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THE WHITE HOUSE  
WASHINGTON

- ① Routine Acknowledgment, sending the file then to USDA for a DRAFT response so there can be a further, substantive reply
- ② NOTE: Sen. Lugar requests a meeting with Jim Baker to discuss these matters

THE WHITE HOUSE  
WASHINGTON

Lugar, Richard G.  
Interview page 12

October 12, 1982

Dear Dick:

I want to thank you for your letter regarding legislation to guarantee the sanctity of export contracts, and for the copy of S. 2357.

We are looking into the issues raised by such legislation, and I hope to be able to send you a more detailed response in the near future. Perhaps we can also discuss it at that time if you wish. In the meantime, I appreciate having your thoughts on the subject.

Sincerely,



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

The Honorable Richard G. Lugar  
United States Senate  
1113 Dirksen Office Building  
Washington, D. C. 20510

RICHARD G. LUGAR  
INDIANA

1113 DIRKSEN OFFICE BUILDING  
WASHINGTON, D.C. 20510

INDIANA OFFICE:  
46 EAST OHIO STREET, ROOM 447  
INDIANAPOLIS, INDIANA 46204

## United States Senate

WASHINGTON, D.C. 20510

COMMITTEES:  
AGRICULTURE, NUTRITION, AND FORESTRY  
BANKING, HOUSING, AND URBAN AFFAIRS  
FOREIGN RELATIONS  
SELECT COMMITTEE ON INTELLIGENCE

September 8, 1982

The Honorable James Baker, III  
Chief of Staff and Assistant  
to the President  
The White House  
Washington, D.C. 20500

Dear Jim:

As I am sure you know, the U.S. farm economy is in very bad shape. An article in last week's Post, for example, reported that farm income has fallen to its lowest level since 1933. As you know, too, agricultural exports represent the only way to remedy this situation without substantial federal expenditures.

I have enclosed for your consideration a copy of S. 2357. This is one of several pieces of proposed legislation which all work in the same direction: to guarantee the sanctity of export contracts. Several weeks ago I chaired a hearing in the Banking Committee on this legislation and the reaction from farm groups and grain traders was extremely favorable. Every witness expressed the thought that legislation of this kind would help to reverse declining farm prices.

I know that no President wants restrictions on his foreign policy powers. If, however, there were a prospect of getting the President's support for the concept embodied in this legislation, perhaps we could work out a "national security exemption" which would provide enough flexibility for the President to feel comfortable.

It is my understanding that other sponsors of contract sanctity legislation will attempt to attach this proposal to legislation on the Senate floor, perhaps the Debt Ceiling Bill. I have no doubt that the President could sustain his opposition to a measure of this sort. But I believe that it would be enormously helpful to the President, to representatives from agricultural states, and to the farm economy for him to support it.

What we need is something which can assist the farm economy without spending substantial sums of money to continue or even to expand programs which perpetuate the problem. The kind of legislation which I have proposed does not cost the Treasury anything. It is supported strongly by agricultural groups, and I believe would secure support from other groups like the National Governors' Association, the Chamber of Commerce, the National Taxpayers Union, and so forth. Since the President has

The Honorable James Baker, III  
September 8, 1982  
Page Two

indicated he has no intention of imposing an agricultural embargo, strong support for this kind of legislation would offer important reassurance to farmers about Republican leadership. I would appreciate the opportunity to speak briefly with you about this in the near future. Thank you for your consideration. With best wishes.

Sincerely,

A handwritten signature in cursive script, appearing to read "R. Lugar".

Richard G. Lugar

RGL:jbr

Lugar, Richard G.

THE WHITE HOUSE  
WASHINGTON

March 17, 1982

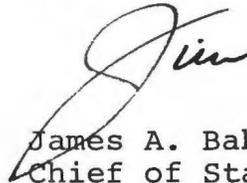
Dear Dick:

I appreciate the information you forwarded on your proposal to assist the housing industry, and also your courtesy in giving us advance notice of your intentions in this area.

As you know, we share your concerns about the problems besetting the housing industry; it was this concern that led the President to set up a special task force chaired by Secretary Pierce to study options for short-term help to the industry. I have forwarded your proposal to the group and I know it will be carefully considered.

If you would still like to meet and discuss your ideas with me and some others in the White House, I would certainly be agreeable. I have apprised Ann Fairbanks of this, and she would be happy to work with your office in setting up such a meeting.

Sincerely,



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

The Honorable Richard G. Lugar  
United States Senate  
1113 Dirksen Office Building  
Washington, D. C. 20510

3/9/82

Jim:

COMMITTEES:  
AGRICULTURE, NUTRITION, AND FORESTRY  
BANKING, HOUSING, AND URBAN AFFAIRS  
FOREIGN RELATIONS  
SELECT COMMITTEE ON INTELLIGENCE

JAB has not seen. I assume <sup>rate</sup>  
this merits his personal attn. as  
Sen. Lugar requests a meeting to  
discuss this. Your thoughts? <sup>still</sup> <sup>what's</sup> <sup>to</sup> <sup>must.</sup>

JAB - please look at the proposal; <sup>very</sup> <sup>JAB</sup>  
interesting; Housing Task Force consider?  
JC: To the Tech Force considering help for  
housing indus. in short term. Write Dick + tell  
him we're doing that. See if he

Next week I will formally introduce legislation aimed at creating several hundred thousand private sector jobs within the next few months. It will do so at a first year outlay of about \$1 billion, but that expenditure would be recovered more than twice over in the calendar year of enactment.

No Senator supported the President's recovery plan of 1981 at a rate higher than mine, and I remain a staunch advocate of that program. But as we work our way through the tough readjustments that are required to reach long-term economic health, I am convinced that we need to take the offensive against unemployment.

For the last several weeks, I have been examining various possibilities for a short-term supplement to the economic recovery program, a supplement that would meet the following tests:

1. The plan must be consistent with our commitment to fiscal prudence, and must in no way abridge the essence of the President's tax and spending policies.
2. It must have the maximum possible impact on new employment on a short time frame.

After reviewing a number of possibilities in other areas, such as autos and agriculture, I have fastened on the area of housing and the specific concept discussed on the attached pages. I have concluded that, of all the options, it best satisfies the criteria above. Because its rationale is decidedly macroeconomic, its passage need not open any floodgates of proposals for other specific industries.

I am serious about enlisting administration support for this effort. It's my opinion that the plan makes good political as well as economic sense. The National Association of Homebuilders, the National Forest Products Association, and the Northeast Retail Lumbermen are the first of what I believe will be a long parade of supportive citizens.

PAGE TWO  
March 9, 1982

So I am optimistic that the Administration might agree to adopt this proposal as a useful augmentation of the plan already in place. But regardless of that decision, I intend to press ahead with hearings and committee action if possible, so that an action plan for jobs will be ready and waiting should the Administration decide at any point that such action is appropriate.

After you have the time to look over the material I would like a few moments to discuss this subject with you.

Sincerely,

A handwritten signature in cursive script, appearing to read "R. Lugar".

Richard G. Lugar  
United States Senator

RGL:mda

The Lugar bill is a housing stimulus program designed to speed production and sales of new homes creating new jobs, increased tax revenue and sales in related industries.

The mechanism to be used is a combination of old and new concepts which results in a program that:

- provides quick stimulus to housing production;
- creates jobs;
- repays the interest reduction provided;
- is relatively short in duration;
- is not too costly; and
- is administratively simple.

The program will provide assistance to 370,000-450,000 families depending upon assumptions used. The assistance is a 4% interest reduction or a reduction of the market rate to 11% whichever will cost the government less. The legislation authorizes \$1 billion in the first year and will reach a maximum cost of \$5.12 billion if every loan was reduced for five years. The interest reduction will be provided on a Growing Equity Mortgage.

Under this plan a family's mortgage payment increases each year but the additional payment is used to make principal payments. As designed, a family's payments would increase by .75% of the mortgage amount each year. On a \$65,000 mortgage the additional payment equals \$40 per month. Over 5 years the amount the family pays increases, the federal interest reduction decreases, and at the end of the sixth year the federal program is ended. The family then is required to make payments at the interest rate of the original mortgage (our example uses 15.5%).

By the sixth year the family's payment has increased to a level approximately equal to the cost of the original market rate payment. However, the family will have paid \$8,271 in principal payments. If the family had not used a GEM mortgage they would have earned only \$780 in equity. Over the life of the mortgage the family would save \$119,380 in interest payments. More importantly a family would face a \$200 increase in monthly payments at the end of the fifth year if the payment did not increase gradually.

The program protects the federal interest and minimizes cost in 6 ways:

- Families are required to repay interest reduction at sale or refinancing of the home.
- The use of a GEM mortgage reduces the interest cost to the federal government by \$245 per mortgage.
- The use of a GEM mortgage encourages the family to make a commitment toward equity which will make it more likely that the family can repay the assistance.
- The interest cost to the federal government decreases as interest rates fall. The assistance is 4% or the difference between 11% and the market rate.
- The program ends if the economy recovers sufficiently to bring interest rates to 12.5%.
- The interest reduction is limited to five years.

The total federal assistance required at 15.5% interest cost and a \$65,000 mortgage is \$12,754. The plan requires repayment of the interest reduction at the time of resale or refinancing. However, the repayment is limited to 60% of net equity or the amount of the government's assistance whichever is less.

If there is 5% appreciation each year, there is adequate value to repay the assistance from appreciation alone. Even if there was no appreciation there would be almost \$5,000 repaid of \$12,754 interest reduction provided on a \$65,000 mortgage.

It is impossible to accurately predict the number of new units that will be produced solely because of this program. However, there is ample evidence that it will speed production of new homes substantially.

Based on estimates of new starts by the National Association of Homebuilders, we project an increase of at least 80,000 new units in the third quarter of 1982 if this legislation passes by June, even if every buyer in the nation uses the program. More realistically we expect an increase of units in the third quarter. Whatever the estimate it seems clear that production will proceed much more quickly with the Lugar stimulus in place than without the program. Builders will begin houses in anticipation of the program and in anticipation of loan commitments. Buyers and sellers will be brought back into the market place as news of the program and its effects are publicized. Manufacturers and retailers will add to inventories in anticipation of sales.

3/2/82

## COMBINED GROWING EQUITY MORTGAGE WITH FEDERAL LIMITED RECAPTURABLE ASSISTANCE

Market Rate 15.5 percent  
 Assistance Rate 11.5 percent (first five years)

Year	Outstanding Balance on Mortgage	Yearly P+I	Monthly P+I	Reduction Annual Principal	Annual Income	P+I as % Income	Property Value Per Unit	Owner Equity Per Unit	Annual Assistance Per Unit	Cumulative Assistance Per Unit	Ratio of Equity to Assistance
1	\$65,000	\$7,724	\$644	\$ 108	\$30,896	25.00%	\$ 71,500	\$ 6,500	\$2,600	\$2,600	2.50
2	64,892	8,212	684	614	32,441	25.31	75,075	10,183	2,596	5,196	1.98
3	64,278	8,700	725	1,121	34,063	25.54	78,829	14,551	2,571	7,767	1.87
4	63,157	9,188	766	1,631	35,766	25.69	82,770	19,613	2,526	10,293	1.91
5	61,526	9,676	806	2,142	37,554	25.77	86,909	25,383	2,461	12,754	1.99
6	59,384	10,164	847	2,655	39,432	25.78	91,254	31,870	-0-	12,754	2.50

Paid off at end of year 19

Total payments over life of mortgage equal \$185,876. Payments for a 30-year fixed-rate mortgage at 15.5 percent over life of mortgage would be \$305,257.

Assumptions

Income increase compounded 5 percent annually  
 Market value compounded 5 percent annually  
 Debt service increases \$488 annually for 5 years  
 Permanent mortgage: 30 year, FHA, 15.5 percent rate  
 Temporary assistance rate 11.5 percent  
 Annual subsidy equals difference between subsidy and market rates times the outstanding balance

INCREASED TAX REVENUE UNDER LUGAR BILL

FEDERAL

Personal Income Tax	1,451,200,000
Corporate Income Tax	1,133,750,000

STATE

Personal Income Tax	214,052,000
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DOLLAR VOLUME OF SALES UNDER LUGAR BILL

Concrete	1,133,750,000
Wood flooring	526,060,000
Millwork	1,451,200,000
Roofing	362,800,000
Lath plaster & drywall	907,000,000
Tilework	213,145,000
Floor covering	491,594,000
Insulation	344,660,000
Hardware	213,145,000

Ranges	453,365
Refrigerators	453,365
Dishwashers	362,800
Garbage disposals	317,450
Central Air	272,100
Commodos	907,000
Water heaters	453,365
Washers & dryers	408,150

MAN YEARS OF EMPLOYMENT (453,365 UNITS)

All Industries	791,550
Construction	282,150
On Site	236,250
Off Site	45,900
Other Industries	403,650
Manufacturing	178,650
Wholesaling, Transportation, Service	159,750
Mining, etc.	65,250
Land Development	105,750

# Dick Lugar News



UNITED STATES SENATOR FOR INDIANA

## LUGAR ANNOUNCES HOUSING AND JOBS PROGRAM

Upon Receipt  
for release:

Senator Dick Lugar (R-Ind.) announced that he is introducing a new federal housing bill which could put more than 700,000 Americans back to work within the next several months.

Lugar, who is Chairman of the Senate Banking Committee's Housing and Urban Affairs Subcommittee, said his emergency action would raise employment by speeding up the number of housing construction starts by as many as 450,000 units.

The Lugar housing program will reduce mortgage interest rates to qualified homebuyers by up to 4 percent. By cutting mortgage costs, Lugar said 7.8 million more families would be able to afford a new home now.

The program will cost \$5.12 billion over the next five years, after which it will end. The federal funds, which will be used to reduce the interest rates on these special mortgages, would later be repaid to the Treasury as buyers sell or refinance their homes. The Lugar bill will be directed to help only low and middle-income families, and the funds will be allocated on a priority basis to states with high unemployment rates.

"This is a temporary, emergency action to create jobs now," Lugar said. "We have already adopted a strong, long-run economic recovery policy by cutting taxes to encourage investment, by controlling federal spending to decrease inflation, and by reducing federal regulation of the economy. Those fundamentals are in place, and must remain. But in the short term we have to strengthen that foundation with some emergency measures to put people back to work now."

Lugar said he has been "searching for a vehicle" which meets the following tests: "One, it must create the greatest number of jobs in the shortest amount of time; Two, it must be consistent with our overall economic recovery program; and Three, it must be temporary and not establish a permanent federal financial involvement."

