High risk thrift investment practices have been curtailed.
 - Most thrifts that are insolvent and losing money have been identified and placed in conservatorship, or resolved, while protecting depositors.
 - 220 institutions have entered into binding agreements to alter high risk banking practices (a total of 664 in the past three years).
 - The lending activities of thrifts have been refocused on the business they know best-- residential mortgages -- and credit is granted based on economic merit, rather than speculative risk.
 - Thrifts can no longer engage in direct real estate or equity investment without 100 percent capital, and junk bond investments have been prohibited.

3. Unsound Institutions Are Being Cleaned Up Expeditiously.

- o Insolvent institutions have been taken over.
 - The RTC has taken over 472 insolvent thrifts, more than one per day.

- 211 bankrupt S&Ls have been closed or sold. In the latest quarter, 155 institutions -- or a dozen per week -- have been shut down.
- o The cost to the taxpayers is being minimized.
 - The Resolution Trust Corporation (RTC) began business the day the legislation was signed. In less than a year, the Government created the largest financial institution in the country, which involved enormous efforts to staff and to develop appropriate policies and procedures.
 - The assets of the RTC are being liquidated in the most prudent manner to maximize return to the taxpayers by proceeding quickly but in a manner so as to avoid disrupting real estate markets.
 - Regional advisory boards have been established to provide guidance to the RTC on local real estate conditions and aid in maximizing value recovery.

4. The Individuals Responsible Are Being Penalized.

- o Those who engaged in criminal activity are being prosecuted.
 - Since October 1988, the Justice Department has indicted over 328 people involved in fraud and other criminal activity.
 - 231 people have been convicted and ordered to pay \$56.6 million in restitution.
 - Over three-quarters of those sentenced have received prison terms running as high as 30 years.
- o Criminal enforcement capabilities have been strengthened.
 - An incremental \$50 million has been appropriated to prosecute S&L crimes.
 - 148 additional Federal prosecutors have been hired.
 - The FBI has added over 200 new agents to investigate S&Ls.

TREASURY NEWS



Department of the Treasury • Washington, D.C. • Telephone 566-2041

Embargoed Until 1:00 p.m.
August 8, 1990

Remarks by
Secretary of the Treasury
Nicholas F. Brady
at the
National Press Club

One year ago tomorrow, President Bush signed legislation providing funds to protect insured depositors in insolvent savings and loans and setting tough new rules to ensure safety and soundness in the thrift industry. The enactment of the depositor rescue bill culminated seven-and-a-half months of work by the Congress based on a plan submitted by the President just 18 days after his inauguration.

Now, one year later, the job is getting done. But make no mistake: The problem is immense and the solution is not painless. A problem that was decades in the making cannot be eradicated in one year. But there is tangible progress to report.

However, it's evident to even the most casual observer that the S&L issue has become highly politicized. The staggering size of the cost estimates understandably alarms taxpayers and frightens politicians into finger-pointing and blame-avoiding. The line in the political world goes, "Since I don't make mistakes, someone else must be making them."

But we in the Administration cannot afford that luxury. Our job is to conduct the massive cleanup operation effectively and responsibly, to rise above the political blame-game, and to work steadily and professionally and get the job done. This is what the taxpayers expect, and it is what they deserve. A thousand words of political sophistry will not get the job done; only hard work applied with sound principles will do so. At any rate, that is exactly what we are doing.

In all the political turmoil that surrounds the S&L cleanup, we must not lose sight of the person whose investment we are protecting: the average American saver who put his savings in an S&L -- a wage earner or a retired person with perhaps just a few thousand dollars -- someone who would have no way of recovering from the loss if his or her thrift institution went broke. But the truth of the matter is S&Ls did go broke. Millions of

depositors stood to lose their money, but federal deposit insurance made sure they got their money back. It is for these savers that the government has insisted that this problem, no matter how unpleasant, must be faced, not swept under the rug.

