

The Economic Club of New York

320th Meeting
80th Year

The Honorable Howard H. Baker, Jr.
White House Chief of Staff

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Questioners: Robert L. Dilenschneider, President & Chief Executive Officer,
Hill and Knowlton

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Introduction

Moderator: Dwayne Andreas

Gentlemen. I want to call to order this 320th dinner in the 80th year of the Economic Club of New York. For a moment think about this problem. Think about being the point man, the point man, the man to get things done for the President of the United States. You come to work on Monday morning and you have the following things on your agenda. (Laughter) This is only Wednesday night. War or peace in the Persian Gulf. The most severe market crash in the economic history of the western world. A showdown with Congress on the great issues for this nation of trade and the national debt. The urgent need to prepare for a Summit which might set in motion political forces of the most important in world history. And then chair a committee to select appointees and make recommendations to the President for the Supreme Court which might cast the die for the attitude of the court for the next quarter of a century. Contemplate that.

I am sure to Senator Baker things looked different many times from this end of Pennsylvania Avenue than they did from the other end. I asked myself the question, why does this man have the special qualities which we know he has, that the President thought in filling this most important job. Or put it this way, how did he know, what did he know, and when did he learn it? I want to let you in on a few secrets about Senator Baker's early environment which will prove to you that he has been immersed in political and public life almost from the beginning.

Now you know the important things about Senator Baker. These will rate high on the list. His grandfather was a judge. His stepmother was the first woman Congresswoman from Tennessee. His father-in-law was a legendary Republican leader, Senator Dirksen, who for many years was the outstanding Republican Senator and maybe the most important thing in his background and training, his grandmother was the first woman sheriff in Tennessee. (Laughter) And Howard was the first Republican elected from the state of Tennessee by a popular vote. Now he has been 18 years a United States Senator, nine of which he was the Republican leader of that great body. When I try to compare him to someone back in history I have to go all the way back to Henry Clay who was known as the great compromiser.

Howard's method of compromise doesn't include giving-in; it includes finding a solution that will benefit both sides. And Howard Baker did that for many years in his role in the Senate. I want to say, that as a friend of his, I was bursting with pride the day the President asked Howard to take on the toughest job in Washington, and without flinching he gave up what, at that time seemed like the best shot at the presidency of the United States, and many other emoluments and freedoms to take on the job for which he has the character, the intelligence, the experience and the temperament. And it is a very special privilege for me tonight to present the Chief of Staff to the President of the United States, Howard Baker, Jr.

The Honorable Howard H. Baker, Jr.

White House Chief of Staff

Ladies and gentlemen thank you for inviting me to be here tonight and to my friend Dwayne Andreas, thank you for the generosity of your introduction. I am grateful for everything you said, but I am also pleased to say that you and I see eye-to-eye. And in case, anybody missed that, I did not have to adjust the podium tonight in order to reach the microphone. You might like to know about the last time I was in this city to make a speech and in this building to make a speech, and if my memory serves me, in this room to make a speech. I am here tonight to give you words of assurance about the stock market. That day I was here to speak to the NAACP National Convention, on behalf of Judge Bork. (Laughter and Applause)

But I do appreciate this opportunity to be here and Dwayne, thank you so much for reciting my political pedigree. It is true that my father was in Congress, my mother was in Congress, my father-in-law was in Congress, my grandmother was a sheriff. All of that is true. I really am proud of that, I honestly am and have always cherished that family commitment to public service but, I must also tell you a little about the first encounter I had with my wife's family. Senator Dirksen was indeed a remarkable man. Many of you here knew him I know, and you knew that deep resonate sonorous voice that he had, and I used to say, Everett you choose your words not for what they mean but for how they taste. (Laughter) But he was truly, truly a great politician

and he and my father were great examples to me in this public service.

I served in the Senate for 18 years and that was a great privilege for me and I will always be grateful to the people of the state of Tennessee for giving me that opportunity. I have served now for eight months as the President's Chief of Staff but it seems much longer. (Laughter) It is also true that when I get to work early in the morning as I did on Monday morning, that I found an array of problems and challenges that confront the country, the President and the White House staff. You did not point out though that while we were shelling an Iranian target in the Persian Gulf that I woke to the realization that the Secretary of State and the National of Security Advisor were both out of the country. And then I discovered that the stock market had gone to hell and I found out that the Secretary of the Treasury was in Sweden and the Chairman of the Federal Reserve was in Dallas. And if you want to know what a Chief of Staff to the President of the United States does under those circumstances, I will tell you, there are two things, get on the telephone and get an airplane and get them back over here right away.