"This housing program meets those tests," Lugar said. "It would begin showing tangible results within weeks of passing Congress. Not only would it create an estimated 300,000 housing construction jobs, but there would be a major spin-off in job expansion in other areas of the economy. There would be more than 400,000 jobs in manufacturing, wholesaling, transportation and so on. These new jobs will create \$1.4 billion in personal income tax and \$1.1 billion in corporate income tax."

"Housing has always led us out of a recession before, and it will do so again with this program," Lugar said. "The problem now is that unemployment in construction is now 18.7 percent. If we don't do something now to preserve housing related jobs, when recovery comes, there won't be enough people building homes and there will be terrific inflationary pressures, just as there were after the 1975 recession."

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FOR MORE INFORMATION CALL (202) 224-8370

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fg.c.



1825 Eye Street, N.W.  
Washington, D.C. 20006  
202-785-7400, 785-7416

For 1:45 meeting  
MacGregor  
Clark  
(JAB/gc)

Clark MacGregor  
Senior Vice President

6 January 1983

The Honorable James A. Baker III  
Chief of Staff and  
Assistant to the President  
The White House  
Washington, D.C. 20500

POWER  
Pratt & Whitney  
Elliot  
Power Systems  
International Support Systems  
BUILDING SYSTEMS  
Otis Elevator  
Carrier Air Conditioning  
Building Automation  
ELECTRONICS  
Mostek  
Essex  
Automotive  
Hamilton Standard  
Norden Systems  
Microelectronics Center  
INMONT  
SIKORSKY  
RESEARCH CENTER

Re: FY84 DOD Budget Savings

Dear Jim:

Attached please find the following:

- 1) Copy of 22 December 1982 letter to Ed Harper from me.
- 2) Two-page explanatory statement entitled "Guaranteed Case to Save a Minimum of \$6 Billion . . . ."
- 3) United Technologies Pratt & Whitney Executive Summary submitted to the Air Force and to OSD December 3, 1982.

I would be pleased to discuss these contents more fully with you or a member of your staff at your early convenience.

The issue framed by the attached papers is of the highest priority to our company. We believe it represents a significant and timely opportunity for the President.

Cordially,

Clark MacGregor

CM/jl  
Atch.

GUARANTEED CASE TO SAVE A MINIMUM OF \$6 BILLION  
WHILE IMPROVING COMBAT READINESS WITH NO ADDITIONAL UP-FRONT COSTS

ACQUISITION SAVINGS.....\$3.0 Billion

Acquisition Savings.....\$1.0 Billion

Pratt & Whitney provides the F100 engine for the F-15 and F-16 aircraft and has offered a multi-year fixed-price contract. The acquisition savings alone for the years 1984-1988 inclusive will result in a \$1 billion cost savings over single year procurements. This is for 2,285 F100 engines which will be necessary to fulfill requirements for the F-15/F-16 as set forth in the current Five-Year Defense Plan (1984-1988).

Warranties.....\$2.0 Billion

The warranty offer will provide an increase from 1350 cycles (approximately 4-5 years of normal usage) to 3000 cycles (approximately 10 years of normal usage) with guarantees that support a maintenance cost per flight hour of \$264.00. Based on current USAF maintenance cost data, this is expected to result in a life cycle cost savings of \$2.0 billion.

ADDITIONAL SAVINGS BY REDIRECTION OF THE ALTERNATE FIGHTER ENGINE PROGRAM.....\$3.0 Billion

The Alternate Fighter Engine Program was originally structured as a three-year \$80 million program. The purpose was solely for preliminary development of another fighter engine in the event the then-existing problems of reliability, durability, and maintainability with the F100 were not satisfactorily resolved. These problems have now been resolved and Pratt & Whitney has offered to warrant all announced Air Force reliability, durability, and maintainability goals at no cost to the government.

Additional acquisition costs that will result from a split buy of F100's and F110's for F-15's and F-16's can be avoided by taking advantage of the current F100 multi-year proposal for the early years and conducting a one-winner competition for new derivative requirements estimated for CY'88 and beyond. The establishment of a second parallel logistics base for an alternate engine for F-15's and F-16's and the initial introductory logistics cost and training base can also be avoided. By accepting the current F100 multi-year proposal and not introducing an alternate fighter engine into current F-15 or F-16 aircraft, the USAF can avoid an additional \$3.0 billion.

TOTAL SAVINGS.....\$6.0 Billion

## OTHER BENEFITS

### Improve Combat Readiness

The F100 engine is coproduced with our NATO allies and provides standardization and interoperability which enhances combat readiness. The introduction of an untried different engine would require several years to mature and still would not provide standardization with NATO -- not to mention even within our own Air Force.

### Maintains Commitment to NATO Allies

Our NATO allies coproduce the F100 and have invested several hundreds of millions of dollars in their production facilities. As the follow-on European buys for the F-16 and third countries have not been as great as expected, beyond 1984 there will not be a viable coproduction facility with our NATO allies. The acceptance of the multi-year/warranty offer will provide sufficient procurement to maintain their production and our commitment to them.

THE WHITE HOUSE  
WASHINGTON

*MacLaury, B.K.*

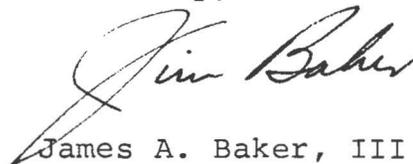
April 29, 1983

Dear Bruce:

I appreciate your sending me a copy of John Steinbruner's draft article. While I do not wish to forward any specific comments, after reading it I feel that the Administration would have some obvious differences with certain of the views Mr. Steinbruner expresses. I have taken the liberty of forwarding the draft to NSC with a suggestion that they send you any comments they feel appropriate.

I recognize the importance you attach to the subject, and thank you again for the advance look you provided us.

Sincerely,



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

Mr. B. K. MacLaury  
President  
The Brookings Institution  
1775 Massachusetts Avenue, N.W.  
Washington, D. C. 20036

The Brookings Institution



1775 MASSACHUSETTS AVENUE N.W. / WASHINGTON D.C. 20036 / CABLES: BROOKINST / TELEPHONE: (202) 797-6000

April 18, 1983

Mr. James A. Baker III  
Chief of Staff and Assistant to the President  
The White House  
Washington, D. C. 20500

Dear Jim:

John Steinbruner, director of foreign policy studies at Brookings, has written an article expressing his concern about the consequences of a new escalation in the arms race unless the President himself takes strong action within the next few months. We are circulating this draft to several knowledgeable people in anticipation of publishing it in the June issue of the Brookings Review.

I would not ask you to take the time to look at this draft unless I believed the subject were of utmost importance. There will undoubtedly be changes before it is published, and I would welcome any reaction you may wish to give me, by phone or otherwise.

With best regards,

Sincerely yours,

B. K. MacLaury  
President

enclosure

Subject to revision.  
Do not quote or cite without permission.

DRAFT

April 15, 1983

Arms and the Art of Compromise

by John Steinbruner

April 1983

In the third year of an American presidency close observers begin to anticipate the judgment of history. Initial political impulses have had time to encounter the realities of governing. The outlines of accomplishment or failure become visible.

It is a personal as well as an historical drama. Few persons are ever tested as thoroughly as Presidents are. The power and responsibilities of the office inexorably probe the entire character of its incumbent. Great strengths and human failings both document their presence in an enduring record of events. The third year of office is thus an occasion for sympathy and fascination but also for stern demands on behalf of the great interests that are at stake in a President's performance, interests that will long outlive his time.

For Ronald Reagan the third year brings a particularly severe test. Events have conspired to confront him with the issues of nuclear arms control - not an arena he would have naturally chosen. Cycles of military development measured in decades and a chronic festering of US-Soviet relations have focused large questions of security policy on specific actions that will be taken in the course of 1983 unless

established schedules are deliberately altered - the deployment of nuclear armed cruise missiles and Pershing II ballistic missiles on land bases in Western Europe and the deployment of cruise missiles with nuclear warheads on United States attack submarines. Each of these actions represents a new departure in nuclear weapons capability with the potential for triggering extensive reaction from the Soviet Union. Over the course of ten to fifteen years unconstrained competition in these weapons would almost certainly work to the strong disadvantage of the United States even though we currently lead in mastery of the basic technology. Moreover, given the context of events in which they occur, these actions could readily destroy the entire framework of strategic arms control as it has developed to date. If that happens the prevailing conditions of international security will be dramatically altered, probably for ill though conceivably for good depending on how the ensuing diplomacy is handled.

We have encountered such moments at least twice before in the nuclear age: in the late 1950's when ballistic missiles with thermonuclear warheads had been demonstrated to be technically feasible but the scale of their deployment had not yet been decided, and again in the mid 1960's when the question of fitting ballistic missiles with multiple warheads first arose. In both cases the allure of technical opportunity and the hostile dynamics of US-Soviet relations easily overrode any consideration of mutual restraint, and the question of preventing these deployments through arms control was never seriously pursued. In retrospect those were grave errors of judgment, for

extensive deployments of ballistic missiles with multiple warheads have clearly degraded the relative security position of the United States. It may not have been possible to restrain those weapons, but it was surely a major mistake that no significant effort was made. In 1983, arms control is now a part of security policy, but its efforts are focused more on revising the past than on shaping the impending future. Again we appear blind to predictable consequences.

As its President is tested so is the United States political system as a whole. Our form of government, brilliantly and effectively designed to prevent tyranny and to promote competition between conflicting interests and opinions, has difficulty establishing the coherence and consistency of policy that the management of nuclear weapons inherently requires. The issues of nuclear security have hardly been neglected in our professional literature or in recent public discussion, but nonetheless the unusual importance and long term significance of these immediately scheduled deployments have not entered the nation's consciousness with the clarity that wise collective judgment would seem to require. Weapons issues are more prominently debated - the fate of the MX missile and the prospects for strategic missile defense, for example - that are not as immediately important. Deeply cherished principles - equality in weapons inventories, for example - are being advanced in absolutist terms with little regard for their practical effects in context. Legitimate outrage at various aspects of Soviet policy is being carried to the point that the core security interests of a formidable opponent are

obscured. These are ingredients for tragedy - misdirected attention, moral righteousness, partisan emotion, an incipient collision between the policies of the United States and the Soviet Union.

Can we with our large, boisterous, rather disorderly democracy penetrate a confusion of rhetoric, emotion and narrow purpose to perceive our larger, enduring interests? Can we foresee security consequences that unfold over a decade or more? Can we organize more than a capacity for destruction in service of our ultimate security? Are we capable of serious statesmanship in dealing with an opponent that many of us hate, most of us fear, and none of us trust?

These are uncomfortably open questions. Our safety in this world depends upon them more than we have yet acknowledged to ourselves.

#### Confrontation

President Reagan entered office with a strong impulse for confrontation with the Soviet Union, plausibly representing the dominant demand of the American electorate. He judged the Soviet Union to be an expansionist power dedicated to achieving global political dominance primarily by means of military power. He perceived "relentless momentum" in the Soviet acquisition of arms and feared that a dangerous "margin of superiority" over the United States had been established. He judged the measures of agreed restraint on strategic weapons embodied in the two major arms control treaties (SALT I and SALT II) to be "fatally flawed", a codification of disadvantage for the United States. Using weapons inventories and defense expenditures as principle indicators of military position, he committed himself to

large sustained increases in the United States defense budget, principally directed to investment in new military equipment. The announced purpose was to "restore American strength" and thereby to induce desirable concessions from the Soviet Union.

As the major signal of resolve large increases in defense spending have been planned and partially carried out. If completely implemented the financial plans formulated by the Reagan administration would increase the defense budget on average over 8% per year, excluding inflation, from fiscal years 1981 through 1988. The portion of the budget directed to investment would rise to 50%. Both the sustained rate of growth and the proportion allocated to investment are historically unprecedented in peacetime. Moreover, this financial commitment has been supplemented by equally unprecedented expressions of strategic intention. The defense program, it has been said, is designed to enable the United States to fight a prolonged nuclear war, and/or to engage in conventional warfare with the Soviet Union in three theaters simultaneously. In the specialized language of military doctrine these formulations represent aspirations well beyond those the United States has officially espoused during the previous seven political administrations that span the nuclear age.

There has also been an attempt promoted by the civilian secretariat in the Pentagon to supplement military pressure on the Soviet Union with systematic economic sanctions, in effect a policy of economic warfare analogous to the one long directed against Cuba. This effort has already failed critical political tests within the United

States and the Western alliance: it would have required an embargo on US grain sales and success in the US campaign to prevent construction of the Soviet gas pipeline to Western Europe. The attempt was seriously enough pursued, however, to document the underlying intention.

Neither the strong confrontationalist theme in declaratory policy nor the surge in defense spending have had a strong effect on US strategic weapons programs. The projected development of US strategic forces has largely continued along the lines designed under previous administrations both in the magnitude of planned capability and in its technical composition. The only new program instituted has been the commitment to deploy nuclear armed cruise missiles on attack submarines, an option created by research and development decisions made by the Ford administration in 1974. The major strategic force initiatives associated with the Reagan administration - an emphasis on development of the strategic command system announced in October of 1981 and a focus on ballistic missile defense proclaimed by the President in March of 1983 - are not sufficiently well defined either in conceptual or in technical terms to have a major practical affect on US strategic capability in this decade.

The impulse for confrontation has had a strong affect on US arms control policy, however, a matter where changes in intention have much greater immediate consequence. The Reagan administration entered office highly critical of existing strategic arms control arrangements, and during the first months in office clearly subordinated arms control

to the defense budget increases and general projections of military resolve. With presumably deliberate ambiguity, administration spokesmen committed themselves to honoring existing agreements, but those that had not been formalized ( SALT II and the Threshold Test Ban Treaty) were roughly handled: political rejection short of outright violation. Recurring speculation about Soviet violations emerged from the administration as part of the flow of background information. Though they apparently lacked the evidence required to make a formal charge, administration spokesmen nonetheless created the impression that they expected Soviet violations and were poised to react in kind. Negotiation for a comprehensive Test Ban treaty, which had been virtually completed, were interrupted by demands for stricter verification measures, a move specialists recognized as a formula for indefinite suspension. An intention to design better arms control arrangements was announced, but the associated staff work was subjected to elaborate political and bureaucratic hazards. It proceeded so slowly that the underlying policy was clearly conveyed: first build, then negotiate.