Let me say again, the President presented legislation 18 days after inauguration: No obfuscation, no caving in to industry pressure. He presented the straight story, governed by four principles:

- o First, make sure that the millions of men and women who put their savings into insured thrifts get their money back. No TV shots of people sleeping on cots overnight outside of defunct thrifts, begging to get back their money which should be returned quickly and with a smile.
- o Second, restore safety and soundness to the thrift industry through tougher regulations. Make the entrepreneurs put up real money, so that if there are future losses, they, the owners, lose money long before the taxpayers. This is key. It has and it will change the mindset of S&L management as it operates in the future.
- o Third, close down and sell insolvent thrifts swiftly and efficiently so that taxpayer costs are minimized. No explanation needed here. Don't waste time on the blame game: Just do it.
- o And fourth, aggressively prosecute the criminals and fraudulent operators who stole the taxpayers' money. Hard time for hardened criminals.

These principles were established as a result of a detailed study made in late 1988. It took several months of pick and shovel work to understand how these massive losses were incurred. Our belief was that the facts would lead us to the solution. They did. And the President's legislative proposal in February 1989 put these issues squarely before the Congress.

Perhaps a short history of the industry's problems would be helpful. The early S&L charters restricted activities to fixed-rate, long-term mortgage loans and the acceptance of short-term deposits. This meant that whenever market interest rates rose, thrift institutions had to pay higher interest on their deposits than they received on average from their loans.

The Congress attempted to correct this problem in 1966 by placing a ceiling on the interest rates that banks and thrifts could pay. But in the late 1970s, when inflation and interest rates soared, depositors pulled their money out of banks and

thrifts in favor of investments paying higher market interest rates. Portfolio values declined, operating losses mounted, and a substantial portion of the industry became insolvent.

In 1980, Congress passed and President Carter signed legislation phasing out deposit interest rate ceilings, increasing deposit insurance from \$40,000 to \$100,000, expanding the ability of thrifts to move away from home mortgages and engage in commercial lending, and lowering capital requirements for thrifts. Thrift regulators built on these congressional actions by allowing brokered deposits and loosening other restrictions on thrift operations, hoping thrifts could attract more deposits, make high-return loans, and thereby grow out of their problems.

In 1982, Congress passed legislation further expanding the ability of thrifts to make commercial loans, and at the same time several states broadly expanded the permitted activities of state-chartered thrifts that were supervised primarily by state regulators but were eligible for federal deposit insurance. Attempts by federal regulators to curb abuses by state-chartered savings associations were discouraged by Congress.

The combination of higher federal deposit insurance protection and brokered deposits did in fact give thrifts increased access to a large pool of funds. However, the broader authority for thrift lending encouraged riskier investments. Many thrift operators schooled in handling home mortgages were ill-equipped to engage in the new job of complex commercial transactions. In addition, the cut in capital requirements for operators reduced the entrance fee, opening the way for shoe-string characters who stepped in to exploit the situation for personal gain. With low capital requirements and federal insurance, thrift operators were effectively granted a license to gamble with the taxpayers' money. Heads they win; tails the government loses.

In 1984, the task force on financial regulation headed by Vice President Bush recommended higher capital standards for S&Ls which made risky loans and the elimination of misleading accounting standards. These principles were later incorporated in the FIRREA legislation.

Finally, sharp declines in oil prices and weakness in the agricultural sector contributed to devastating economic declines in the southwest and other regions. Real estate values in those areas headed downward. Large numbers of thrifts that had invested in commercial real estate and other ventures became insolvent -- particularly in the states where state thrift charters were most lax. Federal deposit insurance was required to back inadequately regulated state thrifts, and the merry-go-round was on its way.

When the FSLIC insurance fund ran low because of numerous thrift failures, the Reagan Administration requested \$15 billion to recapitalize it in 1986. The House at first voted only \$5 billion before finally agreeing in conference with the Senate, 18 months later and after a threatened veto, to authorize \$10 billion -- one-third less than requested. Congress also added "forbearance" provisions sought by the thrift industry which forced regulators to allow thrifts to stay open without adequate capital. The condition of the thrift industry continued to worsen.

