

Ronald Reagan Presidential Library  
Digital Library Collections

---

This is a PDF of a folder from our textual collections.

---

**Collection: Fritz, Sara: Papers**  
**Folder Title: White House Notes – 08/01/1981-  
08/31/1981**  
**Box: 1**

---

To see more digitized collections visit:

<https://reaganlibrary.gov/archives/digital-library>

To see all Ronald Reagan Presidential Library inventories visit:

<https://reaganlibrary.gov/document-collection>

Contact a reference archivist at: [reagan.library@nara.gov](mailto:reagan.library@nara.gov)

Citation Guidelines: <https://reaganlibrary.gov/citing>

National Archives Catalogue: <https://catalog.archives.gov/>

STORY:MEESE  
MA:60 FMP:

✓  
QUEUE:CWF-CWF  
HJ:

MSG:  
INI:

OPR:CWF ;08/03,12:14

TO: MLS, LT, JF, DR, BFP, JG, JH, JWM, GP, DCB, LH, SJT,

PGE

FROM: RAK

RE: Meese at Sperling breakfast

Air controllers' strike. The administration is taking the toughest possible line against the strikers:

\* A back-to-work injunction won by the government in federal court this morning is being served on the union officers.

\* The administration will seek another injunction to bound PATCO's strike fund, an action that would prevent the union from paying strike benefits. The White House will seek this court order on the grounds that "the strike is clearly illegal."

\* The White House, says Meese, will not negotiate with the union while its workers are on strike. "They'll have to go back to work before there will be any negotiating with them...It's a simple matter [that] you don't negotiate with them while they're on an illegal strike...You can't negotiate with them as if its an ordinary strike when they're violating the law and threatening public safety...They're already among the best paid of federal employees...and their demands are outrageous."

\* Controllers who remain on strike "will jeopardize their jobs and any future employment with the federal government."

\* Among other ``innovative`` steps the White House is considering, says Meese, are jail terms for controllers who refuse to go back to work. The government would seek to jail strikers for violating the judge's back-to-work order. This would require the judge's jailing of workers for contempt of court.

\* Military controllers may be brought in to assist supervisory personnel, and the FAA may implement a training program for new controllers, ``particularly if there are a lot of them who forfeit their jobs.``

The President was to meet this morning with Secretary Lewis, Attorney General Smith, Meese and others to reinforce the get-tough policy.

Meese complained that the union acted in bad faith when its executive committee voted not to endorse the tentative settlement and then ``advised its members to vote against it.``

A former California prosecutor, Meese is certainly the strongest voice within the White House for tough action against PATCO. But Reagan also has taken a hard line in similar situations in the past. I don't think the administration is likely to soften its stance unless the walkout worsens over several more days. Now that the stage has been set for a showdown, Reagan won't back down quickly.

MX decision. ``No decision has been made...More detailed discussions will go on for the next few weeks...All of the

(MORE)

possible modes are still being considered...I would expect a decision within the next 30 to 45 days." The Washington Post's account that Reagan is prepared to endorse an air-based MX system was in all likelihood a trial balloon floated by Meese. But Meese restated Reagan's general opposition to land-based systems "such as the race track or linear methods which cover large tracts of ground." Meese claims with a straight face that Reagan's opposition to a land-based system is rooted in his deep concern over possible environmental damage in the West.

More budget cuts. Meese left the clear impression that the additional deep budget cuts necessary to balance the budget '84 will come from domestic programs. Department heads have been instructed to come up with more proposed cuts for fiscal '83. Meese suggested that these cuts will be of the same magnitude as the cutbacks just approved by Congress. "There's plenty of room for more paring in the future...The current cuts are not all that great...The budget for health and human services is larger than the defense budget." Meese mentioned food stamps as a possible target for future program cuts. Would the Pentagon be immune from cuts? No, said Meese, "but there are always other ways spending can be cut." Cuts in defense spending are more likely to be "management cuts," not program cuts.

Arms limitation talks. The White House will not pursue strategic arms limitation talks with the Soviets unless

(MORE)

there is some prospect for success, Meese stressed. How the Soviets respond to the upcoming talks on theater-nuclear-force reductions in Europe will be the chief criteria for deciding whether strategic talks would be worthwhile.

“From the TNF negotiations we’ll get some idea whether the Soviets are serious about strategic reductions...That will provide a realistic basis as to the inclinations of the Soviets.”

Meese claims that Reagan and Brezhnev have communicated regularly through personal correspondence that each of them has initiated at different times. But he declined to elaborate and admitted that it has been a couple of months since the two leaders last communicated. When will Reagan and Brezhnev meet? “We don’t have any plans to meet with him at the present time.”

Priorities. During the next few weeks [vacation time for most of the senior White House crew], the President will set priorities for the rest of the year. Meese mentioned the following candidates, in this order: crime and narcotics control; federalism; urban economic development and enterprise zones; “the whole defense program” (MX, a new manned bomber); sale of AWACS to Saudi Arabia; the foreign military-assistance budget; housing; the “so-called social issues--abortion, school prayer and busing.” It is clear that the White House will downplay the divisive social issues as much as is politically possible.

Crime. Meese’s pet issue, of course, is crime control. He

(MORE)

elaborated at some length about what the federal government could do to fight crime and drug traffic. The feds must be more vigorous, said Meese, in eradicating such interstate crime as "motorcycle gangs and prisoner gangs."

Press conference. The White House is "looking at a couple of options" for a press conference while Reagan is in California this month.

(END)

STORY:WHU1  
MA:60 FMT:

QUEUE:SJF-SJF  
HJ:

MSG:  
INI:

OPR:SJF ;08/06,10:40

SJF

To: mls lt dr jf bfp jg jh jwm gp dxb dcb lh fwf mfd jdn

From: sjf

Re Air Traffic Controllers Strike. The following material comes from interviews with White House Communications Director David Gergen, Deputy Press Secretary Larry Speakes, White House labor man Robert Bonatati, federal mediator Kenneth Moffit and others.

There are a few faint signs that the stalemate between President Reagan and the striking air traffic controllers might be settled without a mass firing of thousands of workers who have refused to report for work.

PATCO President Robert Poli and Reagan administration officials have exchanged messages through third parties.

'Poli has sent us signals--feelers,' says Gergen on background. 'He's not comfortable with his position.'

Gergen, whose quotes in this memo should be attributed to a top White House official, adds that the President would be willing to revoke the dismissals if the controllers return to work en masse within the next seven days.

Publicly, White House deny any intention to give the controllers a second chance. Although the administration refuses to negotiate with the strikers, Gergen notes: 'You could argue that once they are fired, technically they're no longer on strike.'