I am telling you the truth, but I guess I am hyping the importance of that because they are all extraordinary people, but to tell you the truth, I felt lonely and I felt it essential that I try to have some company. But, I am here, as the President's representative. His spokesman and Chief of Staff on many issues and I would like to begin these remarks.

First, by extending you the greetings of the President of the United States, and the greetings of

the First Lady, who I am happy to report is recuperating from her surgery and most remarkable of all, after that extensive surgery that she endured on Saturday, she will return to the White House tomorrow. (Applause) They are a remarkable couple, my friends, they really are. They are important to each other and they are important to the country. I cannot tell you what a privilege it is for me to be here on their behalf.

Let me also congratulate those of you who, and there are many in this room, who have contributed so much to the resilience and recuperation of a tumultuous stock market over the last several historic days. I guess there are almost as many theories as there are people in this room, on the causes of these unprecedented activities. Everything from the fear of inflation to the phase of the moon and to tell you the truth I would not give you a dime between the two. The plain truth is that nothing going on in the world or in the real economy, in my opinion, justifies the kind of trading frenzy we have seen on Wall Street in the last several days. Indeed I would say that there is considerably more good news than bad in the American economy today, and there is still better news in store.

I think it might be useful tonight to try to put the market and the economy in some perspective. In August of 1982 when this expansion started, the Dow Jones Industrial Average stood at about 770. By August of 1987 the Dow had risen nearly 2000 points. The most spectacular rise in market history. A 45% rise in the Dow in the last year was simply hard to justify by most economic factors. And to most observers, I expect, a correction seemed inevitable. But the fact

remains that there has been more length and strength in this market advance than in any other ever produced in this country. Indeed, there is a whole generation of traders on Wall Street today whose only experience with bears has been at the zoo. (Laughter) And even after Monday's trading, the Dow Jones today, stands 10% above where it did a year ago and nearly 1,300 points higher than it was at the beginning of this expansion. Nor is the strength of this expansion spent.

Production is up sharply in such basic industries as steel and lumber. Freight car loadings. Which are a key factor in the overall measure of the economy I am told. Employment is up. We have created 13.7 million new jobs in the last five years, on top of the 20 million created in the 1970s. Unemployment is down to 5.8% which is the lowest rate in eight years. And there is nothing bicoastal to this job picture either. The unemployment rate in Iowa, to pick a state which has some appeal to some of my former colleagues, is only 4.6%. Inflation as measured the Consumer Price Index is running at a modest annual rate of about 5%. And it is even lower by the Wholesale Price Index and the GMP Deflator. There is no general strain on industrial capacity in this country. We are using just over 80% of it at the moment. The lead time for orders is not expanding, bottlenecks are not forming. Wage settlements are not extravagant, corporate earnings remains strong as the next round of reports will confirm, and the economy continues to grow at an annual rate of about 3% which is the average rate of growth since the 1960s.

My friends, the bottom line of this is the economy is not overheated and it is not about to stall.

What we are experiencing is steady, sustainable growth, an experience so rare in our history that

the stock market plainly doesn't know how to deal with it. But what about the future, what about budget deficits, what about taxes, what about trade, what about the dollar, what about Pete Peterson, (laughter). Well let's talk about that for a moment.

Budget deficits, three years ago the Congressional Budget Office predicted that the federal budget deficit would rise to the \$300 billion range by the early 1990s, that the deficit would remain at roughly 5% of GNP as it was in 1986. Well, a funny thing happened on the road to ruin. The deficit went down, by \$70 billion in the last fiscal year. And part of that progress is due to some one-time effects of last year's tax reform bill and the deficit for the fiscal year just begun, maybe a little higher than the one just ended. But even the CBO, the Congressional Budget Office, which is only too happy to supply the rain for any parade, now estimates that the deficit will account for no more than 2.5% of the GNP, half of its estimate of three years ago by Fiscal 1992. And the CBO makes this estimate on the assumption that the Gramm-Rudman Hollings Deficit Reduction Bill will not be strictly enforced. I can assure you tonight that Ronald Reagan will do everything in this still considerable power to ensure that Gramm-Rudman is strictly enforced. And I can also assure you that the President will press harder than ever before for passage of a balanced budget amendment to bring federal deficits under effective and permanent control. (Applause) I am pleased to see by the way that my old friend and yours, Paul Volcker has been converted to this cause and we would welcome the membership of every person in this room.