By the fall of 1981 the eclipse of arms control and the revealed details of the strategic weapons development program had created an apparent mismatch between expressed intentions and actual decisions. The strategic balance was being defined publicly in terms of quantitative force comparisons, and American inadequacies in these terms were being loudly proclaimed. Nonetheless, the budget provided for no material increases in US force deployments, and in fact the MX

missile program was quietly cut in half in the process of searching for a politically acceptable method of basing. By reducing the planned MX deployment from 200 to 100 launchers, 1000 strategic warheads were eliminated from the strategic plan in precisely that category - prompt hard-target attack capability - where the US was said to be most deficient. Meanwhile political denigration of the SALT treaties jeopardized the constraints imposed on Soviet forces without advancing any plausible substitute. It was a pattern of belligerent rhetoric without material support, and it did not seem to make much sense.

At that point, in response to rapidly developing public alarm, the President personally intervened twice in the proceedings, in November of 1981 to bring about direct negotiations on intermediate range nuclear forces in Europe and in March of 1982 to reestablish a separate negotiation on intercontinental range nuclear forces. In both cases he advanced arms control proposals that revealed an implicit strategy quite different in character from what one would have expected from the public discussion -- at least the appearance of a deeper game.

His proposals called for significant quantitative reductions restricted to those categories where the Soviet Union has enjoyed a numerical advantage. In Europe the Soviet deployment of SS-4, 5, and 20 ballistic missiles (approximately 550 launchers and 1300 warheads in total) would be completely eliminated in exchange for abandoning the NATO plan to deploy 108 Pershing II ballistic missiles and 464 cruise missiles (572 total launchers, each with a single warhead). Globally the principal Soviet ICBM's would be reduced: the SS-18 by 198

launchers and 1980 warheads and the SS-19 by 230 launchers and 1380 warheads in exchange for reductions of 425 launchers and 872 warheads in the US Minuteman force.\* If accepted these reductions would completely eliminate the historical Soviet advantage in intermediate range ballistic missiles - to the principal benefit of Britain, France and China whose forces would remain unrestricted. They would also reduce the Soviet advantage in weapons for prompt hard-target attack by 85%.\* In the more likely event that the proposals were rejected by the Soviets for exactly these reasons, they would project the principle equity and a desire for restraint in a manner that would appeal to international public opinion.

Meanwhile the real message to the Soviet Union - or at least the one they are likely to receive - lay in what was not proposed; that is,

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\* These are the reductions in the maximum allowed Soviet deployment that would result from proposed sublimits on SS-18 (at 110 launchers) and SS-19 (100 launchers) according to published reports of the US proposal (article by Michael Getler Washington Post April 13, 1983). Actual reductions would probably be less since Soviet forces probably ~~have~~ have less than the maximum allowed number.

\*\* The American proposal would reduce US and USSR strategic forces to 850 ballistic missile launches with 5000 warheads total. No more than half of the warheads could be on land-based ICBMs. In addition the Soviet SS-18 and SS-19 would be limited to 110 launches each. Excluding modernization programs such as the MX and any Soviet equivalent, that set of provisions would allow 1760 hard target warheads in the Soviet force as compared with 1275 or 425 residual Minuteman III missiles. This would reduce the Soviet numerical advantage from 3410 to 485 - a reduction of 85%. Ultimately the intended modernization of the US program would substitute MX missiles in the land-based force and Trident II missile in the submarine force, and that would make all 5000 allowed warheads capable of hard-target attack. The Soviets could do no better than equal that number.

any substantial qualitative restriction on strategic weapons development. Tacitly the material pressure on Soviet Union emerging from the Reagan administration is qualitative in character. The apparent intention is to develop a more sophisticated, more diverse U.S. strategic arsenal rather than a larger one and thereby to force major adjustments in the large Soviet deployments. The implied purpose is to force the Soviet Union to waste the heavy investment they so recently completed by making it technically obsolete. Therein lies the whip that gives serious substance to the rhetoric of confrontation.

#### Soviet Reaction

From the perspective of the Soviet Union, as best that can be judged from the United States, the implied threat in the Reagan administrations security policy is quite credible and potentially very disruptive to their own unfolding policy. It is credible because it fits with their historical experience, their own assessment of American strength and their natural perception of Reagan as a partisan figure in the American political system. It is disruptive because if pursued it will force a Soviet reaction against the dictates of a strong commitment to internal economic reform.

For thirty years the Soviet Union has pursued a competition in the development of strategic nuclear weapons using an economy half the size and a technical base in that economy that is far less developed. Since 1965 under stable political leadership, they have utilized a relatively more decisive planning process to overcome the gross disparities in strategic weapons capability that existed in the early 1960's. In

quantitative terms they have matched the US weapons inventories and indeed have established numerical advantages in several categories: the number of strategic weapons launchers, for example, and the overall explosive power of the weapons they carry. Despite that effort the Soviets are still behind in the most significant bottom line - the number of weapons that can be delivered to separate targets approximately 9200 for the US to 8200 for the USSR and particularly the number that can be delivered after absorbing a surprise attack.\*

In land-based ICBM's, the Soviets have reasonably matched the United States in the critical qualitative elements of guidance system accuracy and explosive yield for a given warhead design weight. They had to come from behind to do so. Given the larger booster rockets they have deployed - their well known throw-weight advantage - their overall ICBM force has a larger number of separate warheads of equal quality than does the comparable US force: a potential of 6270 total the Soviet Union to 2143 for the United States; and in the special category of highly accurate warheads for hard target attack, potentially 5060 for the Soviet Union and 1650 for the United States. In submarine based ballistic missiles, however, the Soviet are still outclassed not only in deployed warheads (approximately 5700 to 1800) but also in a variety of qualitative dimensions relating to the missile itself, to the submarine as a unit, and to overall force operations.\*

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\* Cf. Organization of the Joint Chiefs of Staff, United States Military Posture for Fiscal Year 1983, p. 25.

With regard to intercontinental range bombers, though they have a nominal capability essentially the Soviets have chosen so far not to compete on equal terms. Hence in their own assessment the quantitative advantage in ICBM's - 75% of their total strategic capability - in effect offsets sharp disadvantages in the other strategic force components.

The Soviets must prudently recognize moreover that this one advantage is precariously held. On the most important frontiers of military technology - microelectronic circuitry, its application in miniaturized information processing, in esoteric lightweight materials used for space vehicles and for mobile weapons systems, and in solid fuels - The Soviet Union appears to be noticeably behind. In any renewed competition in strategic arms they would have to compensate for disadvantages in these underlying technologies.

The principal military planners in the Soviet Union have personally participated in this thirty year competition and its principal features are undoubtedly vivid in their memories. They have seen the rapid initial surge and then long stabilization of US strategic force deployments, have experienced major ebbs and flows in the US-Soviet political relationship, have observed significant fluctuations in the US defense budget, and have followed a number of

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\* These force level estimates are derived from the US Department of Defense publication, Soviet Military Power, Second edition, March 1983, pp. 20-26.

variations in US doctrinal arguments. Throughout all of this the most enduring constant has been the US effort in military technology, consistently running ahead of Soviet efforts and in the process setting new standards for weapons performance defining new dimensions for military competition, and thereby outflanking the more extensive style of Soviet military development.

It would be plausible to the Soviet leadership that President Reagan would appeal to this fundamental advantage of the United States in applying deliberate pressure. It is a posture well-buffered from shifts in political mood in the United States that are already working to constrain the rate of growth in the US defense spending and to qualify the more expansive military aspirations of the Reagan administration. US efforts in advanced military technology do in fact enjoy secure political support across the spectrum of American opinion even when there are sharp disputes over specific weapons programs. It requires little imagination for the Soviet observers to embellish that with a partisan twist - President Reagan responding to leading elements of the defense industry as a primary political constituency.

Against this background, the implied threat of unrestrained qualitative competition in strategic weapons will have to be taken as a deeply serious matter by the Soviet leadership, in part because of its immediate military implications in part because of broader issues of major power politics.

From a Soviet military perspective, the deployment of US intermediate range missiles in Europe is a significantly new dimension of strategic threat. The presumed target of these weapons is not the SS-20 featured in the NATO rationale but rather the central strategic command system of the Soviet Union primarily located around Moscow and in the Western part of the Soviet Union.\*

This set of targets puts their entire strategic capability in jeopardy. The flight time to these targets of a Pershing II ballistic missile is so brief, that meaningful reaction from Soviet commanders after the missiles were fired would be impossible as a practical matter. The assessed accuracy of the missiles is sufficient to destroy hardened command installations, and the fact that the missile as announced originally would have an earth penetrating warhead suitable for attacking command post bunkers is quite suggestive of the intention. Even the ground based cruise-missile is a problem in this regard. Though flight time is measured in hours, Soviet military analysts are likely to doubt their ability to detect it during flight because of its small radar profile and very low altitude. It too has the accuracy to attack hardened targets.

As Soviet military planners have long recognized and US planners

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\* The United States officially denies this implication and quotes a range for the Pershing II missile that would not allow it to reach Moscow. Soviet commentators insist that it can reach Moscow. Whatever the actual fact the Soviet opinion is technically plausible given the size of the basic missile.

have more recently and reluctantly conceded, the central command system of strategic forces is at once the most vulnerable and most valuable strategic target. It is a network of command centers and communications links whose critical elements are relatively few in number and inherently vulnerable to attack given the offensive firepower of modern weapons. Without the central command system surviving strategic forces are militarily useless for their actions cannot be coordinated; to the Soviet Union they are probably considered politically dangerous. Though its ultimate decisiveness is inherently uncertain, a pre-emptive threat against the opponents command system is nonetheless the only conceivable path to victory in nuclear war. The Soviet Union is not likely to concede to the United States even a remotely credible advantage in conducting such an attack.

Beyond this immediate military problem there is also a major issue of political procedure, the proper use of power in international transactions. Whatever the substance of the matter, the stature of the Soviet Union as a major power and their credibility in dealing with the United States would be damaged in their own estimation if the Soviet leaders make concessions in response to direct threat. That would imply that the Soviet Union is amenable to coercion, no less dangerous and unacceptable an implication when viewed from Moscow as it is in Washington. They themselves attempted coercion during the Khrushchev era at a moment of comparative disadvantage and they acquired a bitter lesson in the consequences. Thereafter they summarized the lesson in a statement pointedly directed to both sides: "never again." The

contemporary implication is a policy of considerable restraint under pressure, but ultimately a response in kind.

The Soviet leadership has been quite explicit about the fact that they would react in kind to the deployment of US medium range missiles in Europe and they have defined two reasonably specific deadlines. When the "first practical steps" toward the NATO deployment are taken, several Soviet spokesman have said, the moratorium on SS-20 deployments announced in \_\_\_\_\_ will be removed. When the NATO deployment is actually in place, they have indicated, new systems in addition to the SS-20 will appear on the Soviet side to match the NATO deployments. Finally in a rather ominous set of statements referring to the inherently short flight time of missiles deployed close to the Soviet Union, they have indicated that actual implementation of the NATO deployment would require them to place the United States itself "in an analogous position."\*

The meaning of the phrase "first practical steps" is not entirely clear, but equipment relating directly to US missiles is scheduled to appear at bases in Europe in the early summer of 1983. That appears quite likely to trigger the sequence of reaction to which the Soviets have publicly and officially committed themselves. If they do not react, the Soviets will run the risk of being exposed in a bluff with

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\* The phrase most authoritatively used in a speech by Leonid Brezhnev to the Soviet Trade Union Congress on March 16, 1982. It was repeated by Foreign Minister Gromyko at the UN Special Session on Disarmament II Press Conference, June 21, 1982.

the underlying issues unresolved.

Though Soviet spokesmen have yet to draw an explicit connection in any public statement, recent weapons tests have offered concrete indication that they do not intend to bluff. In February of 1983 the Soviets tested a new light solid fuel ICBM represented as a replacement to the SS-13. This missile, apparently capable of mobile deployment could be used at reduced range to cover targets in Europe as well as at full range for targets in the United States - a pattern displayed in the late 1960's with the SS-11 missile. In addition tests of a new Soviet cruise missile were announced in early April of 1983. Both types of test offer indirect confirmation of the expressed intention to react with material weapons deployments, and at least in broad outline one can infer the logic available to Soviet planners in considering their options. The principle options appear to be as follows:

1) Cruise Missiles

Though the Soviets have long utilized cruise missiles in their naval forces, the combination of size, guidance system accuracy range, warhead yield and ease of operation of the Soviet weapons made them distinctly primitive and relatively insignificant compared with the cruise missiles now scheduled for deployment in the American forces. The Soviets have been pursuing programs to match American cruise missile technology however, and it is prudent to assume that over the course of the 1980's they will achieve some approximation of current American weapons even if they do not keep pace with their technical elaboration. That achievement would be sufficient to enable the

Soviets to exploit some fundamental nontechnical advantages in any extended competition in these deployments.

The United States and most of our major allies have a high concentration of targets near coastal areas, and are easily approached through the open ocean or through seas controlled by the Soviet Navy. By contrast the Soviet Union is a landlocked country with strong naval defenses in its few seas approaches. Moreover, though it is a less enduring advantage, the Soviet Union historically has developed a much more extensive air defense system. The current capacity of that system for resisting cruise missile intrusion is probably extremely weak, but it does provide an extensive base from which to develop, at least in institutional terms. The United States has historically neglected air defense development, and though there is some capability in Western Europe, the shallow depth of territory and proximity to the Soviet Union sharply limits the potential there.

For these reasons an extended competition in cruise missile deployments is likely to work to the relative advantage of the Soviet Union even if they are not as adroit in the basic technology. Cruise missiles in mobile deployments on land certainly provide an available means of putting pressure on Western Europe in retaliation for the NATO deployment. Moreover, though it is probably not their preferred solution, submarine based cruise missiles do offer one means of seeking a low warning attack capability against the United States to support their diplomatic commitment to place us in an analogous position.

2) Land mobile ICBM's

The small solid fuel ICBM recently tested in the Soviet Union provides another logical means of responding effectively to US pressure even at a net technical disadvantage. With large land areas that are not densely inhabited, reliable control over the Soviet population, and an ability to restrict unauthorized access to any given segment of their territory, the Soviet Union is in a much better position to sustain the complex logistics of an invulnerable mobile missile deployment on land. In densely populated Western Europe it is essentially impossible to move missiles continuously or to keep their positions unknown for very long. In the United States it is more conceivable in principle but very difficult in practice because of strong domestic sensitivities both to restrictions on land use and to routine transit of nuclear weapons through populated areas. Thus Soviet planners can contemplate an extensive deployment of small mobile ICBM's that would at the same time reduce the vulnerability of their ICBM force and allow them to integrate theater and intercontinental range operations by using the same missile for both purposes.