Bonatati advises: 'If I were a reporter, I'd see some significance in their moving the deadline back. Maybe there was something afloat.'

(MORE)

STORY:WHU2  
MA:60 FMT:

QUEUE:SJF-SJF  
HJ:

MSG:  
INI:

OPR:SJF ;08/06,14:25

o: mls lt dr jf bfp jg jh jwm gp dxb dcb lh rak fwf jdn  
mfd\_dm

From: sjf

Re controllers strike, Sadat visit and other matters.

Transportation Secretary Drew Lewis will meet with airline executives soon to work out a permanently reduced flight schedule, according to David Gergen.

Gergen cannot predict what percentage of the flights will be cut. He notes the schedule has been trimmed 25 percent overall by the strike, and 50 percent in the major metropolitan areas. Again, he refuses to speculate what impact this will have on the economy and employment in the airline and related industries.

There's speculation among reporters that the airlines are not complaining about these cutbacks because they see it as a way to unload many unprofitable routes. There's also a great deal of animosity between the airlines and the controllers as a result of past slowdowns.)

As of 10:30 p.m. Wednesday night, says Gergen, 620 original strikers had returned to work. Only 939 termination notices were sent out, however, due to "administrative delays."

In discussing the situation, President Reagan confessed for the first time that he is a white-knuckle flyer. "As an old ex-horse cavalry man," he said, "I'm always worried about flying." He also expressed some regret: "I do feel bad. I certainly take no joy out of this."

(MORE)



Sadat visit. Richard Allen, who insists upon being identified as a "senior administration official," told reporters Wednesday that the subject of Palastinian participation in the peace process was raised during Sadat's first meeting with Reagan. But he said the Palestinian Liberation Organization was not mentioned by name. He said Sadat simply repeated remarks he made earlier in London. Sadat apparently suggested that the ceasefire in Lebanon was the first step toward talking with the Palestinians. Allen said Sadat indicated he had a "scenario" in mind and he "described elements of this scenario." They also discussed drawing other Arab states into the peace process. Saudi Arabia and Jordon were mentioned. The two leaders spent more than 15 minutes looking at maps as Sadat explained his "strategic view" of the region. Reagan opened the meeting by discusssing the Soviet threat in the region.

President Ford. Ford called upon Reagan Wednesday. He came to town to meet with Sadat. Speakes received a call from Brent Scowcroft earlier this week complaining that the White House had not announced Ford's impending meeting with Sadat. Ford read in the newspaper that Sadat would be talking with Carter and Nixon and he was miffed that his name was not mentioned.

After meeting with Reagan, Ford told reporters that he and Betty are looking forward to campaigning for their son California in 1982. The former President did not look

(MORE)

very good. His suit was ruffled and he obviously had a few martinis under his belt.

MX. Speakes, Gergen and others at the White House say that Ed Meese was the source of last weekend's story that the President had decided on an air-launched missile system. Yet they all deny that any decision has been made. Speakes is miffed that whenever Meese sends up these trial balloons, he always plays coy about it--even with the White House press office. "Even we can't get him to confirm it," says Speakes.

AWACs. President Reagan sent Congress a letter this week repeating his intention to sell AWACs to Saudi Arabia. Why? Speakes says the Saudis had been demanding something in writing, but the White House was reluctant to take that step prior to the tax vote.

(END)

To: jf

From: sjf

Here's my exchange with Meese on the Middle East:

Q: Do you intend to get any tougher on Begin?

A: ``Our attitudes and views are well known and have been carefully communicated to Mr. Begin and his government--that we are very much interested in maintaining and preserving the ceasefire in Lebanon and in preventing any other outbreaks of violence in the area and in continuing the peace process. Their good faith was manifest in their participation in the ceasefire in Lebanon.``

Q: Do you see the ceasefire, as Sadat does, as a step toward negotiations with the PLO?

A: ``President Sadat said on various occasions here both in the private meetings and outside that he felt that the PLO's agreement to and observance of the ceasefire was the single most historic recent step as far as the situation in that region is concerned. And he felt it was an important step on which we should build future developments in the peace process. Our position is that we agree that it's an historic and dramatic step and we will now...and I think that's obviously, we agree on that being important. Our own policy and position has not changed. Our position of course has been that you don't negotiate with someone unless they have given up terrorism as a means of obtaining their objectives and until...unless they recognize the right of Israel to survive as a nation. I'd rather not have that

(MORE)

attributed to me, but that is our historic position. Now,  
I maintain that position--that you can quote.

Q: What about any discussion short of direct negotiations  
with the PLO?

A: ``There are a lot of things going right now. You've got  
the Begin visit coming, so I would say in order to give you  
guidance for whatever you may want to write, we are  
entering a period in which there is a lot of opportunity  
for developments in this field--that's not for attribution  
but for your guidance. A whole number of topics are going  
to have to be discussed in the course of the Begin visit as  
they were in the Sadat visit and then whatever things  
follow that. So what I'm trying to say is there's movement--  
not in any way designed to indicate that we're backing away  
from our position. But if I were in your shoes I would not  
hesitate to speculate without attributing it to me or  
anybody in the White House that Sadat's feelings certainly  
indicates there's a potential for developments. There's an  
excellent opportunity for progress. I don't know how its going  
to come out.

(END)

August 7, 1981

FROM: RAK - Santa Barbara

TO: MLS, LT, JF, BFP, DXB, JWM, GP, DR, JG, DCB, LH, SJF, RAK, PA, PGH,  
JDN

RE: Air Controllers Strike

The White House announced this morning that 130 additional military controllers are reporting to FAA control towers today as part of the administration's plan to phase in 2,000 military controllers for an indefinite period. The controllers will come from a pool of 10,000 military controllers.

Spokesman Larry Speakes said the additional military personnel bring to 8,497 the number of controllers working today -- about 40 percent of normal manpower strength. Of the total, about 500 are military controllers, and about 1,200 are nonsupervisory personnel. Speakes suggested the military personnel could remain on duty as long as 21 months, until new civilian controllers are trained. The FAA today began processing "'thousands'" of new applicants for controllers jobs, Speakes said. He restated the administration's position that any controller without a legitimate excuse -- such as sickness or vacation -- will not be reinstated. There is no indication here that the White House will soften its position.

Air traffic will be frozen at 75 percent of capacity until September 8, when a six-month plan will be put into effect after consultation with the airlines. The administration also will meet with the airlines next week

to discuss their economic problems resulting from the strike.

Tax and budget bill. The White House has tentative plans for Reagan to sign the budget and tax bill<sup>s</sup> in a ceremony at the ranch the middle of next week.