Faced with failing thrifts and no cash, FSLIC sold a large number of insolvent institutions in 1988 by granting terms because of the lack of funds. These deals, which are currently being reviewed by the RTC, added onto taxpayers additional future obligations.

As President Bush took office, it was apparent that we faced a worsening situation. Hundreds of thrifts had made high-risk loans backed by taxpayer guarantees but little of their own capital. When those loans went bad, the thrifts failed. Mismanagement, fraud and criminal activity exacerbated the problem in many institutions. The inadequately recapitalized FSLIC fund did not have sufficient funds to handle the crisis.

Certain principles can be drawn from this history, and these were incorporated into President Bush's proposal and the FIRREA legislation.

First, the government's deposit insurance guarantee must be honored, whatever the cost. Based on the best information available from the FDIC, GAO, and Federal Home Loan Bank Board, the size of the problem was projected to be \$40 billion to cover deals, the 1988 FSLIC, \$50 billion to resolve then-insolvent institutions over the ensuing three years and another \$23 billion (in present value terms) to fund future thrift failures through 1999.

A year after FIRREA, the government's promise to depositors is rock-solid. The government has paid out \$62.8 billion to protect 6,400,000 accounts -- an average of less than \$10,000 per deposit. Not one single American who trusted in the government's promise to protect his savings has seen that promise violated. To this day, each and every deposit of up to \$100,000 in a federally insured institution remains totally safe -- fully backed by the absolute guarantee of the federal government.

However, as the RTC has gained specific experience, Chairman Seidman has indicated that the costs will be higher than originally estimated. The value of the assets held by insolvent thrifts turned out to be lower than anticipated, and as everyone in this room knows, the real estate markets continued to worsen.

Based on the RTC's actual results and the current state of the real estate markets, I presented to Congress a new range for the total cost of the RTC cleanup: \$90 to \$130 billion in present value terms. These figures include the \$73 billion already authorized by Congress, but not the cost of the 1988 FSLIC deals.

A word of warning as we go forward: No one can be precise about the exact cost of the cleanup. It depends almost entirely on the state of the real estate market at the time the RTC sells the assets it has taken over.

Where is all the taxpayer's money going? It's being used to pay off depositors whose money was lost or stolen by thrift operators who made unwise investments or engaged in fraudulent deals. Clearly, the conditions that allowed this to occur had to be rectified.

That, in fact, was the second principle advanced by the President: To ensure the safety and soundness of the industry, thrift operators must be required to place their own money at risk ahead of the taxpayers', and regulators must be given a stronger hand.

Specifically, the Administration recommended that thrifts be required to meet much tougher capital and accounting standards. Only truly sound institutions should be permitted to continue operating with the federal deposit insurance guarantee.

Following intense debate in Congress over capital standards, the thrift industry position was narrowly defeated and the Administration's tough capital and accounting standards were adopted in FIRREA.

The new law also requires thrifts to maintain 70 percent of their assets in residential real estate and restricts risky investments. Junk bonds, for example, are prohibited and brokered deposits are not permitted for undercapitalized thrifts. Direct real estate or equity investment must be backed by 100 percent capital. And state-chartered thrifts that do not meet these federal requirements can be denied federal deposit insurance.

The practices which led to the thrift disaster have been largely eliminated and the new Office of Thrift Supervision in the Treasury Department has entered into binding agreements with 220 thrifts terminating unsafe and unsound practices. We are

also nearing the final stages of an 18-month effort to assess the overall competitiveness of our financial services system within the context of the deposit insurance study mandated by FIRREA.

The third principle that guided the Administration was that delay in closing down insolvent thrifts would only lead to increased costs later. The Administration therefore determined that we would move quickly to take over insolvent thrifts.

Within a matter of a few months following the enactment of FIRREA, the RTC assembled a financial organization the size of Citibank with more than 3,000 people given the mission of aggressively tackling the thrift cleanup. At the end of the first year, an impressive record of accomplishment has been achieved.

The RTC has taken over 472 insolvent thrifts, more than one per day. It has closed or sold 211 bankrupt S&Ls, one every 48 hours. And the RTC has sold or liquidated more than \$73 billion worth of assets, \$200 million per day. Just last week, the RTC announced plans to dispose of an additional \$50 billion in assets this year. We have been encouraging the RTC to move even faster.