As you know, the President yesterday signed a preliminary order for a \$23 billion across the board cut in federal spending, in what we call the Gramm-Rudman sequester. As the President said yesterday, he would prefer that the Executive and Legislative branches reach a constructive agreement on a budget deficit reduction package rather than simply exceeding to an order for automatic and indiscriminate cuts. He has directed that discussions be undertaken with the bipartisan leadership of the Congress for this purpose, and those discussions began today.

The President, my friends, is convinced that the welfare of the country, the exigencies of the moment and the requirements of our future prosperity suggest and indeed require that we lay aside for the moment, even if just temporarily, partisan conflict and debate and get on with the business of signaling to this country and to the world that America's financial house is in order and that the future is assured. (Applause)

My friends, finally, let me emphasize that even if we do not reach an accord, a bipartisan agreement on how we can accomplish this \$23 billion reduction in the level of the deficit as required by the Gramm-Rudman Bill, even if we fail in these negotiations and I certainly am not prepared to say that we will, but even if we do, the act itself requires that, that sequester, that reduction in the level of the federal deficit occur by November 20th of this year. So by any measure, whether through political diplomacy, through good will and good intentions, whether by a temporary truce in the partisan political conflict in this country, or a failure in those efforts, there will be a further reduction in the level of federal deficits this year and in years to come.

In 1979 the year before Ronald Reagan was elected president, federal taxes were 18.9% of the GNP. Today, even after the great tax cuts of 1981 and the Great Tax Reform Act of 1986, federal taxes are 19% of the GNP. Federal spending, on the other hand has risen from 20% of GNP to 23% in the last seven years, while defense spending is often cited as the principle cause of this rise, that dubious honor actually goes to the assortment of automatic entitlement programs in the federal budget. My friends, taxes are not the problem. Spending is the problem. And Ronald Reagan intends to hold them both at the lowest possible level consistent with the future and welfare of this country.

What about trade? The bad news we know. The numbers are not turning our way as rapidly we had hoped for. But the good news is that American exports are up and growth in the volume of imports has been cut sharply. The other good news is that all the talk about competitiveness in recent years has really been more than just talk. American business has cut its cost, improved the quality of its products, and become much more oriented toward international trade in the last seven years than ever before. We are just now beginning to reap the harvest of those labors. We have just concluded a sweeping trade agreement with our largest trading partner, Canada, which will open the Canadian market more fully to our exports and which will expand trade and increase wealth for both their nation and ours. As you all know, I have an interest in foreign affairs and I am heartened by the agreement announced yesterday with the Germans to coordinate our economic policies to provide for non-inflationary growth and stable exchange

rates. I am also particularly pleased and encouraged by Japanese Finance Minister, Miya-Zawa's similar statement reaffirming Japan's intent to cooperate with other industrial economies and to follow economic policies that will provide for sustained growth of the Japanese economy and finally Prime Minister designate, Takeshita, in conversation with President Reagan on yesterday, reinforced the priority that Japan has placed on maintaining stable economic relations with the United States.

If the Congress insists on passing a protectionist trade bill, I can assure you tonight that the President will veto it. And as one with some experience in counting votes, I will predict for you with substantial confidence that, that veto would be sustained.

Now my friends, let's talk about the dollar for a moment. And for those of you who may be poised to run for the telephone because you think I may say something important about it, you are wrong. Just sit still. (Laughter) I assure you there is no reason to do so. We have agreements with our major trading partners, the group of seven, to coordinate our economic policies as best we can, and those agreements are working. They work better some days than others, but we are absolutely certain that our trading partners share with us a commitment to the steady, stable and sustainable growth of a free-world economy.

Every man for himself simply won't do in an international economy as interdependent as ours has become. I believe our trading partners understand that as well as we do. And I believe their

future decisions on interest rates, foreign investments, domestic economic policy, will reflect that understanding.

So where do we go from here? We do not go into recession. It has been well and truly said that the stock market has predicted nine of the last five recessions. And the underlying strength of this economy suggests that the market once again may have been up to its old tricks. We are opening international markets as we should. We are improving our competitive position as we should. We are making real progress on the federal deficit. And we must make a great deal more. We have inflation under control. And we must keep it under control. We have international agreements on economic cooperation in place, and we will strengthen them. We may wish to consider other measures. And you may have other measures to suggest. And the administration and the Congress I am sure is anxious to hear those, in light of our recent experience. But it is important for all of us to remember that the stock market is not all there is to the economy. It is one predictor of future economic performance, but it certainly cannot be considered to be infallible. Other leading indicators, economic indicators, show continued growth and strength in this economy and we believe the foundation being laid this week for future and further market advances is a further evidence of the resilience and the strength underlying this economy.