(END FILE - ES)

August 10, 1981

FROM: ✓ SJF - Bethany Beach

TO: MLS, LT, JF, BFP, DXB, JWM, GP, DR, JG, DCB, LH, RAK, PA, PGH

The following material comes from an interview with Ed Meese, counselor to the President.

Meese hinted that the United States is prepared to begin some sort of indirect negotiation with the Palestinian Liberation Organization over the future of the West Bank.

He noted that Sadat has<sup>d</sup> described the Palestinian Liberation Organization's observation of the cease-fire in Lebanon as an historic step on which future developments could be built. "Our position is that we agree it's an historic and dramatic step and we will now ... our position at this point has not changed. Our position is that you don't negotiate with someone unless they have given up terrorism as a means of obtaining their objectives and until they have recognized the right of Israel to survive as a nation. I'd rather not have that attributed to me, but that's been our historic position. We maintain that position -- on that you can quote me."

Asked if there is something short of direct negotiations with the PLO that the United States could agree to, Meese replied: "There are a lot of things going on right now. We've got the Begin visit coming. So in order to give you guidance, for whatever you may want to write, we are entering a period for which there is a lot of opportunity for developments in this field. That's not for attribution, but for your guidance. A whole number of topics are going

to have to be discussed in the Begin visit as they were in the Sadat visit and whatever things follow that. So what I'm trying to say is there's movement -- not in any way to indicate that we're backing away from our position. But if I were in your shoes, I would not hesitate to speculate without attributing it to anyone in the White House that Sadat's feeling certainly indicates that there's a potential for development. There's an excellent opportunity for progress.''

Asked whether President Reagan has decided to get any tougher on Begin, Meese replied that the United States has informed the Israeli government in no uncertain terms that the President wants a continued cease-fire in the Middle East.

PATCO strike. Meese takes a hard line when it comes to the striking air-traffic controllers. When he was asked whether there is any way for the striking workers to be rehired, he replied, ''I don't know of any.'' He said that the President is concerned about the economic hardship being caused by the strike, but placed all of the blame on the striking workers. ''I think it is unfortunate that the air-traffic-controllers union has inflicted hardship on others, and we will take steps, working with the airlines, to minimize those hardships.''

He rejected any suggestion that the President's hard line was designed to send a signal to other employers who



are now negotiating with unions. The President is not a person who has a hidden agenda," Meese said. "The only message he's sending is that he has expressly said: The law must be observed and be enforced."

Social Security. Meese suggested that a bipartisan proposal to save the Social Security system is "very possible." He said the President has heard from a number of Democrats who want to work with the White House in developing a bipartisan plan. Although he would not identify these Democrats, he acknowledged they do not include House Speaker Tip O'Neill or Jim Wright. He noted that there is not a great deal of difference between what the Republicans and what the Democrats are proposing on retirement age. "There's room to work out a mutually-agreed-upon plan," he said. He also suggested that the two sides were getting very close together on an agreement over minimum benefits. He said tactics of the President's Social Security initiative will be mapped out in California during his vacation.

Personal plans. Meese complained that his income was cut by 50 percent when he took his current job at the White House, but he has no plans to leave the White House any time soon.

(END FILE - CKM)

STORY:NOTES  
MA:60 FMT:

QUEUE:JWM-JWM  
HJ:

MSG:  
INI:

OPR:JWM 108/12,13:42

TO: MLS, LF, DR, TJJ, SJF/RAK, DKB  
FROM: JWM

(Following is from a largely on the record conversation in Chicago with Richard Wirthlin, Reagan's pollster and the head of Decision Making Information.)

Patience: Wirthlin thinks the public is willing to give Reagan more time in his Administration's ability to turn the economy around. He says seven of 10 think the recovery plan will work and more than 50 per cent surveyed acknowledge it will take more than one year. He quickly adds, however, that those expectations can turn around because the public can be aroused adversely.

He thinks people are more patient with Reagan because 1. they understand the economy more. "People really know the difference between cuts in taxes and cuts in tax rates." 2. they recognize the sharp change in economic policies of the past and know it will take time for them to work and 3. Reagan has effectively communicated that it will take time although he sometimes gets carried away with his own exuberance.

Traps: Wirthlin, although the President is riding high now, says he is aware that "there are about 100 traps out there waiting for him and I've told him just that." Among them: Social security, the Middle East, energy. He admits to Reagan's being very lucky on several issues, including the drop in prices on energy. The important thing, in his view, is to keep control of the agenda as the White House was successful in doing on the economic program.

Off the record, he pointed to the "miserable handling" of the Social Security question earlier this year as an example of what can happen when the Administration loses control of the agenda. Congress immediately took over and stuck it to Reagan. "We got into a damage control situation and we looked weak in doing so."

Wirthlin is confident that Reagan will avoid any smugness because "it isn't in his character." He looks for a real attempt to solve the social security question and advises against any attempt to do a public relations number on the issue.

Role: Wirthlin, who says he admires Patrick Caddell, Carter's pulse taker, is determined to do things differently. First, he is not accepting any foreign clients after wrapping up some work for the conservatives in Canada. He's had six offers, turned them down. He wants to keep a low profile and has done so. Third, Wirthlin thinks he should broaden his scope of contacts, so he is including Cabinet members in discussions about the findings of his polls. (LF: Whisper there. Caddell reported to Carter and Carter alone. Wirthlin is making sure selected Cabinet officers are clued in on what the public is thinking.)

(MORE)

Wirthlin is obviously raking in the money now even before consider his business clients. He's polling on national and state issues for the Republican National Committee and its congressional campaign committees. And the RNC is paying for the White House surveys.

Incidentally, the numbers continue to look good to Wirthlin. His negative numbers on Reagan are not as high as NBC, other polls. He thinks RR has recovered from any losses due to public fear of social security or alarms over the budget cuts.

Politics: On the 1982 Senate races, Wirthlin goes along with the conventional view that the Republicans have to pick up seats on the numbers alone--20 Democrats and 12 Republicans up. On background, he is less optimistic about the House than some Republicans. He thinks the historical pattern is tough to break with the party in executive power losing seats in the next congressional election. In other words, Wirthlin figures the Democrats are likely to retain control. He also doesn't seem enthused about the prospect of Democratic Boll Weevils switching parties.