Bill Seidman and the RTC face a tough and thankless job. No matter how well they do, there is no way to do the job perfectly and there will be criticism. But this will be the case whether they move quickly or slowly, so the decision was to get on with it, construct an industry with sound thrifts, and lower the cost of funds to the healthy portion of the industry.

The fourth principle was that tougher penalties and more aggressive prosecution of criminals were needed to deter similar crimes in the future. The Administration proposed and Congress enacted tougher civil penalties -- up to \$1 million per day -- and 20-year jail sentences for S&L fraud.

More recently, the President requested important new authorities, including wiretapping, the ability to seek court orders to freeze the corporate and personal assets of civil defendants and prohibitions on the use of bankruptcy to avoid federal recoveries of assets.

Since October 1988, the Justice Department has obtained 231 convictions for major cases of S&L fraud. In addition, the FBI is currently conducting 530 investigations of fraud in failed banks and thrifts -- an increase of 88 percent from 1987. And settlements and judgments from civil cases during the first half of 1990 will produce recoveries in excess of \$200 million.

Let me review: Protect the depositor. Restore safety and soundness to the industry. Clean up the insolvent institutions. And prosecute the criminals.

A year after stepping forward to tackle this huge task, there are substantial specific accomplishments. The job is getting done. And we will continue to work efficiently and professionally until the job is complete.

Thank you.



Department of Justice

FOR IMMEDIATE RELEASE
TUESDAY, AUGUST 7, 1990

CRM
202-633-2007
(TDD) 202-514-1888

TEXAS S&L EX-BOARD CHAIRMAN INDICTED ON FRAUD CHARGES

BEAUMONT, Texas -- The Department of Justice today announced that Alan Ross Rothery, a California attorney and former chairman of the board of Trinity Valley Savings and Loan Association (Trinity Valley), has been indicted by a federal grand jury on charges of embezzling over \$4 million from the institution from September 1985 to April 1987.

The 31-count indictment, which was returned and sealed on August 2, 1990, is the result of an 18 month investigation by the Beaumont office of the FBI and U.S. Attorney for the Eastern District of Texas, Robert J. Wortham.

In Washington, Attorney General Dick Thornburgh praised U.S. Attorney Wortham and the FBI agents, "who have spent countless hours fitting together the jigsaw puzzle of evidence that led to the indictment."

Thornburgh also acknowledged the cooperation and work of the Office of Thrift Supervision (OTS) for its criminal referrals related to Trinity Valley and its follow-up assistance during the FBI investigation.

(MORE)

"The alleged scheme whereby Rothery acquired ownership of Trinity Valley and manipulated the institution's loan proceeds to satisfy his own greed, is a textbook example of criminal fraud in our nation's thrift industry," Thornburgh said.

"If we are to begin to restore the public trust in our thrift institutions, law enforcement must continue its methodical, but unrelenting, approach to investigating and prosecuting those responsible for criminal fraud in the collapse of our savings and loan industry," the Attorney General said.

OTS Director Timothy Ryan, added, "It is significant that the Justice Department has obtained yet another indictment in one of the 'Top 100' criminal S&L fraud cases. Federal banking regulators will continue to support the effort to bring to justice those who abuse their public trust."

Rothery is charged with 30 counts of bank fraud, self-dealing, misapplication of bank funds or embezzlement, and giving false information to a federal bank examiner.

U.S. Attorney Wortham said, "The fact that Trinity Valley is in a small town shows that no area or community is safe from savings and loan predators. There is no quick fix to the problems of our savings and loan industry. The solution, quite simply, lies in the pursuit of time consuming investigations and prosecutions by dedicated agents, auditors, and federal prosecutors."

(MORE)

Upon obtaining majority ownership of the stock of Trinity Valley, Rothery operated a wholly-owned subsidiary of the institution in Los Alamitos, Ca. where the bulk of the Texas deposits were loaned out in various real estate ventures.