### 3) Anti-satellite systems

The Soviet military planners can also effectively respond by further development of their current limited capacity to attack space satellites. The United States is involved in alliance relationships throughout the world and conducts major portions of its military operations far from the territory of the United States itself. In managing these operations the US has already become highly dependent on communication and other military support assets based in space and will

become more so over the next decade as more sophisticated (and expensive) equipment is deployed. The Soviet Union also uses space extensively but as a continental power with inherently shorter lines of communication is less dependent upon space. Since attack on assets in space does not require either great expense or technical virtuosity, this is an area of military development the Soviet Union could readily use to negate the effects of American sophistication and to retaliate for the pressures placed on their own strategic command system.

#### 4) Pre-emptive attack

Soviet options for responding to the particular problem that the Pershing II missile presents to their command system are more difficult to discern. If the response is to be plausibly equal in terms of observable military potential, it would have to rest on ballistic missiles based on land. Ships, submarines, and aircraft do not allow the continuous highly secure, two-way communications that intricate coordination of a pre-emptive attack requires. They also do not have the endurance to hold positions in an extended crisis. Any use of the cruise missile, moreover, because of its greater flight time, creates greater risks of timely detection.

Cuba offers the only appropriate land area apparently available to the Soviet Union for deployment of ballistic missiles near the United States, and in fact Soviet spokesmen have alluded to Cuba in warning of the consequences of Pershing II deployment in Europe might have. In terms of strict Soviet interests, however, there are fundamental problems with that option even if one assumes that the Cubans

themselves would pose no obstacles. Any ballistic missile deployed in Cuba would be quite vulnerable to attack by United States conventional forces, just as the NATO missiles are vulnerable to Soviet conventional attack. Soviet military planners are probably quite reluctant to establish that particular analogy. Beyond that, the outcome of the 1962 crisis created a highly prejudicial definition of established interest. World opinion is virtually certain to consider a contemporary attempt to place ballistic missiles in Cuba to be categorically a more aggressive move than the scheduled US deployment in Europe. However unfair Soviet leaders might believe this residue of history to be, it has the undeniable effect of making serious diplomatic crisis and the associated risk of actual warfare the likely result of pursuing this option.

If the Soviet purpose is simply to establish a military capability commensurate with that represented by the US missiles in Europe, then a land deployment in Cuba presumably would not survive rational deliberation. A submarine deployment in Cuban territorial waters might be a compromise approximation for which some evolving diplomatic record has already been established.

It is more conceivable that the Soviet Union might simply announce a plan to deploy missiles in Cuba in response to NATO's actions for the purpose of using the predictably ensuing crisis to alter the course of US security policy. An announced plan with no immediate execution in progress would not provide the exposed target for US military action that the clandestine operation in 1962 provided once it was discovered.

Soviet analysts might calculate that the Reagan administration, highly provoked and unable to find immediate leverage, would mishandle a crisis of subtle diplomacy and trigger pressures from an alarmed world that would turn the United States from its confrontationalist course. Though such an adventure is too unpredictable and too laden with chances for disaster to emerge as a prudent choice, it might result from a Soviet leadership divided by the pressures of the US political and strategic challenge.

With varying degrees of attractiveness these options for military reaction do provide the Soviet Union with the means for competing favorably in the development of strategic arsenals even conceding a continuing technical disadvantage. It is a reasonable presumption, however, that Soviet leaders would prefer to avoid these reactions or at any rate to minimize their extent. The new Party Chairman Yuri Andropov has projected a primary commitment to domestic economic reform, a priority that appears both compelling, given the poor performance of Soviet economy in recent years, and also promising. The Soviet economy with a very rich resource base is tremendously inefficient by world standards. Improvements in its internal efficiency could generate impressive economic returns. The measures required - internal price increases and exposure of Soviet industry to international economic standards - seem to demand political stability and increased economic interaction with some part of the industrial world, at a minimum with Western Europe. If they can reasonably do so, the Soviet leaders have good reason to subordinate the issues of

relative military position to the interests of economic reform.

#### Unavoidable Choice

For over a year the outlines of a conceivable compromise have been visible to those familiar with the underlying interests of the two sides. It would involve a partial and temporary agreement designed to prevent two events that otherwise will cause serious and probably irreversible deterioration in the conditions of the strategic balance: notably, the introduction of new Soviet system promised in response to NATO's missiles; and the deployment of nuclear-armed submarine cruise missiles scheduled by the United States in early 1984 and highly likely in Soviet forces sometime thereafter. Because nuclear-armed cruise missiles cannot be distinguished through remote observation from conventionally armed variants and because large scale use of conventional cruise missiles is conceded to be a virtual certainty (over 4000 are contemplated by the US Navy), any deployment of nuclear armed cruise missiles on ships or submarines will create a gaping loophole in the existing restrictions on strategic forces. If, as now appears likely, the new Soviet system is a land-mobile ICBM, that will create another loophole. Current offensive force restrictions embodied in the SALT treaties are not likely to survive this combination.

The natural compromise would have the character of halting at least temporarily the introduction of both new weapons types, the nuclear armed cruise missile of the United States and the small mobile ICBM of the Soviet Union. Moreover, in order to break the current cycle of interaction NATO would indefinitely postpone Pershing II

deployment, and in exchange the Soviet Union would reduce their intermediate range systems to some residual number approximating 100 launchers. The Soviet Union would have to concede NATO's right to match that the number, but pending resolution of major issues that would remain outstanding (tactical aircraft in Europe and the British and French missiles forces, for example) NATO would hold its implementation of that right at some point short of complete deployment.

Seized with the inevitable ritual of negotiations, both governments at the moment have numerous objections to all these provisions. Neither can entirely hide the fact, however, that this interim result would be a great deal better for both than the outcome likely to emerge from the impending breakdown of restraint.

Without agreement the United States will have to proceed with the NATO deployment in the face of a Soviet reaction likely to intensify political division within Europe. Deployment under these circumstances will drive defense ministries loyal to the NATO commitment against sharp domestic political opposition on behalf of weapons whose military rationale is exceedingly questionable. Missiles located on land bases in Western Europe and the command system necessary to operate those missiles are highly vulnerable to pre-emptive attack, certainly by Soviet nuclear forces and even by Soviet tactical aircraft using conventional munitions. This vulnerability combined with the inherently cumbersome decision procedures in an alliance of fifteen democratic governments renders these weapons essentially unable to

execute military missions since an attempt to use them would almost certainly trigger effective pre-emption. When this condition is realized, as it is destined to be in the course of contentious public debate, the prime rationale for these weapons as a symbol of American commitment to Europe will be severely damaged. One cannot responsibly couple US central strategic forces to Europe by means of weapons that cannot meet the standards of protection required for stable deterrence. The harsh fact is that the NATO deployment cannot withstand the pressures that will descend upon it in the absence of an arms control agreement.

The US deployment of nuclear armed cruise missiles in attack submarines does not have a problem of vulnerability but nonetheless it is not an area in which the United States ought to stimulate unrestrained competition. The deployment adds very little to US offensive attack capability against land targets. It interferes with the more important tactical missions of attack submarines. Over the long term large deployments work to the advantage of the Soviet Union because of geographic conditions. In the end the concessions involved in compromise are quite consistent with fundamental interests of the United States and the NATO allies.

Fundamental Soviet interests are easily accommodated as well. Current Soviet strategic forces have more than ample offensive firepower against Western Europe as implied by their willingness to contemplate sharp reductions in their intermediate range systems. Without the special threat of Pershing II and an open-ended competition

in submarine cruise missiles, the Soviets could tolerate a residual deployment of ground based cruise missiles by NATO if it were held short of high alert status. That latter condition would mitigate the pressures for pre-emption Soviet commanders might otherwise feel. Whatever net benefits might accrue to the Soviet Union from political divisiveness within NATO cannot outrank their larger interests. The Soviet Union simply cannot afford the enterprise of dominating Western Europe by force; stable political accommodation is by far the more practical course for Soviet policy.

The time has effectively expired for a compromise along these lines to emerge from formal negotiations and routine diplomatic proceeding. The American INF negotiator started down this track in July of 1982 with some degree of informal cooperation from his Soviet counterpart. From available public accounts it appears that his efforts were aborted by bureaucratic warfare in Washington and that Moscow, appraised of that fact, responded in kind. Thereafter both governments have engaged in public posturing designed more to argue the equity of their conflicting positions than to move toward a compromise outcome. As the Soviet Foreign Minister noted on April 3, 1983, the process is diverging and as the observing world should note the deadlines for virtually irreversible action are upon us all. Normal diplomacy has failed.

The issue therefore stands unavoidably before President Reagan and the Soviet Party Chairman Yuri Andropov. Unless they both undertake extraordinary acts of statesmanship, unless they are able and willing

to lead their governments into accommodation rather than simply responding to pressures accumulated beneath them, a mutually damaging confrontation with extended consequences will be the record that history attaches to them.

In the United States we know little about the Soviet leader and can only hope. We know rather more about our own leader and can at least exhort.

For Ronald Reagan, we can appreciate, it is indeed a severe test of character. His entire career has been that of an unusually skilled, highly partisan domestic politician. He has championed strong principles that represent a segment of the country and has risen to power on their intense support. To put it mildly, those principles and his supporters have left little basis for realistic accommodation with the Soviet Union. In governing his style has been reasonable in tone but strongly confrontational in substance; forceful implementation of strong conservative policies pursued up to the point where the necessity for compromise overwhelms him. In a domestic context this has worked well; the drama of a political breakdown over resistance to his strong measures followed by the general relief of sudden compromise. He manages this transition with grace and good humor, and even those who reject his politics like him for it personally. These are deeply ingrained habits, one must presume, for they are the roots of his success.

The President has followed these habits over the first half of his third year as he has become personally engaged in the issues of security. He has insisted on his defense budget increases against firm congressional insistence on paring them down in the face of large fiscal deficits. He has opposed a freeze resolution in Congress that he might easily have tolerated so imprecise are its practical implications. He has attacked the Soviet Union as the "focus of evil" in the world, very strong medicine to the international community who both respect and fear the power that he holds. He has introduced a theme into security policy - the idea of ballistic missile defense - that is highly divisive internally and extremely provocative internationally when pursued in the absence of strong restrictions on offensive forces.

This intense partisanship would be dangerous at any time in the context of the US-Soviet relationship, a context not governed by the political and constitutional traditions that constrain political conflict in the United States. Under the current circumstances it is a formula for disaster. The President is at the point of necessary compromise and must grasp that there is no longer any external process that will bring it to him. He must make the fundamental political decisions necessary to bring it about, and must undertake considerable initiative in a very precarious diplomatic situation. In order to do so he will have to understand the demands of statesmanship, the looming judgment of history, what it means to be President of the United States as a whole and the leader of its alliances.

THE WHITE HOUSE  
WASHINGTON

McHenry, Jerry  
JAB

May 2, 1983

Dear Jerry:

I appreciate your letter, and your idea about having the military work and train more closely with the private sector. As you may know, the Pentagon has recently concentrated more on learning and utilizing those things which the private sector has proven more efficient in doing. Such measures have raised the level of quality and efficiency of U.S. forces, which seems to be the object of your suggestion. However, more intimate involvement with the private sector, such as job sharing, would probably be viewed as inappropriate.

It was good to hear from you, and I hope you will give Molly our best.

Sincerely,



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

Mr. Jerry McHenry  
13122 Hermitage Lane  
Houston, Texas 77079

## JERRY McHENRY PHOTOGRAPHY

13122 HERMITAGE LANE  
HOUSTON, TEXAS 77079  
713-465-8287

The Honorable James A. Baker, III  
Chief of Staff, Assistant to the President  
The White House  
Washington, D. C. 20500

DATE March 24, 1983

Dear Jimmy,

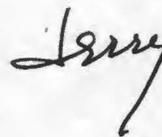
I still keep up with the military - primarily the Navy - through the Naval Institute Proceedings and realize they still have problems keeping their best trained leaders and achievers in the service after they finish their tour of duty. I have also talked with some of the Navy, Air Force and Marine Corp pilots at the air shows here in Houston, and they agree that it is tough to turn down offers from the business world.

I would like to suggest an idea that might help our country, the military and business communities by halting our military brain/leader drain. Let these well trained officers and enlisted men work jointly for the armed forces and private sector in an exchange program to the benefit of both worlds, and these valuable people. The corporations could help train military personnel, keep them informed of new technical advancements and help pay part of their salaries. An incentive for industry's training these future leaders might be deferred tax credits or some other kind of tax break. These military achievers would then receive salaries at least closer to or in line with those of the business world. The defense department could then cut back their budget by letting the private sector pick up part of the salary expenses.

For example, an electrical engineer trained by the Air Force could work with General Electric and the Air Force. Perhaps a fighter pilot trained by and flying for the Navy could also fly with American Air Lines.

We enjoyed having dinner with Mike last week. He looks well and seems to enjoy his work. We were delighted to hear about his new promotion.

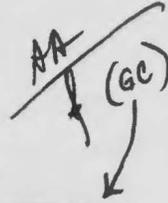
Molly joins me in sending our love to all the Baker family,



To The Hon. \_\_\_\_\_  
James A. Baker, III

Date 1/18/83

We want you to have an advance copy.



AA  
(GC)

PETER G. PETERSON

January 18, 1983

DEAR MR. PRESIDENT: (DEAR MR. SPEAKER:) (DEAR SENATOR BAKER:)

BI-PARTISAN APPEAL ON THE BUDGET CRISIS

We are renewing an appeal made originally last May for a bi-partisan solution to the serious fiscal and budgetary situation facing the nation over the remainder of this decade and beyond. Your leadership is critical to any such solution. We want you to know that in exerting that leadership you will have our full, active and public support.

Since the original appeal we have been joined by about 500 eminent Americans, from both political parties. Their names appear on the enclosed statement which will be published shortly. We hope you will be as encouraged as we are that the men and women who guide many of America's major institutions of commerce, finance, law and learning are now ready to step forward on this issue and lend their united assistance to the nation's political leadership.

This appeal is made in an entirely constructive spirit. We are not pointing fingers or assigning blame. Today's fiscal and budgetary crisis has deep roots in every administration and Congress which has served over the last 20 years or more, including those of which we were a part. Both as former public officials and leaders of the private sector, we must ourselves accept a measure of responsibility for the immense structural deficits which have become embedded in the federal budget.

Also we recognize that there has been some progress since our original appeal. Some important measures have been enacted with your support to slow down spending and to increase revenues. Further, there is now bi-partisan agreement that the fiscal crisis is real and of massive dimensions. We applaud your efforts in advancing public understanding of the budgetary situation.