(Sometime this fall we might want to interview Wirthlin about the public perception of Reagan on the tough social issues, his job performance, his problems with social security, foreign policy. Perhaps an IVU with him could be part of a White House package in the works. Sure, he comes from a biased viewpoint but his numbers are respected by Democratic pollster, political professionals. And he would prefer to deal with us, I'm sure. Wirthlin is moving to Washington so he'd be close by.)  
(END)

STORY:GERGEN  
MA:60 FMT:

QUEBUE:JWM-JWM  
HJ:

MSG:

INI:

OPR:JWM

:08/18,03:44

TO: MLS, LT, DR, GP, JG, DXB, SJF, RAK, JWM  
FROM: JWM

(Following is from on the record breakfast with David Gergen of the White House staff.)

Deficit: Gergen's mission was an obvious attempt to damp down reports that the FY 82 deficit was going to leap from 40 billion dollars to 60 billion dollars. Gergen acknowledged some "upward creep" in the numbers but said they were significantly less than the 20 billion figure being bandied around town. Gergen said the deficit increase would be less than double digit and he claimed that high interest rates have already been factored into the numbers.

Gergen also said this means a renewed drive within the Administration for cuts in the 1983 and 1984 budgets, slashes he put at in the 75 billion dollar range to go along with 130 billions in cuts already through Congress.

Gergen said Reagan had not abandoned his goal of a balanced budget in 1984 and he also pledged to aides that there be no increases in excise taxes over his term.

To the doubters of the balanced budget goal and reminded of Jimmy Carter's failure to achieve it by more than 60 billions, Gergen affirmed that the goal "is fundamental to his (Reagan's) whole approach." He shrugged off a suggestion that Reagan should learn from the failures of past Presidents and stop talking about a balanced budget that looks out of reach.

At the same time, Gergen conceded that the Administration is facing tough numbers with "significant forces driving up government spending." He also said government revenues would be down, citing the losses in the windfall profit taxes.

Gergen could not be pinned down with a barrage of questions about cuts in defense spending, strategic or conventional. He would only say that the Pentagon, along with other government departments, had been instructed to look for more ways to cut their budgets. He also said Reagan does not believe that defense spending necessarily drives up the rate of inflation. (The Administration obviously wants it both ways in this continuous argument.)

Supply Side vs. Monetarists: Gergen said there was no indication from Reagan that he was departing from his policy of an orderly supply of money from the FED. He denied that the monetarists were winning the battle from the supply siders. "With the largest tax cut in history, who can argue that the supply siders have lost? Ronald Reagan is the chief supply sider in the White House."

Confidence: On the failure of the market to respond to the economic recovery plan, Gergen said "we've said all along we didn't expect the economy to turn around on a dime." He said financial markets recognize the Administration is

(MORE)

ll dealing with problems left over from the past.

The White House is encouraged, he said, by numbers provided by presidential pollster Richard Wirthlin. First, he said the Wirthlin polls show a rising and more solid political support for the President in a personal way.

On the economy specifically, Wirthlin said the public, by more than 80 per cent is willing to wait one year from now before growing impatient for evidence of a turnaround. So Gergen sees a patience factor other Presidents haven't had in their favor. "We see optimism continuing to go up with the President building political momentum. His support has solidified." He said support for recent Presidents had started to melt away "at the first sign of trouble."

Agenda: When Reagan returns from his California vacation, Gergen says "there are going to be lots of balls in the air."

He said Reagan continues to place the economy as the number one priority, and will make sure Congress follows through its budget cuts (hinting at vetoes of any attempts to go over reconciliation figures), and taking an active role in finding additional cuts for Stockman and OMB.

"We've got to make sure the economic recovery plan works."

Other Gergen items: A RR role in the anti-fraud and waste drive in government, "energizing the private sector" or promoting voluntarism in our society, the Voting Rights Act extension, Clean Air, Davis-Bacon, and a Social Security plan that carries bipartisan strength.

On the latter, Gergen offered nothing new except that Senate leader Howard Baker had engaged in a number of meetings to come up with some options. He claimed Reagan was not going to leave it to the Hill and his HEW Secretary and said he hoped the issue could be treated with "less demagoguery."

Forecasts: Gergen was hazy. He said interest rates would decline by the end of the year. He sees no large drop in unemployment and even expects some increase in the fall. And he cites other Administration voices that "the phenomenon of double digit inflation is behind us."

(END)

STORY:GERGEN  
MA:60 FMT:

QUEUE:CWF-CWF  
HJ:

MSG:  
INI:

OPR:SRR ;08/13,17:06

TO: MLS, LT, JF, DR, BFP, JG, JH, JWM, GP, DCB, LH, SJF,  
PGH, JDN

FROM: RAK

RE: Background-only ivu with David Gergen

Air controllers' strike. Gergen stressed emphatically that the White House will not even discuss or otherwise consider amnesty for PATCO controllers who walked off the job. The reason amnesty is not under consideration, says Gergen, is the administration's overriding fear that granting a reprieve to the strikers would provoke a revolt among those controllers and supervisors who have stayed on the job.

"The controllers who are in the towers now are very sensitive about granting amnesty to these guys who walked off. Anytime there's a rumor about amnesty, we face a tremendous uproar from the [working] controllers...If you lose the guys working now, then you've really lost the system...A lot of them are afraid that if these guys come back to work with them, they will carry out their threats of harrassment."

Gergen said someone "not in the White House but in the administration" floated a rumor that Lewis was prepared to talk to Poli about a possible amnesty. Lewis was furious, says Gergen, who claims he spent this morning trying to quell the erroneous report before it created more problems. If Reagan is asked by reporters about the strike when he signs the tax bill today at the ranch, the

(MORE)

President is ready to repeat his pledge that the strikers will not be rehired under any condition, Gergen said.

Gergen adds, "I've lived in this town long enough to know that you never say never, but I just don't see our position ever changing...The President feels very strongly about the principles involved...There are no authorized negotiations going on. It's just not happening...Although a lot of third parties in the labor community are suggesting things, we're not really listening...Amnesty is not even under discussion. It's not even on the table. All the emphasis is on building back the system...We're under no pressure from the airlines for amnesty. The airlines do have some routes they want to drop...We're under no pressure from the public...The other unions are not up in arms about this. They're not coming after us."

The chief worry at the White House is that controllers in other countries could complicate matters if they decide in large numbers to not handle U.S. flights.

Gergen says the White House intervened to prevent the Agriculture Department from declaring the controllers ineligible for food stamps on the grounds that they were fired from their jobs and, therefore, are not on strike. The White House's concern, of course, was for the sympathy such a move would generate for the strikers. [Is this a whisper?] For the same reason, the administration also has tried hard to prevent the jailing of controllers. "So far only five have been put in jail...We were really concerned

(MORE)

about the pictures of the guy in manacles."