Losses to the government from Trinity Valley insured deposits and speculative loans are expected to be approximately \$33 million.

The indictment also alleges that Rothery made false statements to a federal bank examiner inquiring into the acquisition of Trinity Valley.

Ten counts of the indictment allege that Rothery received the benefits of loans made by Trinity Valley to entities that he controlled as well as receiving broker's commissions on the loan transactions.

Twelve additional counts of the indictment allege embezzlement and various misapplications of Trinity Valley funds for Rothery's benefit.

The indictment further alleges that Ca. real estate developer John Coughlan, Jr. and his brother Errol Coughlan, of Long Beach and Malibu respectively, aided and abetted the fraudulent diversion of funds loaned by Trinity Valley to their partnership, E & J Medical Properties, to benefit Rothery in his acquisition of the Texas savings and loan.

(MORE)

They also are charged with making false statements on their loan applications to the association as well as another bank fraud scheme to divert funds to their own use.

Additionally, in an unrelated investigation, both John and Errol Coughlan were indicted by another federal grand jury on July 24, 1990, in Los Angeles, Ca., on 17 counts of mail and wire fraud involving schemes to defraud various financial institutions around the country.

The maximum punishment on each count, upon conviction, is five years imprisonment and a \$250,000.00 fine.

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90-320

THE WHITE HOUSE

WASHINGTON

July 30, 1990

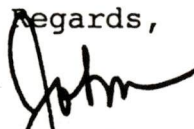
Dear Bob,

The attached provides an excellent chronology of events and makes very strong talking points.

I'd really appreciate it if you'd take a few minutes to read through it.

Thanks!

Regards,

A handwritten signature in black ink, appearing to read "John", written over the typed name.

John H. Sununu
Chief of Staff

Mr. Robert Teeter
880 Colliston Road
Ann Arbor, Michigan 48105



THE DEPUTY SECRETARY OF THE TREASURY

WASHINGTON

July 28, 1990

The Honorable John Ashcroft
Governor of Missouri
State Capitol
Jefferson City, MO 65101

Dear Governor Ashcroft:

This is in response to your request for information regarding the origin of the savings and loan crisis.

This is a question which the Administration, academicians, economists, and the Congress have been exploring for some time. The Treasury Department is pleased to share our information with you because we believe it is important that as many people as possible have a thorough understanding of the events which began long ago and led to the current crisis.

The savings and loan industry was created in the early 1930's through charters which restricted their activities to fixed-rate, long-term mortgage loans and the acceptance of short-term deposits. Without a diversified portfolio, thrifts were, from their very inception, particularly vulnerable to the "ups and downs" of the real estate market and any substantial increases in interest rates. Because the interest rates these savings and loan institutions charged were primarily locked into long-term residential mortgage loans, significant increases in market rates meant thrift institutions would likely be paying out more in interest to depositors than they were receiving in interest payments from loans.

In 1966, Congress attempted to address the industry's particular vulnerability to increasing interest rates by creating "Regulation Q." This regulation imposed ceilings on the amount of interest that S&Ls could pay on deposits. But as market interest rates increased, depositors who had their money in low-rate S&L accounts began to take their money out of S&Ls and put their savings in other financial instruments, which were paying market interest rates (higher than S&L rates). S&Ls were then faced with massive deposit outflows, while their assets were primarily tied up in long-term, fixed-rate, low-interest mortgage loans.

In the late 1970's, inflation and interest rates soared, and eventually the prime interest rate skyrocketed as high as 21 percent. The combination of high inflation and high interest rates, along with Regulation Q, put extreme financial pressure on the thrift industry. During the period 1978-80, thrifts suffered significant declines in deposits, and their capital positions deteriorated to the point where a substantial part of the industry was bankrupt on a mark-to-market basis.