Nevertheless, the budgetary outlook remains dire. Even assuming sustained economic recovery the federal budget is primed to generate annual deficits in the range of 250 billion dollars in the mid-1980's with the budget gap widening with each passing year. Such deficits would drain the nation's shallow pool of savings into a virtual desert.

At least in peacetime, the private sector of the American economy, in which the large part of production, jobs and healthy economic growth must be generated, has never before faced such extreme conditions of capital shortage. On this course, we could not expect either sustained economic growth or genuine price stability, and we would certainly face a decade or more of dangerously inadequate investment in productive plant, equipment, R&D and public infrastructure. This we fear is a prescription for economic stagnation with no end in sight.

Furthermore, the prospect of giant deficits in the future is posing a current obstacle to the hoped for economic recovery. Because every lender and borrower must anticipate excessive federal claims on the nation's capital resources for years to come, medium and long term interest rates remain abnormally high, especially relative to current inflation rates. These high real interest rates are in turn leading to an abnormally strong dollar on the foreign exchange market, putting America's export industries at a severe disadvantage

and endangering the millions of jobs which depend upon them. Until the government transforms its long term budget outlook, the economy will likely remain locked into a depressed and unstable condition.

Our principle concern is not today's deficit which is obviously in part a result of today's recession. The huge deficits in prospect for the mid and late 1980's are different. They are largely the result of embedded federal policies, not abnormal economic conditions and they are a primary cause of today's continuing economic distress.

The point is to take legislative action now so that the out year deficits, 1985 and beyond, will be considerably smaller than those now projected. This signal to the capital markets is essential for economic recovery.

In our judgment, the fiscal 1985 deficit -- projected on conservative and realistic economic assumptions -- should be cut from the roughly 6% of GNP now projected to at the very least 2% of GNP, the average deficit to GNP relationship which has prevailed over the last decade or so. The ultimate goal must be to move the budget into balance as the economy moves to a normal level of activity.

In political terms this 1985 goal is nonetheless ambitious. We compute that it entails reducing the projected 1985 deficit by about \$175 billion. As a matter of sheer arithmetic there is no way to do this without making major changes in each large sector of the budget -- social spending, defenses, taxes. There is accordingly no room in the exercise for sacred cows, whether ideological or partisan. The task requires that everyone involved makes compromises from previous commitments and positions. Just as the fiscal crisis has had bi-partisan authorship, so its solution must be genuinely bi-partisan.

We have not presumed to lay out a line by line program of budget reform. That can be done only by you and your colleagues. But the basic contours of the solution are, we think, dictated by certain stark realities we face as a nation.

In the area of social spending, big changes must come in those entitlement programs -- chiefly Social Security, military and civil service pensions and the like -- which confer most of their benefits on middle and upper income groups. There are two reasons. First, that is where the massive bulk of social federal spending takes place. The means-tested programs which target the poor --for example AFDC, Medicaid, food stamps and the like -- are far smaller and, as a result of budget actions already taken, are growing far more slowly. Second, no program of fiscal reform can take place unless the country is convinced of its basic fairness.

Spending on these big entitlement programs can be held down only if we directly reform the automatic inflation indexing system which has driven these programs through the roof. We recommend a freeze of one year on all such indexing and a firm reduction in the rate of indexing in future years. (Such temporary steps are not a substitute for the required long-term, structural reforms of these programs.) Such a regime, as well as reductions in other programs and subsidies, can and should be designed to avoid hardship for beneficiaries who are poor and therefore critically dependent on their benefits.

In the area of defense, the indispensable goal is to revive a bi-partisan consensus behind a sustained buildup in our military security. This important national consensus is now threatened by a sense that defense spending may be rising faster than our security planners have been able to rationalize. By sensibly

moderating the pace of that buildup, we will not endanger its military effectiveness. Rather, we will reestablish the political and economic conditions necessary to sustain a substantial buildup over the long haul. Our adversaries and allies alike will be far more impressed by a sustainable effort than by a brief spurt followed by yet another period of complacency and neglect. The signal we should be sending now to the world is that the Congress is united behind the President in a program to rebuild our military strength. A message of disharmony would detract dangerously from the credibility of our entire defense effort and, indeed, of the President, as Commander-in-Chief.

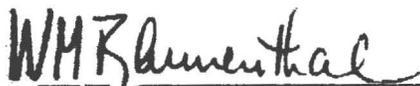
Finally, in the area of taxes, it is vital to keep in mind that a central purpose of budget reform is to stop the federal drain on the nation's pool of savings and to revive productive investment in the private sector. This means that the first priority is to cut spending -- the main force moving resources from private investment into publicly subsidized consumption. Likewise to raise taxes directly on savings and investment activity would make the budget reform exercise self-defeating. More revenue is, however, needed. It should come principally from increased taxation on consumption activities.

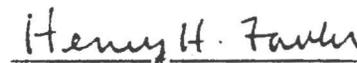
A program of fiscal restructuring which meets, in general shape and size, these broad principles would have our support.

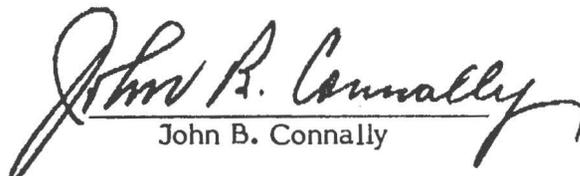
We wish at any rate to reemphasize our commitment to build bi-partisan support throughout the country for those tough decisions which you and your colleagues must now make if the nation's fiscal integrity is to be restored. You carry an awesome burden. We believe you have the right to expect the help of every responsible American, regardless of party.

Thank you for considering our views.

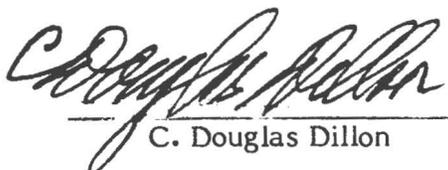
Respectfully,

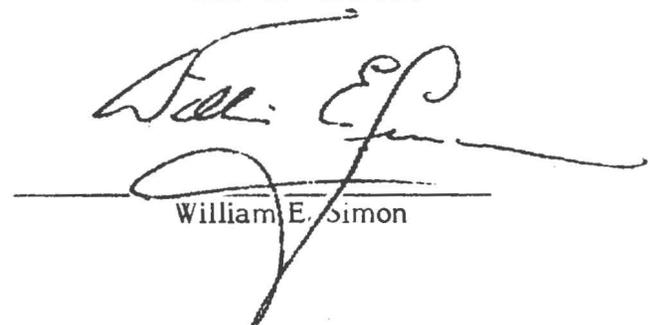
  
\_\_\_\_\_  
W. Michael Blumenthal

  
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Henry H. Fowler

  
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John B. Connally

  
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Peter G. Peterson

  
\_\_\_\_\_  
C. Douglas Dillon

  
\_\_\_\_\_  
William E. Simon

# **A Bipartisan Appeal To Resolve The Budget Crisis**

**January 19, 1983**

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## **FOUNDING MEMBERS**

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**The Hon.  
W. Michael Blumenthal**  
Secretary of the Treasury  
1977-1979

**The Hon.  
John B. Connally**  
Secretary of the Treasury  
1971-1972

**The Hon.  
C. Douglas Dillon**  
Secretary of the Treasury  
1961-1965

**The Hon.  
Henry H. Fowler**  
Secretary of the Treasury  
1965-1968

**The Hon.  
Peter G. Peterson**  
Secretary of Commerce  
1972-1973

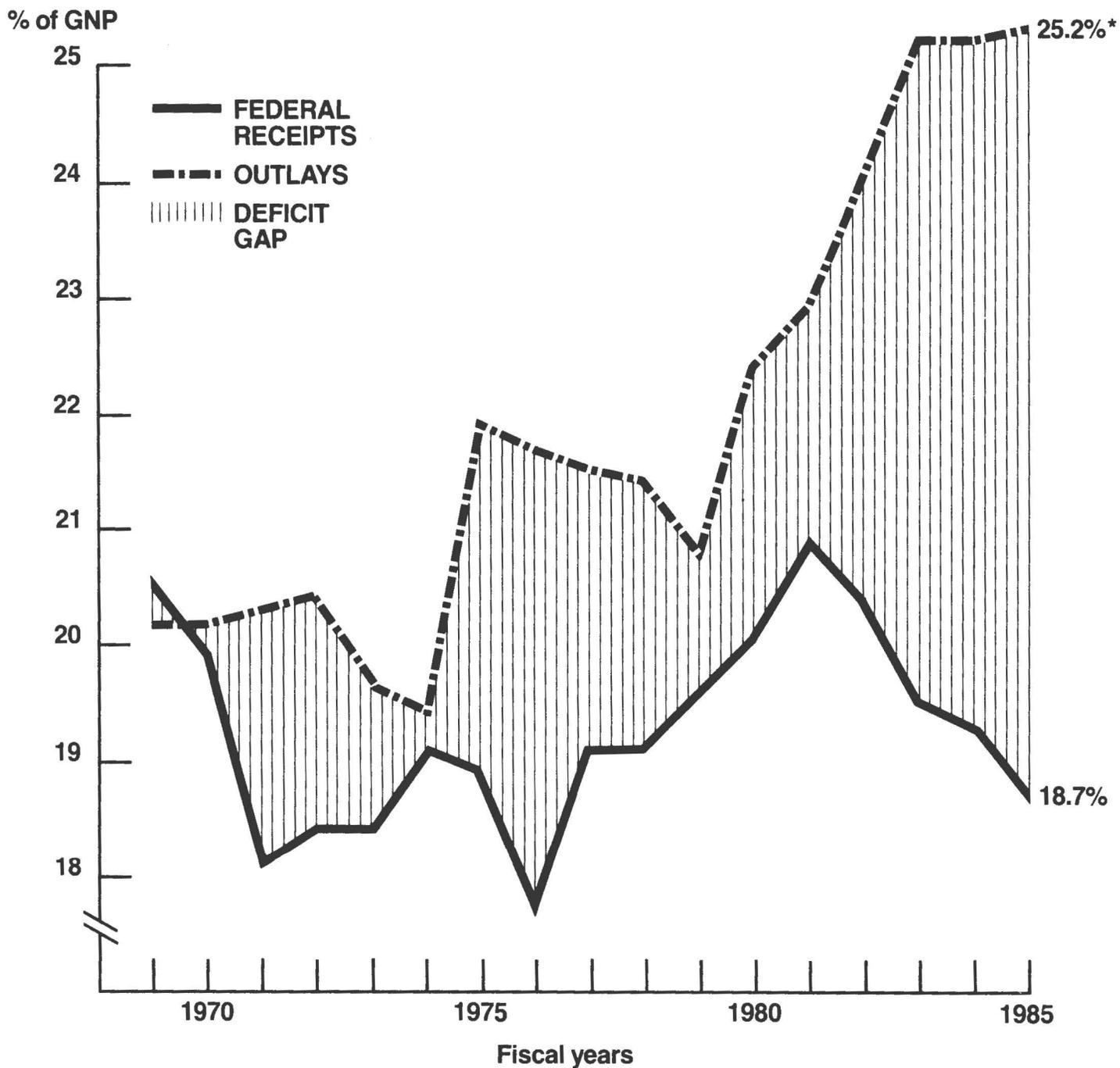
**The Hon.  
William E. Simon**  
Secretary of the Treasury  
1974-1976

## **The Problem**

- **Unprecedented, unending, growing deficits**
- **Growing mismatch between revenues and spending**
- **Will drain already limited savings**
- **Will rob critically needed investment in the future**
- **Near depression conditions now in interest sensitive industries**



## Growing Gap in Share of GNP: Receipts VS Outlays

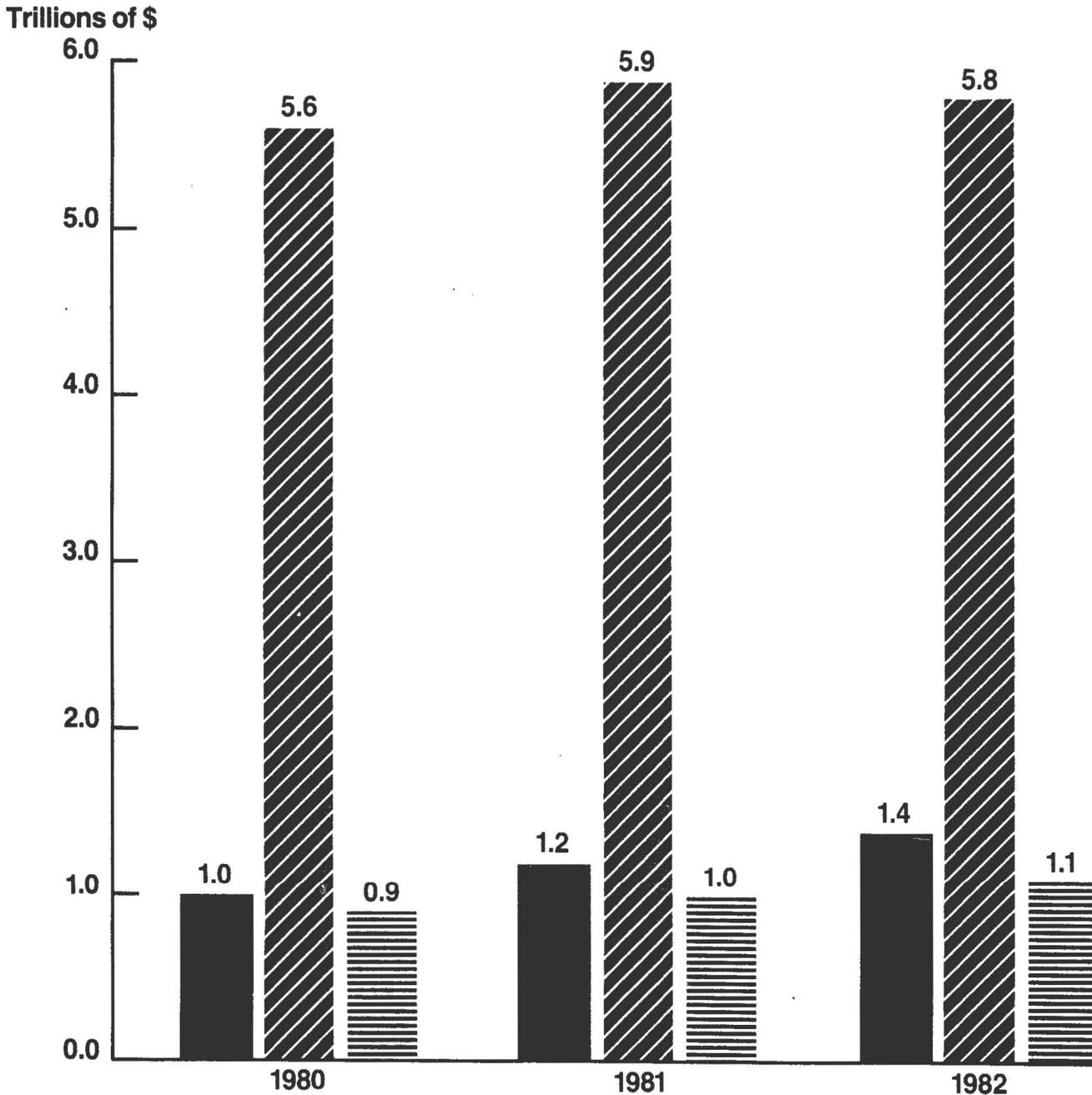


\*1983-1985, estimates assuming no new reductions and 3-4% real GNP growth per year.