Another factor is motivating the President's hard line, according to Gergen. Reagan and others in the high command long have believed that Maragaret Thatcher doomed her experiment in conservative economics by caving in to the "exorbitant" wage demands of public employes in Britain. Reagan sees the controllers' strike as a serious challenge to his plan for economic recovery. "It's come up several times...There's a feeling [in the White House] that by giving in to their demands, she sent a signal to other unions and the business community, and that caused problems later on."

MX missile. Reagan had hoped to make a final decision on the MX on Monday, August 17, in Los Angeles, where he will meet with Weinberger, Haig, Allen, etc. But because of the opposition to the airborne mode of basing the MX, a decision probably will not be made until September, says Gergen. "I'd say there is less than a 50-50 chance that he will make a decision next week...You can't ignore the opposition of a John Tower...It's more up in the air than it was before," says Gergen (apparently oblivious to the pun). Clearly, Reagan was ready to recommend the airborne system, but now is reconsidering because of the howls from Capitol Hill that greeted Ed Meese's trial balloon.

F-16s. Reagan will formally decide next week to release F-16s to Israel. Gergen has recommended that Haig make the announcement in Los Angeles after meeting with Reagan.

(MORE)



Neutron bomb. The White House has not even approached European allies on the question of deploying the bomb on European soil. "We just can't do that now. We've told them this is something that we're doing strictly ourselves." He claims the decision to assemble the bomb was based largely on economic considerations. It is a lot cheaper to build the bomb and stockpile it than it is to store the components separately.

Gergen also admits that Reagan is genuinely concerned about the Soviet Union's propaganda campaign against the bomb in Western Europe. The White House believes the Soviets' rhetoric is having an adverse impact in Europe.

Priorities. The White House debate over what the President's priorities will be when he returns to Washington has been settled, according to Gergen. "In the fall, economic recovery is still going to be the number one priority, even though there are some who felt we should shift to things like the AWACs sale or the social issues...What we're going to say is that these are second-tier issues, but the economic program is still our top priority."

In this regard, the administration hopes to dominate the fall agenda with plans for more budget cuts in '83 and '84. Stockman is meeting with Reagan next week in LA to "get some guidance" on where to find the additional cuts, which will exceed \$29 billion in '83 and \$44 billion in '84. The '83 budget will begin to be put together by OMB in the

(MORE)

1.

Gergen notes that the size of the needed budget cuts is growing almost daily. Just before he left for California, Reagan decided against allowing the balanced budget goal to slip past '84. He also ruled out a Stockman option to increase some federal excise taxes. That leaves only deeper cuts in the budget. There is a possibility, says Gergen, that some weapons systems may be delayed or other Pentagon spending reduced in order to balance the budget in '84.

B-1. Gergen does not expect a decision on a new manned bomber while Reagan is in California, but he says it is a possibility.

AFDC block grants. The White House is a long way from deciding to condense welfare payments into block grants, but such a proposal is under active consideration.

"Carleson is out of line on that," says Gergen, referring to White House domestic aide Robert Carleson's declaring that a decision already has been made to turn AFDC payments into block grants to the states--a proposal to which the nation's governors strongly object. "We're only in the very preliminary stages of discussion on this," says Gergen. "We don't want to get on a collision course with the governors."

Business aid. Reagan will meet with a group of businessmen and philanthropic groups in Los Angeles on August 21 to explore ways for the private sector to take over some of the services that will be lost to the budget cuts. Mike

(MORE)

Deaver is spearheading this effort. Billionaire Reagan  
crony Justin Dart also has shown some interest in the  
project.

Fenwick. Gergen chuckles at the suggestion of Millicent  
Fenwick as assistant secretary of state for human rights.

“Why would we want her?..I think it is more likely that  
that position will go unfilled for some time.”

(END)

STF

STORY:REAGII  
MA:75 FMT:Q

QUEUE:JAK-JAK  
HJ:

MSG:  
INI:

OPR:JAK ;08/21,09:16

For GP-JF on Reagan/Defense from JRH

LOS ANGELES--President Reagan, whose attention has been focused on national defense all week, watched a faultless demonstration of air combat maneuvers on his first trip aboard an aircraft carrier August 20. He was impressed by the dazzling feats of the F-14's and other supersonic planes but he seemed even more responsive to the cheering support of the 5,000-man crew of the U. S. S. Constellation.

"This ship represents a powerful force in an uncertain world, and we all sleep a little better at night knowing that you're on duty," the President told the crew.

After the half-hour weapons training exercise of the airplanes which operate with the Constellation, he said, "The demonstration of firepower and efficiency by the air wing was impressive," he said. "But what's most important, it is also impressive to the enemies of freedom in the world and we had an example of that just night before last on the carrier Nimitz." The crew cheered in response.

The aircraft carrier, located during these maneuvers 65 miles west of Los Angeles, was clearly spruced up for the Presidential visit. Dozens of colorful flags, normally used for signaling, were hung from the ceiling of the hangar deck for decorations. Here the President personally congratulated the some 40 Navy men who were reenlisting, with at least one getting a bonus of \$16,000.

"I know there've been times when the military has been taken for granted," the President said. "It won't happen under this administration. We're going to make sure to the best of our ability that your pay is fair and that you have the equipment that is needed to do the job right, from spare parts to new ships."

(MORE)

He said, "We're committed to a 600-ship Navy, a Navy that is big enough to deter aggression wherever it might occur. Let friend and foe alike know that America has the muscle to back up its words and ships like this and men like you are that muscle."

Talking to crew members at random, U. S. NEWS & WORLD REPORT found genuine enthusiasm for the President, his national defense policies and his actions this week. "He is a President who is getting things done for the military," said Vince Vidal, 24, JO-2, a petty officer second class, from San Antonio, Texas. His wife and 19-month-old son live in Chula Vista, a San Diego suburb. Vidal was on leave when he heard a news report that the President might visit a carrier on the west coast. He gambled that he might get to see the President and cut short the leave that would have run until September 2. Vidal was not sure the President was coming until after he had sailed with the ship from San Diego on Friday, August 14.

"The President is showing his support for the average military man," Vidal said. "The military has had a bad reputation since Vietnam. Now that's over. The prospect of getting new equipment is improving morale." Vidal has served in the Navy for 5 1/2 years.

President Reagan and his aides were flown out to the aircraft carrier from Beverly Hills by helicopter, about a 40-minute journey. The President wore a Commander's jacket and a baseball cap inscribed "Commander in Chief" given to him by the ship's captain, Dennis M. Brooks, shortly after his arrival. (The cap for Counselor Ed Meese III was inscribed Ed Meese. Meese was one of six others seated with the President the VIP row on the flight deck during the air show.)