In 1979, President Carter formed a special Task Force to study the problem. The Task Force recommended deregulation. In 1980, President Carter proposed, and the Congress passed, the Depository Institutions Deregulation and Monetary Control Act (DIDMCA). The principal features of that Act included:

- Providing for the phased elimination of Regulation Q, allowing thrifts to attract more deposits with higher interest rates.
- Increasing deposit insurance from \$40,000 to \$100,000 per account.
- Expanding the ability of federally-chartered thrifts to engage in commercial lending, including commercial real estate loans.
- Lowering capital requirements for thrift institutions.

The huge increase in deposit insurance coverage -- a leap of 150 percent -- increased the U.S. Government's liability should an institution fail.

In another significant decision in 1981, the Federal Home Loan Bank Board (FHLBB), an independent regulatory agency, loosened restrictions on the ability of S&Ls to use brokered deposits. This provided S&Ls with new access to large pools of money formed by aggregated deposits. In 1984, the FHLBB reversed itself and proposed regulations limiting the use of brokered deposits. When the courts overturned the FHLBB regulations, Congress refused to provide the authority needed for FHLBB to proceed with the regulations.

Higher interest rates caused more thrifts to become unprofitable and seriously depleted their capital, but they were allowed to stay in business. Thrifts with low capital had a perverse incentive to make riskier investments in order to gain higher returns. Any profits from the riskier investments could be used to shore up their capital, while any losses from these same investments would be covered by the higher insurance coverage. Huge pools of money -- made available through brokered deposits and deposit insurance -- added to the motivation for thrift operators to expand their risk of loss.

However, even with interest rate deregulation, increased deposit insurance, and brokered deposits, thrifts continued to struggle because the bulk of their assets were still held in low-interest mortgage loans.

In response, Congress passed the Garn-St Germain bill in 1982. The bill allowed federally-chartered thrifts to become more like banks and further expanded authority granted in the 1980 act to make commercial loans. It also continued the 1980 practice of lessening capital requirements. Many believed these actions were necessary in order for thrifts to make higher returns on investments to offset lower returns on mortgage loans. Prior to the passage of Garn-St Germain, states began to greatly broaden the powers of state-chartered, but federally-insured, thrifts to make direct equity investments in speculative ventures, from windmill farms to precarious real estate developments.

As early as 1984, the FHLBB attempted to curb abuses by state-chartered savings associations. The FHLBB was opposed by many in Congress, and in particular by the House of Representatives. For example, in 1985, a resolution calling on the FHLBB to delay its tighter regulation of direct real estate and equity investment by state-chartered institutions was co-sponsored by over one-half of the House of Representatives. In 1987, amendments in the House Banking Committee to regulate these aggressive real estate practices of state-chartered institutions were defeated by overwhelming margins.

Now S&Ls could attract more deposits because they could pay higher interest rates on those deposits, offer higher insurance levels, and attract depositors from across the country. And thrift institutions, particularly state-chartered thrifts, could invest those deposits in highly risky ventures, particularly commercial real estate ventures. And all the time, the U.S. Government's promise to insure every depositor's savings up to \$100,000 kept looming as a larger and larger potential liability.

In 1984, then-Vice President Bush led an Administration task force on regulation of financial services. The task force recommended comprehensive reform of the regulatory system:

- Higher capital and accounting standards for S&Ls making riskier loans and elimination of phony accounting standards. (The task force report noted that low capital levels encouraged insured institutions to engage in high-risk speculative activities.)

- More effective regulation through the elimination of archaic and overlapping regulatory structures.
- Strengthened ability for the FDIC to oversee deposit insurance, and authorization for FDIC to institute risk-based insurance premiums. (The task force report noted that the current flat-rate premium system forced prudently managed institutions to subsidize high risk institutions.)

The task force recommendations were endorsed by the Reagan Administration's Cabinet Council on Economic Policy in 1985 and forwarded to the Congress.

Meanwhile, sharp declines in oil prices and weakness in the agricultural sector contributed to devastating economic declines in certain regions, particularly the southwest. Real estate values plunged. Large numbers of thrifts that had invested in commercial real estate and other ventures became insolvent, requiring deposit insurance protection from the federal insurance (FSLIC) fund. When the FSLIC insurance fund ran low, the Reagan Administration requested \$15 billion to recapitalize FSLIC in the spring of 1986.