Source: Federal Reserve Bank of New York  
Congressional Budget Office  
Office of Management and Budget

# Why the Federal Deficit Problem Will Not Go Away

## COMPONENTS OF THE FEDERAL DEBT (BY FISCAL YEAR, TRILLIONS OF DOLLARS)



■ Book value of gross financial liabilities (Official Public Debt)

▨ Value of unfunded social security retirement liabilities\*

▧ Value of unfunded civil service and military retirement liabilities

\*unfunded liabilities is the amount by which expected benefits to current participants exceed their scheduled future taxes or contributions.

Source: Office of Management and Budget

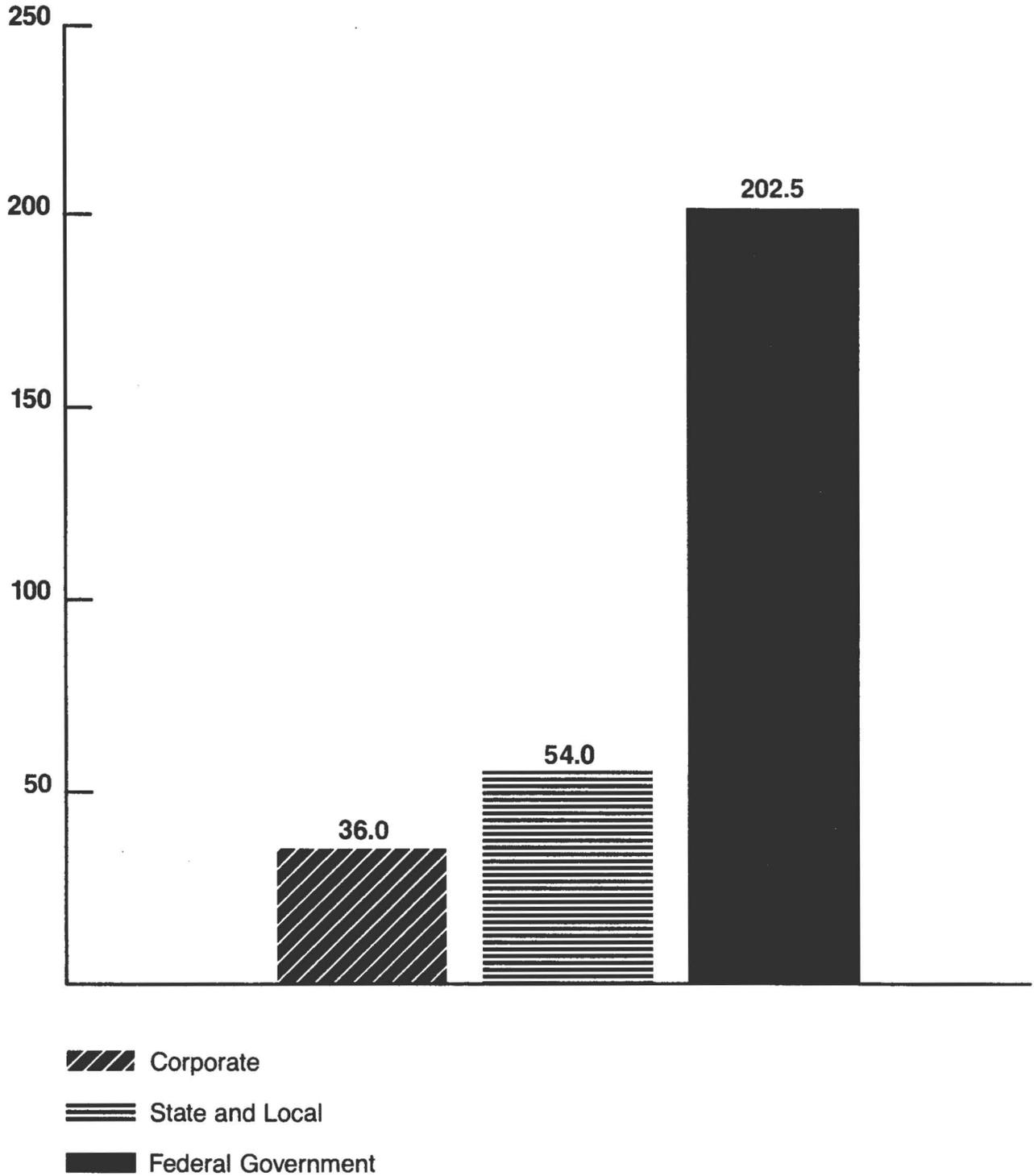
# Deficits Must Not Be Allowed To Soak Up Savings: Would Cut Amount Available For Net New Private Investment To *Half* Of Previous Levels

(SAVINGS AS A PERCENT OF GNP)

	1961 to 1970	1971 to 1980	1985	
			\$250 billion deficit	\$75 billion deficit
<b>Gross Private Savings</b>	<u>16.4</u>	<u>16.9</u>	<u>18.0</u>	<u>17.4</u>
Personal	4.7	4.9	4.8	4.4
Business	11.7	12.0	13.2	13.0
<b>Total Use of Savings</b>	<u>16.4</u>	<u>16.9</u>	<u>18.0</u>	<u>17.4</u>
Less: financing the federal deficit	0.5	1.9	6.5	2.0
other*	0.5	-0.9	-1.5	-1.0
Equal: amount available for gross private investments	15.4	15.9	13.0	16.4
<b>Addendum:</b>				
capital consumption allowance	8.4	9.9	9.8	9.8
<b>Amount available for net new private investments</b>	<b>7.0</b>	<b>6.0</b>	<b>3.2</b>	<b>6.6</b>

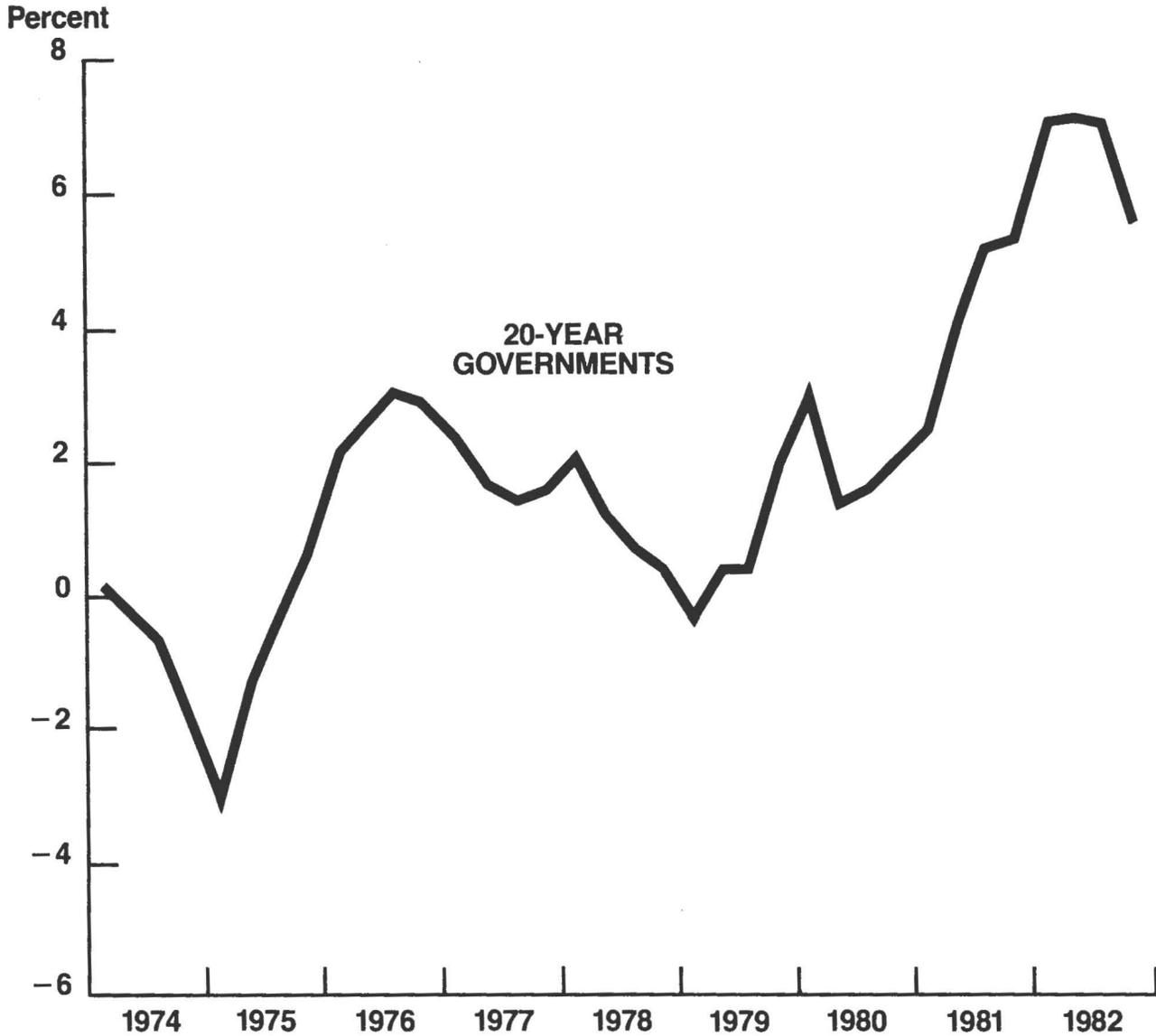
\*Includes net foreign investment, state/local deficits.

## Net New Borrowing in 1982 (billions of dollars)



# Unprecedented Levels Of Real Interest Rates\*

\*INTEREST RATES ADJUSTED FOR  
CURRENT INFLATION RATES



\*Nominal rate minus four-quarter change in GNP deflator.

## **Adverse Impact Of Unprecedented Real Interest Rates**

- **Short Term**—Near depression in interest sensitive industries (Autos, Housing, Construction, Durable Goods) This also depresses demand in basic industries and capital equipment.
- Discourages investment, capital formation and job creation.
- Overvalued dollar—enormous negative effects on jobs and exports—protectionism.
- Bankruptcies—continuing fragile balance sheets.
- Developing Countries—world economy—global financial system.
- Results in unacceptably high unemployment—fixed feature of industrial landscape.

## **Principles of Budget Reform**

- **Long term emphasis (1985 and beyond)**
- **Focus on spending—particularly programs that subsidize consumption**
- **Promote investment**
- **Fairness**

# **GOAL**

---

## **How Much Does the Deficit Need To Be Cut? —About \$175B in 1985**

**Thereby Achieving Overall Goal of Deficit Less  
Than 2% of GNP, Heading Toward Balance**

**1985 Nominal GNP  $\approx$  \$3,800B to \$4,000B  
2%  $\approx$  \$75B**

**1985 Deficit Projection \$250B  
target 75B**

---

**required reduction \$175B**

## Where In The Budget Have There Been Actual Cuts In Dollars?

	<u>1980 Actual</u>	<u>1985 Projection</u>	<u>1980-1985 Change</u>
<b>National Defense</b>	\$123.9B	\$273.5B	+ \$149.6B
<b>Benefit Payments*</b>			
Means tested	55.9	80.3	+ 24.4
Not means tested	227.1	380.1	+ 153.0
<b>Grants to State/Local Governments</b>	57.2	53.6	- 3.6
<b>Other Operations and Subsidies</b>	60.1	59.0	- 1.1
<b>Net Interest</b>	52.5	121.9	+ 69.4
<b>Total</b>	<u>+ 576.7B</u>	<u>\$968.4B</u>	<u>+ \$391.7B</u>

\*Mostly Entitlements

## Where In the Budget Has the GNP Share Declined?

	<u>1980 Actual</u>	<u>1985 Projection</u>	<u>1980-1985 Change</u>
<b>National Defense</b>	4.8%	7.1%	+ 2.3%
<b>Benefit Payments**</b>			
Means tested	2.2	2.1	<span style="border: 1px solid black;">- 0.1*</span>
Not means tested	8.8	9.9	+ 1.1
<b>Grants to State/Local Governments</b>	2.3	1.4	<span style="border: 1px solid black;">- 0.9</span>
<b>Other Operations and Subsidies</b>	2.3	1.5	<span style="border: 1px solid black;">- 0.8</span>
<b>Net Interest</b>	2.0	3.2	+ 1.2
<b>Total</b>	<u>22.4%</u>	<u>25.2%</u>	<u>+ 2.8%</u>

\*In 1981, 1982, projected levels scaled back over twice as much as non-means tested (10.1% vs 4.7%)

\*\*Mostly Entitlements

# Federal Spending

**NOWHERE TO GO FOR LARGE CUTS  
BUT ENTITLEMENTS AND DEFENSE**

	1985 projection	
	\$billions	% of budget
National Defense	\$273.5B	(28.2%)
Benefit Payments*		
Means tested	80.3	(8.3%)
Not means tested	380.1	(39.2%)
Grants to State/Local Governments	53.6	(5.5%)
Other Operations and Subsidies	59.0	(6.1%)
Net Interest	121.9	(12.6%)
<b>Total</b>	<b><u>\$968.4B</u></b>	<b><u>(100.0%)</u></b>

\*Mostly Entitlements

## **Budget Reform: Indispensable But Not The Only Action**

**Other possible changes:**

- **Monetary policy**
- **Social Security and federal pensions**
- **Research and development**
- **Tax incentives for saving and capital investment**
- **Rebuilding public infrastructure**
- **Education and retraining**
- **Reform exchange rate system**
- **Export policies**
- **Other**

***However, any such measures will not prove effective without basic changes in budget policies***

# The Bipartisan Program

	<b>1985 Deficit Reduction Target</b>
<b>1. Entitlements and other non-defense programs</b>	<b>\$ 60B</b>
<b>2. Defense</b>	<b>25B</b>
<b>3. Taxes</b>	<b>60B</b>
<b>These 3 areas of deficit reduction would lower the Federal interest costs* by</b>	<b>30B</b>
<b>Total 1985 Reduction:</b>	<b>\$ 175B</b>

\*for 1983-1985, interest rate assumptions are those specified in the First Concurrent Resolution for 1982, declining to a rate of 7.4% in 1985.