The President's first message to the crew was made over the ship's

(MORE)

public address system, when he was seated in the captain's chair. He watched a refueling demonstration with the destroyer U.S.S. Fletcher, and took over the helm of the Constellation for about two minutes.

Then the President moved to the flight deck. When he sat in the VIP chair area near the port edge of the deck, looking out over the water toward shore, he had a front row seat for the aerial display. Flanked by Admiral James Watkins, commander in chief of the Pacific fleet and Admiral Robert F. Schoultz, commander of the Naval Air Force Pacific, in the VIP row, the President did less flinching than members of the press as F-14s in action set off sonic booms.

The F-14's passed the flightdeck at a low level, then pulled into a vertical climb. They showed their extreme speed range, turning, climbing and landing, and they strafed smoke targets. A7E Corsairs, A6E Intruders, S3A Vikings, the E-2C Hawkeye, the KA6 tanker and the EA-6B Prowler were put through their flashy paces. The President occasionally used a second cap, red, that he was holding in his hand, to shade his eyes, not willing to miss a detail of the operations.

He later described his visit to the carrier as "one of the most thrilling experiences. All of this talk that there isn't morale there (aboard ship), the sentiment among those young fellows out there is, 'Okay, so we're not the biggest navy in the world anymore; but we're the best.' And that's the way they feel."

Questions from reporters about the reason for the shoot-out with Libyan pilots August 18 in the Mediterranean had intervened before the air show, when the President was on the navigation bridge, sitting in the captain's chair. "We didn't challenge them. This was the scheduled time of the maneuvers. We've been holding them every year and in that area.

(MORE)

And this time, we didn't restrict ourselves on the basis of what is, I say, an artificial line," the President said.

Later in the day, at a \$500-per-person Target '82 Republican fund-raising affair at the South Coast Plaza Hotel in Orange County, he gave these details:

"We have annually held Sixth Fleet exercises in the Mediterranean and you hold them and other countries do, too, hold them in a certain portion of the Mediterranean. And that is opposite what is called the Gulf of Sidra. And the Gulf of Sidra is a great indentation in the coast of Africa. And we all know the laws about what are territorial waters and what are international waters open to all. But Kadhafi has drawn a line from the two points of land farthest out straight across that Gulf. It's as if we drew a line from the tip of Florida over to the Rio Grande River, the border of Texas, and then said, 'That whole Gulf is our water. That's not international waters.'

"And so he has said that is the line. Now, in the last couple of years, for whatever reason, I don't know, our Navy has been ordered to hold its maneuvers but to stay on the other side of that line and not challenge that. And I was given the briefing on the maneuvers before they were held, quite some time ago. And these are international waters. And I approved the idea that, while we don't want to be provocative or anything else, Good Lord, we send our ships into the Black Sea, just as the Russians send theirs into the Caribbean to establish the fact that they are international waters. So the exercises properly required crossing to a certain extent that line. And as I say, it is still international waters and I approved that--that we would do that.

"Now, we were aware that there might be some harassment because for

(MORE)

the last couple of years, Libyan planes have come out and harassed not only our planes out in international waters, but French planes, and in one instance or two have even fired. Whether they were firing directly at the planes or not, we don't know, but this was the kind of harassment tactics they were following. And in the briefing the question came up with regard to if they actually became hostile and fired on our force's ships or planes, what would our response be in these maneuvers? We notified everyone in advance that we were going to hold the maneuvers, and there was only one answer to that question. If our men are fired on, our men are going to shoot back."

The President told the Orange County crowd of more than 350 that there was a very good answer to the question why six hours went by before his staff awakened him with the news of the incident with the Libyan planes. "If our planes were shot down, yes, they'd wake me up right away. If the other fellows were shot down, why wake me up?" the President quipped.

He did not mention the Libyan affair at the Orange County fund-raiser until it came up in a question session after Reagan had finished his remarks on budget cuts, the tax program and prospects for electing more Republicans to office.

jrh lan 8/20/81

(END)



STORY:WHU1  
MA:60 FMT:

QUEUE:SJF-SJF  
HJ:

MSG:  
INI:

OPR:SJF ;08/26,14:20

To: mls ltr jg dr jf bfp gp dxb jwm dcb lh rak pa pgh

From: sjf

The following material comes from a background interview with Rich Williamson, assistant to the President for intergovernmental affairs.

Williamson, who's very upset that he was not included in our recent photo layout on top presidential aides, spent the better part of an hour supplying me with his opinion of most other top people at the White House.

His obvious purpose was to demonstrate to me how close he is to the center of power. He was critical of Lyn Nofziger and Ed Meese. But he had high praise for Jim Baker, his immediate boss. He is amazed how well the Big Three are working together. (He had no interest in discussing block grants, which was the stated purpose of the interview.)

The most interesting news produced by this session is that Nofziger has agreed to run Michael Curb's campaign after he leaves the administration at the end of the year. Also, Nofziger's political office in the White House probably will be abolished once he departs.

Williamson, 31, who previously worked as Senator Laxalt's aide on the Reagan-Bush campaign committee, opened our session by volunteering that our photo layout was the "biggest bunch of bullshit I've ever seen." His chief complaint was that Nofziger should not have been featured because he no longer has any influence at the White House. He said Nofziger and Elizabeth Dole are the two least

(MORE)

influential presidential assistants, although he later added the name of Pen James.

“Nofziger has become nothing more than a glorified patronage man,” says Williamson. “He’s never consulted except on patronage matters.”

Williamson claims to have taken over much of the political work that originally was assigned to Nofziger. He says Nofziger had an opportunity to oversee the Republican National Committee from the White House, but he failed to do it. “He’s not an organization man,” notes Williamson.

When Nofziger recently announced that he had decided to leave the administration, no one took him seriously. Most people thought that Nofziger simply wanted to be coaxed into staying. But, according to Williamson, nobody asked Nofziger to stay. As Williamson sees it: Deaver and Meese never wanted Nofziger in the White House from the beginning. And Baker, who’s responsible for bringing Nofziger to the White House, is not unhappy to see him go.

Nofziger will not return to California fulltime, according to Williamson. In addition to working for Curb, he’ll do a number of other campaigns. Nofziger’s assistants, Lee Atwater and Ed Rollins, also are expected to leave.

The Big Three. The reason Baker, Deaver and Meese work so well together, according to Williamson, is their determination to avoid conflict. “They are practically experienced and ambitious enough to look to the long-term,” says Williamson, who was originally skeptical that

(MORE)

such an arrangement could work.

These three men are long-term players. When you are operating on a long-term game plan, there are very few things that upset you. They also know that the man (Reagan) does not like friction. They are very differential to each other. When tensions arise, he says, they are like automobiles heading toward each other in the night. They see the headlights and divert before a clash.