The request encountered strong opposition on Capitol Hill. Some Members of Congress feared that providing \$15 billion in deposit insurance funding would encourage S&L regulators to close down more unsafe institutions. The savings and loan industry forcefully lobbied the Congress in opposition to this legislation, and it was killed at the end of 1986.

Finally, in 1987, Congress passed a bill which provided \$10.8 billion for recapitalization of the insolvent FSLIC -- a year and a half after the Administration requested \$15 billion. The final amount authorized was only two-thirds of the amount requested by the Administration. In addition, Congress added forbearance provisions making it harder for regulators to close down high-flying S&Ls. Specifically, those provisions permitted additional questionable accounting techniques which allowed thrifts in trouble to make their levels of capital look better than they were. They also allowed thrifts to count "goodwill" toward meeting capital requirements.

The delay in funding the FSLIC prevented regulators from closing insolvent institutions when the cost of protecting depositors would have been much less. Instead, the problem continued to grow, and so did the U.S. Government's liability to make good on its promise of insurance coverage for deposits.

In February 1989, just 18 days after taking office, President Bush proposed a comprehensive and permanent solution to the savings and loan industry crisis -- The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Four principles have guided the Administration in developing and implementing the savings and loan cleanup effort:

- Protecting the savings of Americans who made deposits in thrift accounts, relying on the U.S. Government's promise of deposit insurance.
- Restoring safety and soundness to the thrift industry, especially through tougher capital requirements.
- Aggressively prosecuting the crooks who stole the taxpayers' money through fraud and mismanagement.
- Cleaning up the S&L mess as expeditiously and responsibly as possible.

After seven months of debate, Congress passed FIRREA, and President Bush signed the bill into law on August 9, 1989.

FIRREA provided not only the initial funds for remedying the current crisis in the industry and protecting depositors' savings, but the legislation also put into place the mechanisms needed to prevent similar occurrences in the future.

With these protections in place, as well as additional provisions proposed by the Administration to enhance the Government's ability to prosecute those guilty of financial fraud and mismanagement, we believe we have the basic framework necessary to clean up the savings and loan crisis in an expeditious and responsible manner.

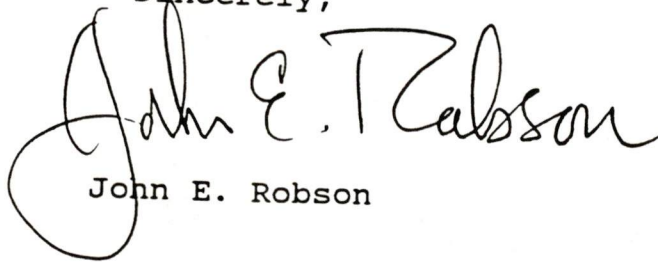
In the year since FIRREA was enacted, the government has paid out \$62.5 billion in deposit insurance obligations, representing 5.8 million accounts -- about \$10,000 per account. The RTC has seized 463 insolvent thrifts -- more than one per day; closed or sold 211 bankrupt thrifts -- one every 48 hours; and sold or liquidated more than \$65 billion of assets -- \$178 million per day. By moving expeditiously and responsibly to quarantine sick thrifts, the Administration has stemmed the losses and given the healthy segment of the industry an opportunity to succeed.

Since October 1988, the Justice Department has obtained more than 200 convictions for savings and loan fraud. Settlements and judgements from civil cases during the first half of 1990 will produce recoveries in excess of \$200 million.

Let me reiterate that the purpose of the cleanup effort is not to bail out financially unsound S&Ls or S&L executives responsible for the crisis. The sole purpose is to protect the savings of those Americans who have insured deposits in savings and loan institutions. The U.S. Government made a promise to insure those deposits, and the Government is now living up to that promise.

We hope this is useful in tracing the causes of the thrift crisis and describing the considerable progress made under FIRREA to address the problem and prevent its recurrence.

Sincerely,

A handwritten signature in cursive script that reads "John E. Robson". The signature is written in dark ink and is positioned above the printed name.

John E. Robson