1985 Deficit  
Reduction  
Target  
**\$60B**

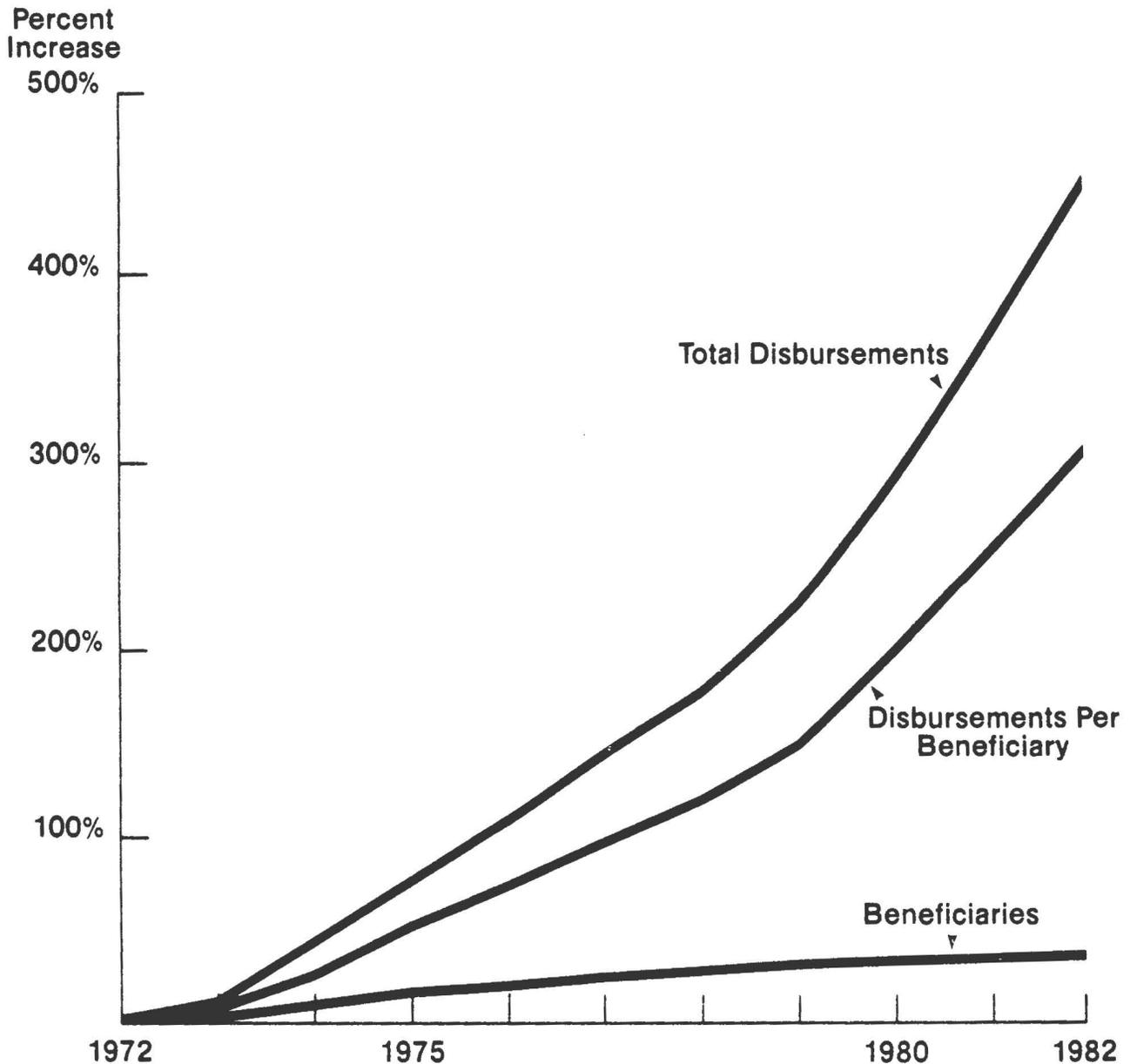
## **1. Entitlements and Other Non-Defense Programs**

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- **1 year freeze on cost of living adjustments for major entitlement programs**  
*(Social Security, Veterans Benefits, Civil Service and Military Retirement, etc.)*
- **Cap on indexing thereafter**  
*(eg: 60% of CPI, only in excess of 3%, etc.)*
- **Similar restraint—transfers, subsidies and other programs not essential to needy**
- **Carried out in ways to protect the citizens truly in need**

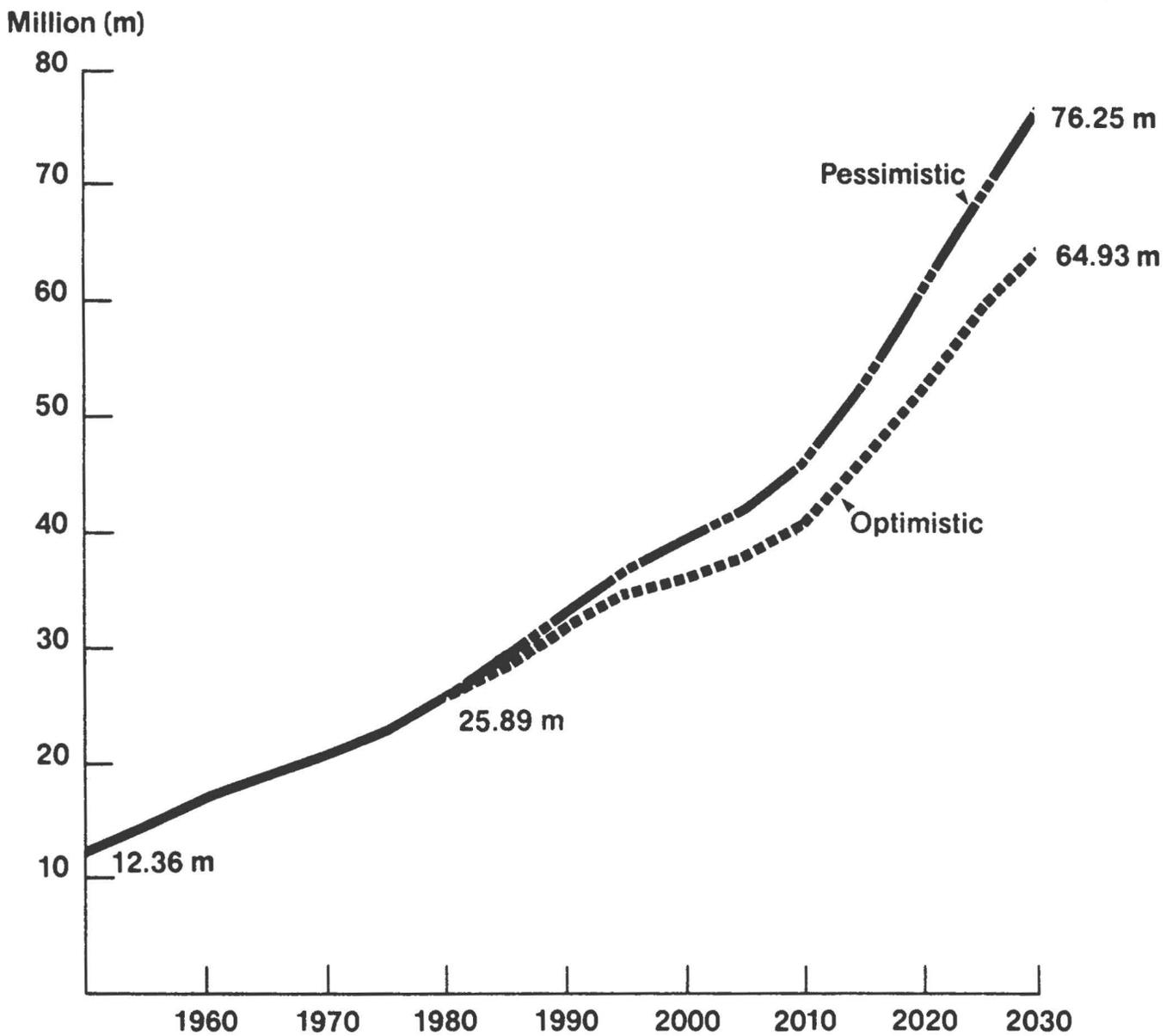
# What Is Primarily Responsible For Medicare's Explosive Growth: The Increase In Beneficiaries Or The Increase In Disbursements Per Beneficiary?

MEDICARE GROWTH SINCE 1972



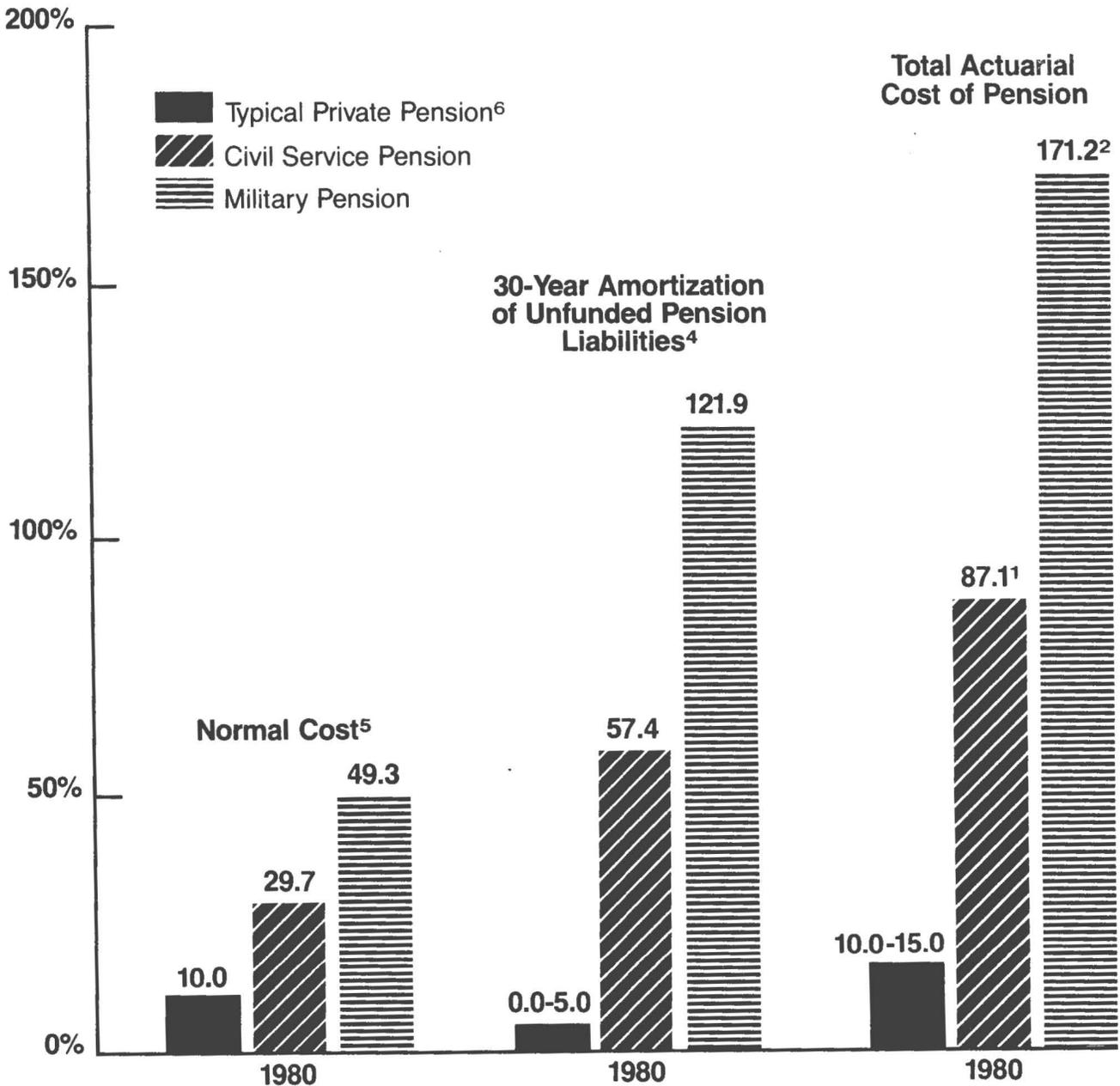
# The Growth in Recipients: What Is Happening To The Size Of Our Elderly Population?

## POPULATION AGE 65 AND OVER



# Pensions: Private Sector vs Federal Civil Service and Military

## FUNDED AND UNFUNDED ACTUARIAL COST AS A PERCENT OF EMPLOYEES' PAYROLL<sup>3</sup>



<sup>1</sup> of the 87.1% total actuarial cost, 7.0% is funded by the federal government from payroll taxes, 30.7% is funded from general revenues, and 49.4% is unfunded.

<sup>2</sup> of the 171.2% total actuarial cost, 61.2% is funded from general revenues and 110.0% is unfunded.

<sup>3</sup> if the current and unfunded liabilities of civil service and military pensions were funded over 30 years, as many companies do under ERISA, additional cost would be about \$115B per year.

<sup>4</sup> in 1980 civil service total unfunded liabilities grew by \$66B and military grew by \$75B.