Williamson says he sat through meetings with the Big Three when they were reviewing presidential appointments.

Any one of them could veto an appointment and any one of them could make an appointment, he says. The most frequent phrase was 'whatever you guys want.'

Baker gets high marks from Williamson for good political sense and administrative skills. Ed (Meese) spreads himself too thin and he's not decisive enough--he can't make a firm decision, says Williamson. Deaver is the key. He's the closest to the man and the least acquisitive. He has no interest in acquiring titles or prestige. He has no interest in issues. But he has incredible influence.

Williamson predicts all three will stay at the White House as long as Reagan is President. He also thinks the triumverate will continue to work effectively. When Reagan steps down, he predicts, Baker will run for public office in Texas, Meese will be appointed to the court and Deaver will return to Deaver and Hanneford.

Block Grants. Reagan probably will not propose converting

(MORE)

2

TURF

X

#

Meese

#

Deaver

August 28, 1981

FROM: SJF - Santa Barbara, Calif.

TO: MLS, LT, JF, BFP, DXB, JWM, GP, DR, JG, DCB, LH, SJF, RAK, PA, PGH

RE: Report from Santa Barbara

The White House today sought to erase any hint of criticism left by President Reagan's remarks about the Federal Reserve Board.

Deputy Press Secretary Larry Speakes said today's high interest rates are the result of Jimmy Carter's economic policies. "We're paying the piper now," he said. "High interest rates are primarily the result of the high deficit."

Speakes added: "The President agrees with the policies of the Fed and, combined with our program, believes they will bring inflation down. We are in constant consultations with the Fed at several levels. There is a spirit of cooperation -- a spirit of good feeling. We feel we are seeing eye to eye on our economic future."

Schedule. Next week's schedule is as follows: On Sunday, the President will go to Los Angeles. On Monday and Tuesday, he will meet with his aides in Los Angeles and perhaps attend a few parties. On Wednesday he will fly to Chicago, where he will address a GOP fund-raiser Wednesday night. On Thursday morning he will speak to the carpenters' union convention in Chicago before returning to Washington.

(END FILE - CKM)

The White House also has received ``feelers`` from labor and airline industry people proposing possible solutions to the stalemate. According to Gergen, one such person asked: ``Would you be willing to sit down with Lane Kirkland?`` According to Bonatati, someone else asked: ``What if a big-time mediator like so-and-so got involved.``

Yet Moffit says that he so far has failed to obtain any movement from either the government or the union. ``I can't do any business with them,`` he says. Gergen also advises that the current mood in the White House does not lend itself to compromise. ``I've never seen him more determined,`` says Speakes of the President.

Gergen also hints that criminal charges will be lodged against Poli before the week is over. As he puts it, ``Poli may wind up in the pokey.`` He says the administration has hesitated to jail Poli so far because ``we don't want to make a martyr out of him.``

Although the prospects for a amicable settlement still seem to be very slim, it should be noted that Reagan has proven over the past six months that he is a pragmatist--not an ideologue. You'll recall that he was also once firmly committed to a ``clean bill`` providing a three-year, 30 percent tax cut. But he settled for less.

White House officials obviously are interpreting these ``feelers`` as a sign of weakness among the controllers--even though fewer than 40 percent of them reported for work under threat of dismissal, a phenomenal show of solidarity

(MORE)

among high-paid workers who have no legal right to strike.

The controllers themselves seem more militant than Poli.

The basic question is: Will President Reagan refuse to rehire the controllers, even if it means forcing the airlines to cut back on their business for six months or as long as it takes to train new people? Such a cutback would undoubtedly hurt the airlines and the whole economy. White House officials have not yet faced up to this question, according to Gergen.

Senate Majority Leader Howard Baker responded to this question on Wednesday by saying, "If we have to reduce the number of aircraft in the sky by 30, 40 or even 50 percent, that's what will do." Speakes says the administration feels certain that air traffic can be maintained at an "acceptable" level without the fired controllers. But he has no idea what an acceptable level would be.

Speakes says Transportation Department officials are keeping close watch on the economic impact of the strike, and we should contact them for figures. The airlines also should be asked how long they are willing to hold out.

The White House intends to do what Speakes describes as "a little more selling of our side" in the next few days. The government will contend that several thousand of the striking controllers will never be missed. "There was a lot of fat in the controller payroll," says Speakes. He said 3,000 trained controllers were doing clerical work, none were working more than 4.5 hours a day at the screen.

(MORE)

Gergen says another 2,000 to 3,000 were just "surplus."

Reagan's role. In private, President often compares this strike to public employe walkouts he dealt with in California. These included strikes by local firefighters, police and sewer workers in different cities. According to Speakes, the striking firefighters were replaced by forest rangers and the police were replaced by the state highway patrol. (It should be noted that this comparison fails to recognize one fact: Striking air traffic controllers have much more economic leverage than local cops.) Reagan also has remarked on several occasions that he cannot give in to the controllers, because it would encourage other federal workers to strike. He asks aides, "What if the people who write the Social Security checks go on strike?"

When White House officials first realized on Sunday that the controllers were planning to strike, Reagan wanted to go on television immediately to warn them that they would be fired. He was talked out of it by his staff. Then on Monday morning, Reagan showed up in the Oval Office with a statement already written on a yellow legal pad saying that the strikers were being fired immediately. Transportation Secretary Drew Lewis persuaded Reagan to offer a 48-hour grace period, which he did. "The President realized from his own days in the union that the leadership sometimes sweeps them out on strike before they realize the consequences," says Speakes. There was no discussion of any political risks posed by Reagan's stance.

(MORE)

The controllers. Air traffic controllers are an isolated group of people--socially, professionally and within the labor movement. Henry Fleisher, a public relations man who represented PATCO for many years until recently, notes that the controllers are isolated from others on the job. Because of their strange hours, controllers tend to socialize only with other controllers. "They work hard, they play hard, they get marital problems hard," says Fleisher. This isolation helps to feed their discontent. Bonatati compares the controllers to mine workers, whose militancy also stems from isolation.

Moffit calls the controllers "primadonas--they think they are very important." Bonatati calls them "fanatical." He adds, "It isn't just a job, it's almost like a religion to them." Fleisher notes that the controllers, although most have no more than a high school education, must be very bright to pass the test.

Working conditions are a major source of their discontent. The job is very stressful. Yet in addition to reduced working hours, the controllers also think they deserve more money. "They think they have the same kind of career as professional athletes--very short," says Moffit. "So they want to make as much money as they can."

Bonatati, a former employe of the Airline Pilots Association, says the controllers also are jealous of pilots who average at least \$100,000 a year.

Other unions have never taken the controllers too

(MORE)



seriously--perhaps because they make so much money. Leaders of the pilots, machinists, flight attendants unions say they were never asked to honor the controllers picket lines-- something that's normally arranged before the start of any strike. One source says Poli has failed to return telephone calls from Machinists President William Wimpisinger and Pilots President J.J. O'Donnell, who have called to offer help. These unions have never previously worked together.

Lewis as negotiator. Although the government's final offer contained less money, Moffit says it was a serious offer. He says Lewis has hired several high-priced, well-known labor relations experts to help him in the negotiations. At the White House, Lewis gets high marks for his performance so far. Working conditions were never fully discussed at the bargaining table, according to Moffit. He says they never got beyond the subject of money. Although Bonatati says there is some flexibility in the government's position, Moffit says the two sides are so far apart that he cannot see any middle ground. Gergen says the administration would have been more compassionate "if they hadn't come in demanding 17 times more than we offered."

Impact on labor. Organized labor is not happy about this strike. Although the AFL-CIO issued a statement of support, top labor union officials are privately concerned that the strike will create a backlash against labor. They fear this backlash will make it more difficult for them to maintain the status quo later this year when Congress begins

(MORE)

attacking labor legislation. "There goes Davis-Bacon," one building trades union president declared when he heard about the strike.

There will be no direct impact on future bargaining in the private sector, as some people have suggested. Reagan administration officials insist that private sector contracts are none of their business. Reagan has often said he does not believe that wages fuel inflation.

Reagan's decision to fire the controllers also could deprive him of organized labor support in 1984. The Teamsters, who represent many public employes, are going to be hard-pressed to continue supporting Reagan under the circumstances. Yet it should be noted that Reagan's labor support has never been very strong. One reason other unions have been reluctant to come to the aid of the controllers: They remember that PATCO endorsed Reagan for president.

Moffit and others predict that organized labor will begin to rally around the controllers in the days ahead. For example, Vice President George Bush may be greeted by labor protestors when he goes to Cleveland to throw out the first ball in the All-Star game. AFL-CIO officials meeting in Chicago intend to return home by car and train, not by air.

Public sector unions. Moffit rejects the argument that other federal workers would be encouraged to strike if Reagan gives in to the controllers demands. "No one's as militant or as important to the federal government," says Moffit. "If federal mediators went out on strike, no one

(MORE)

would even notice."

Yet it's probably only a matter of time until federal workers begin striking with the regularity of state and municipal workers--particularly if Reagan's austerity program continues to deprive them of raises comparable to the private sector.

Twenty years ago, strikes in the public sector were considered to be disastrous. Now, some public workers can strike legally in at least eight states. Strikes in states that prohibit them also are commonplace. In 1979, state and municipal workers spent 2.3 million workdays on the picket line.

(END)

> Sept 9 <

noon  
Back

letter

attn:

August 28, 1981

FROM: ✓ SJF - California

TO: MLS, LT, JF, BFP, DXB, JWM, GP, DR, JG, DCB, LH, SJF, RAK, PA, PGH

RE: Report from Santa Barbara, Calif.

Most of the talk out here centers on Ed Meese. He's been more accessible to reporters out here over the past two weeks and they have discovered what we've known for some months: He does not tell the truth and does not like reporters.

Craig Fuller, a Meese lieutenant who previously worked for Deaver <sup>HANA</sup> ~~in~~ ~~Honeford~~ ~~(S)~~, says that Meese has a "serious public-relations problem." In other words, the reporters are now out to get Meese.

The problem began when Meese failed to rouse the President during the Libyan shoot-out last week. There was no real reason to wake up the President, because he had already approved the U.S. response in the event of a Libyan attack, according to Fuller. But Fuller volunteers that it was a serious public-relations mistake. He adds that Meese got his back up when reporters pointed out this flaw. After that, Meese tried to shut off questioning at a press conference. This angered reporters even more.

Fuller says Meese has got to decide whether he's going to be candid or visible. But he says Meese is getting poor advice. Meese sees Robert Garrick, a retired admiral and part-time public-relations man, as his adviser on these matters. <sup>A</sup>Garrick knows very little about public relations. But because <sup>A</sup>Garrick is there, other people with better

*Meese*

// (1)

advice can not get through to Meese.

Fuller says the wake-up flap would never had occurred had Mike Deaver or Jim Baker been here in Santa Barbara with the President. Not only would they have awakened the President to tell him, says Fuller, they also would <sup>HAVE</sup> readily admitted the mistake if they had failed to do so. The question is now moot, however. Meese has left Santa Barbara as of Thursday. Baker will arrive on Friday to take over. ~~The~~ Deputy Press Secretary Larry Speakes referred to this as "the changing of the guard."

Reagan on vacation. At an off-the-record reception for reporters on Thursday night, Reagan chatted mostly about his ranch and his vacation. He thinks he should come to Santa Barbara at least once a month for his own well-being. Aides say he will return to the ranch in October, either before or after his trip to Cancun, Mexico. One interesting development: Reagan's hair is suddenly about 50 percent gray. I saw him tonight standing near a picture taken of him only a month or so ago. The difference in hair color is amazing. Fuller says he thinks the sun has brought out the gray. Could it be that Reagan has been dying his air after all? We'll see what happens when he returns to Washington.

Interest rates. Reagan also made a statement on Thursday night that could be interpreted as criticism of the Federal Reserve Board. Aides say the President was referring to interest rates -- not the Fed. Either way the quotes are

good: [']They are hurting us as much as they are hurting everyone else...Those interest rates, we think they will be coming down before the first of the year.'" When Larry Speakes was asked about this week's developments on the financial markets, he replied: "I don't think there's any panic. But there's a continuing concern that interest rates won't come down.'" He says the administration now realizes that there's little chance left that the Reagan administration policies will have the psychological impact on the market that the President had hoped for. "First, they didn't believe the program was going to pass," says Speakes. "Now they don't believe it will work."

MX missile. Reagan also indicated on Thursday night that he's ruled out the option of postponing any decision on the MX missile. "I don't know where we're going to put it, but we're going to have it," he said. Since they've already ruled out the full MX system and the airborne system, this comment would indicate that Reagan is favoring a middle-of-the-road option -- 100 missiles and about 1,000 holes. But Reagan insisted that no decision has yet been made. Speakes said the discussion is being kept tightly within a small circle -- the "big three" plus Haig and Weinberger.

(If you need to call me for any questions, I can be reached at (805) 963-0744, Room 281.)

(END FILE -- CKM)