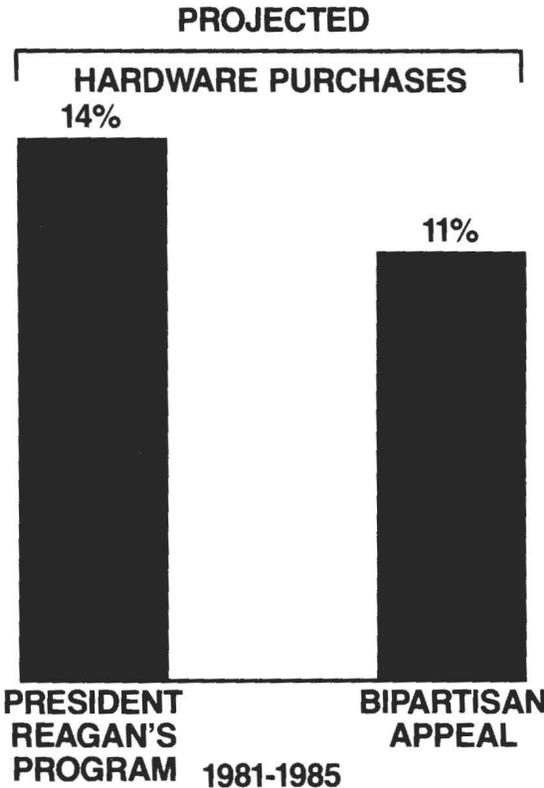
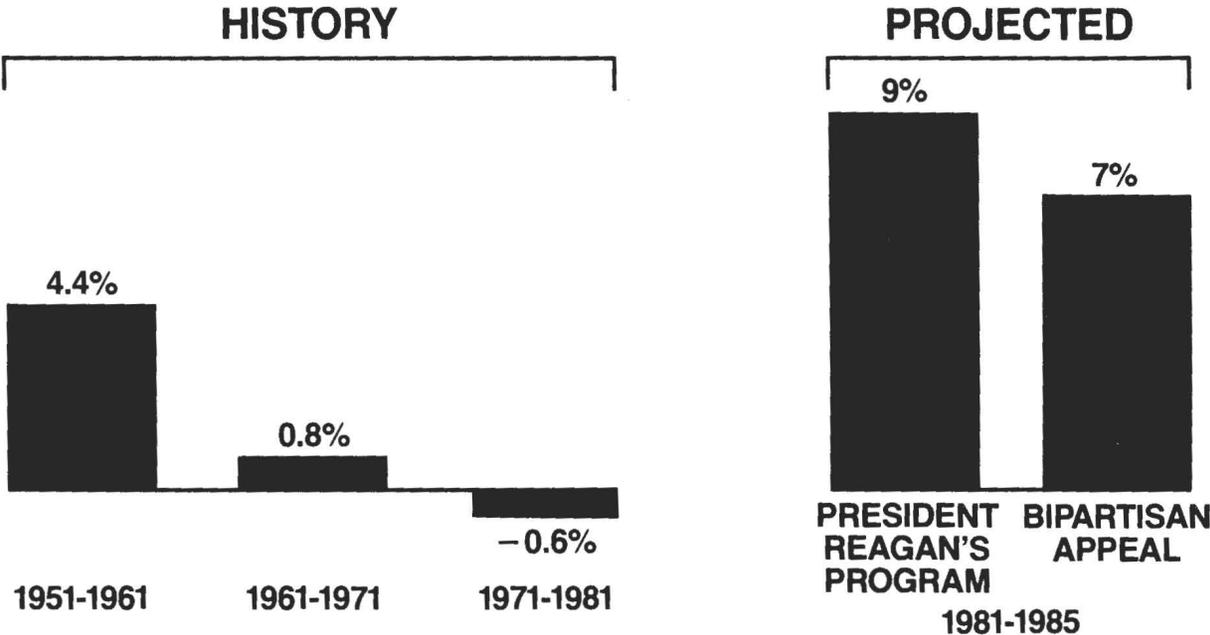
<sup>5</sup> average rate at which contributions would have to be made for each employee, yearly throughout his career, in order to actuarially fund all retirement benefits.

<sup>6</sup> 10% normal cost chosen here is at the high end of the 7-10% average for Fortune 500 firms; employer social security contribution is excluded in order to make data comparable to military-civil service programs.

1985 Deficit  
Reduction  
Target  
**\$25B**

**2. Defense**

**Real Growth in Defense  
(Average Annual Rate)**



Source: Federal Reserve Bank of New York  
Department of Defense

**3. Taxes** (PRINCIPAL SOURCE—CONSUMPTION BASED TAXES)

**\$60B**

AS A PERCENT OF GNP  
TAXES WOULD NOT RISE

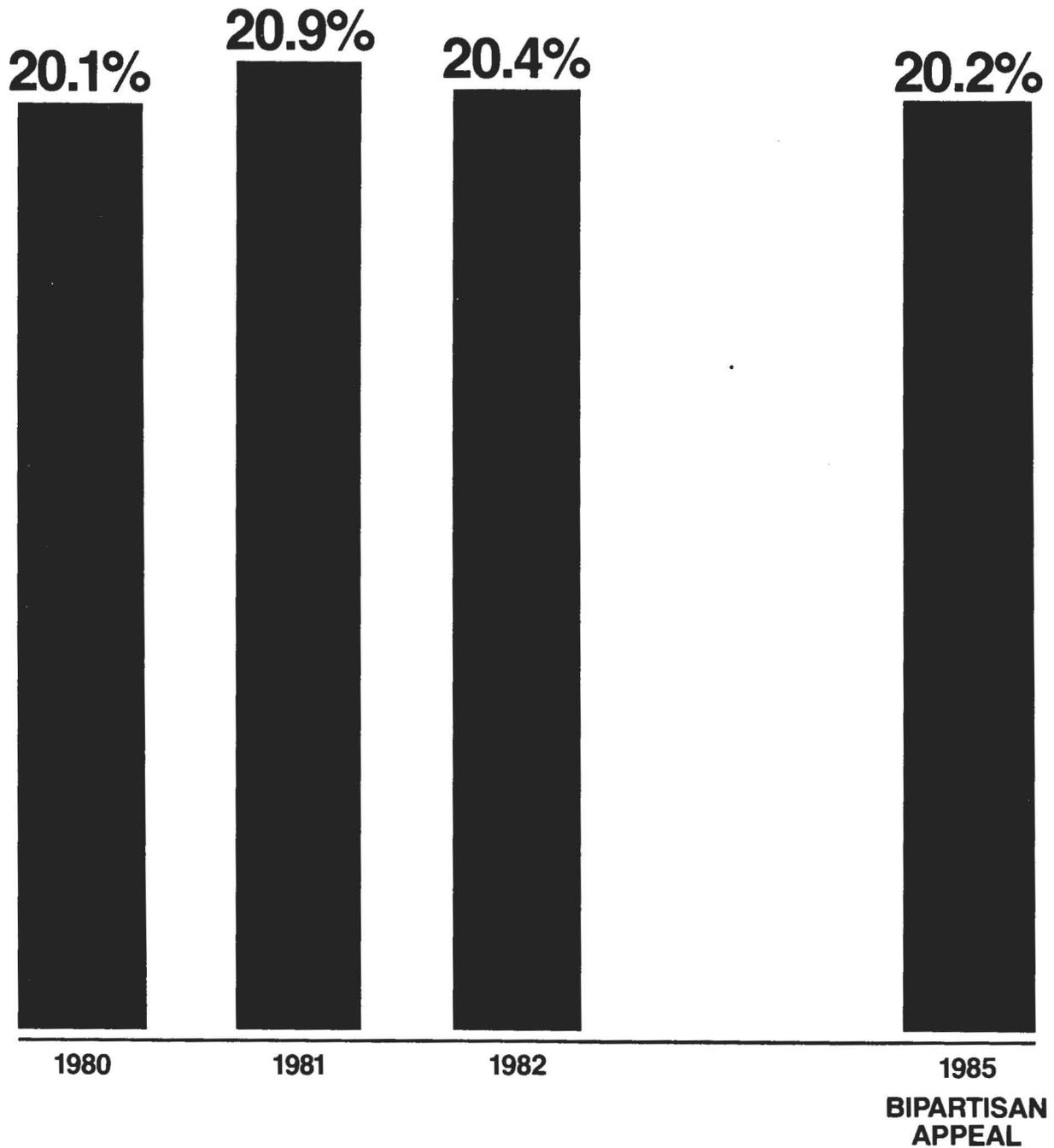


Table 1

Benefit Payments to Individuals (Need Related)  
 Baseline Projections Under Current Policies  
 (By Fiscal year, in millions of dollars)

	<u>Projected</u> <u>1985</u>
<u>Entitlements</u>	
Medicaid	23,736
Child nutrition	3,894
Funds for strengthening markets	370
Special supplemental food program (WIC)	1,141
Assistance payments program (AFDC)	6,953
Supplemental security income	8,672
Payment where credit exceeds liability	1,004
Veterans Administration, pensions	3,898
Subtotal, entitlements	<u>49,668</u>
 <u>Not Entitlements</u>	
Subsidized housing	10,030
Low-income housing	1,544
Other housing	50
Food stamps	12,232
Special milk	36
Food donations	162
Refugee and entrant assistance	680
Energy and emergency assistance	2,063
Student financial assistance	3,875
Subtotal, not entitlements	<u>30,672</u>
 Total, need related	 80,349

Table 2

Benefit Payments to Individuals  
 Baseline Projections Under Current Policies  
 (By Fiscal year, in millions of dollars)

<u>Entitlements</u>	Projected <u>1985</u>
Social Security retirement and disability	198,769
Medicare (Hospital Insurance)	47,493
Medicare (Supp. Medical Insurance)	24,810
Railroad retirement	6,496
Retired pay, defense	18,100
Civil service retirement	26,060
Special benefits (federal employee) retirement and disability	472
Other government retirement	738
Veterans Administration, compensation	12,000
Unemployment compensation	27,230
Student loan insurance	4,158
Veterans readjustment benefits and education	1,059
Coal miners, special benefits	1,096
Black Lung disability	684
Special workers compensation	48
Veterans Administration, burial benefits	151
National service life insurance	1,002
U.S. government life insurance	55
Subtotal, entitlements	<u>370,421</u>
<u>Not Entitlements</u>	
Indian health service	688
Indian health facilities	58
Health services	319
St. Elizabeth's hospital	102
Construction of St. Elizabeth's hospital	6
Alcohol, drug abuse, and mental health administration	0
V.A. medical care	7,786
V.A. construction, major	616
V.A. construction, minor	115
Subtotal, not entitlements	<u>9,690</u>
Total, not need related	380,111

Federal Grants-in-Aid to State and  
Local Governments<sup>1/</sup>  
Baseline Projections Under Current Policies  
(By fiscal year, in millions of dollars)

	<u>Projection</u> <u>1985</u>
<u>Need Related</u>	
Block Grants for Special Education Needs <sup>2/</sup>	3,388
Human Service Block Grants	3,017
Temporary Employment Assistance	0
Employment and Training Assistance	<u>4,584</u>
Subtotal, need related	<u>10,989</u>
 <u>Not Need Related</u>	
Federal-aid Highways Trust Fund	9,420
State and Local Government Fiscal Assistance	5,124
Community Development Grants	3,887
Environmental Protection Agency Construction Grants	3,265
Urban Mass Transportation	3,943
Services to Selected Groups	2,741
Education for the Handicapped	1,137
Unemployment Trust Fund:	912
Training and Employment	
Vocational Adult Education	839
Impact Aid, School Assistance in Federally Affected Areas	505
Community Services Administration	0
Energy Conservation	442
Airport and Airway Trust Fund	495
Bureau of Land Management	644
Permanent Appropriations	
Commodity Credit Corporation	310
Economic Development Assistance Payments	261
Urban Development Action Grants	586
Work Incentives, Health and Human Services	304
Federal Payment to the District of Columbia	501
Funds Appropriated to the President:	219
Appalachian Regional Development Programs	
Law Enforcement Assistance	96
Extension Service, Department of Agriculture	381
Environmental Protection Agency:	
Abatement, Control and Compliance	409
Forest Service Permanent Appropriations	329
Internal Revenues Collections for Puerto Rico	280
All Other (miscellaneous grant programs less than \$300 million)	<u>5,626</u>
Subtotal, not need related	<u>42,658</u>
Grand Total	53,647

<sup>1/</sup> Does not include grants that are used for benefit payments to individuals (for example, medicaid).

<sup>2/</sup> Formerly compensatory education for the disadvantaged.

Other Operations and Subsidies  
Baseline Projections Under Current Policies  
(By fiscal year, in billions of dollars)

	<u>Projections</u> <u>1985</u>
Civilian agency pay	30.9
Commodity Credit Corporation	7.0
International Affairs	13.0
Other	<u>8.1</u>
Total	59.0

Source: Congressional Budget Office  
Federal Reserve Bank of New York



The  
Conservative  
Caucus, Inc.

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Project Office 47 West Street, Boston, Massachusetts 02111 • (617) 426-7188  
Administrative Office 7777 Leesburg Pike, Falls Church, Virginia 22043 • (703) 893-1550

*Phillips, Howard  
JC.  
hmm...  
come up with  
see 12/7*

November 20, 1981

*12/1 How handle? MPT*

MEMORANDUM FOR HON. JAMES A. BAKER  
HON. EDWIN MEESE, III

FROM: HOWARD PHILLIPS *RP*

Here are some specific actions which the Reagan Administration can take now to defund the Left.

1. Appoint a grants and contracts review coordinator in each department and agency who will report regularly to an overall grants and contracts review coordinator in the Office of Management and Budget.
2. Commission through the Justice Department a study focusing on the unconstitutionality of funded advocacy, and considering possible legislative and administrative remedies.
3. Review the regulations, work programs, procedures, and evaluative priorities of each department and agency with respect to grants and contracts.
4. Expand the Freedom of Information Act to cover private organizations, directly or indirectly (as through delegations of funding) subsidized by Federal grant or contract.
5. Solicit the assistance of Republican leaders in the House and Senate to initiate oversight hearings, inquiries, and investigations, and to acquire support for comprehensive legislative reform, including riders to authorization and appropriation measures.
6. Provide leadership for the offices of public affairs, congressional relations, and administration in each of the departments and agencies.
7. By Executive Order, limit the use or the assignment of Federal funds to organizations engaged in issue advocacy or grass roots organizing.

*With a report on what you find out 12/7*

**Board of Directors**  
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Peter J. Thomas, Secretary  
Lawrence J. Straw, Jr., Treasurer  
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Dwight Bratcher  
Assistant Director

**Media Director/Special Projects**  
Larry A. Woldt

**Publications**  
Senate Issues Yearbook  
Senate Report  
Grass Roots  
Member's Report

8. Enforce laws now on the books through criminal prosecutions emanating from the Department of Justice.
9. Undertake more frequent and comprehensive audits and inspections of ongoing grants to advocacy organizations.
10. Have the Office of Legal Counsel at Justice maintain that "intervenor funding" programs may not be established without express statutory authority.
11. Have the Justice Department develop a written departmental policy that a) the "standing" issue will always be raised when the standing of a litigant is in question, b) that the government will refrain from sweetheart suits, and c) that the government will vigorously fight legal fee awards to public interest groups.
12. Have the Justice Department promulgate a more expansive interpretation of 18-USC-1913, and pursue a more vigorous enforcement of its provisions.
13. Plan a major Presidential address on the illegitimacy of publicly funding private advocacy groups.

HP:kas