Fundamentally nothing has changed in that underlying economy between the stock market high of August and the low of this week. We expect the economy to grow modestly but steadily for the balance of this administration. We hope for proportionate response from the market, and we look forward to working with all of you to enhance the prosperity, the stability, and opportunity,

which continue to make America the best investment on earth. Thank you very much. (Applause)

QUESTION AND ANSWER SESSION

MODERATOR: Thank you very much Senator Baker for those thoughtful remarks. At this point in our program, it is our tradition to call on two distinguished members of the Club to put questions to our speaker. Our two questioners tonight are; Robert Dilenschneider, President and Chief Executive Officer of Hill and Knowlton. And E. Pendleton James, Chairman of Pendleton James and Associates. The first question will be put by Mr. Dilenschneider and Howard, if you will; I think I will just turn this over to you so that we won't waste any time with my making the introductions. Will you please just alternate your questions.

ROBERT DILENSCHNEIDER: Senator Baker, under any circumstances, any circumstances, would you accept the Republican nomination for President in 1988. (Laughter and Applause)

SENATOR HOWARD BAKER, JR.: Let me tell you what, if you think these questions aren't rigged, you should know by now. Incidentally, my sister Beverly is here and her husband Mike, they are at the middle table, so they will understand the story I am about to tell. When I ran in 1980 and I will answer your question in a minute, when I ran in 1980, the New York Times kindly sent a reporter down to do a feature piece about me to my little hometown in Tennessee of Huntsville. They asked all of my neighbors and people I had known all of my life about my

character and personality and my ability to serve as President of the United States and they finally got to one old fella and said, do you know Baker and he said, yup. How long have you known him? All his life. Do you think he ought to be President? Yup. Do you think he ought to be President because he would be a good Chief Executive and qualified? He said, nope. They said, why do you think he ought to be President? Then he said, because Scott County ain't never had it. (Laughter) Now, that boat, my friend, has pulled away from the dock. I appreciate the question, but I will not be a candidate for President of the United States in 1988. I will not, I cannot be, I made that commitment when I decided in my own mind I would accept the President's request to be his Chief of Staff, he did not ask me to do that, but I did that because otherwise the things I have to do or try to do, the things I have to say, or try to say, would always be colored in the minds of some in light of what his personal ambition was. I have no personal ambition. I will not accept any blandishments to run for President in 1988 and you are the first person who suggested it. (Applause)

E. PENDLETON JAMES: Senator Baker I would like to ask a question about that Black Monday when you woke up and you found yourself all alone in that white building and the Secretary of Treasury was over in Europe and the Federal Reserve Chairman was down in Texas somewhere and the bombing was taking place and your Secretary of Defense and National Security Advisor was gone, that must have been a startling revelation to you that you had to sit there and make some decisions, but you did get Baker and Greenspan back and you did sit down in your office at the West Wing along with other advisors, what were some of the things you

went through that day?

SENATOR HOWARD BAKER, JR.: It wasn't on Monday, that was on Tuesday. I had to suffer Monday all by myself. (Laughter) But I don't believe I will get any sympathy from this crowd about Monday. It was Tuesday that we got everybody back and gathered up and actually we met in Jim Baker's office, Secretary of the Treasury. We do that. Especially when the Federal Reserve is involved. They take an oath of celibacy, you know, and they don't like to.... (Laughter)....so we sort of meet someplace else. But we did. And in that meeting was Jim Baker, Alan Greenspan, Beryl Sprinkle who is Chairman of the Council of Economic Advisors and I was there, and we spent time trying to analyze the situation, compare notes on the data that we had received. Beyond that, I don't think I will tell you what we did. But the President the next day, pointed out in his brief remarks that he was pleased to see that the Fed had committed to provide adequate liquidity, for, as they put it, the dynamics of this market, whatever that meant, but they did, I think, and probably will say they didn't, but they did. Beyond that, there were a number of other things that were discussed, which also culminated in the President's authorization for a statement that he wished to reach out to the bipartisan leadership of the Congress and see if we could put together a Gramm-Rudman-Hollings sequester on a bipartisan basis. You may wonder, with the limited description I give you, that is the important thing right now. You know there are all sorts of calls by all sorts of people in the Congress for a Summit, a Domestic Summit. Let me say, I have nothing wrong with Summits. We may have a Summit of our one of these days. But, a Domestic Summit implies that you care going to go over the whole

spectrum and range of problems that confront this country and I have been in politics long enough to know, if you do that, you never get anything done. So my recommendation has been and is, that we focus on the central issue which is how do we get this deficit under control this year, this week, or next month, by November 20th. That is what I mean. (Applause) I admire and respect those who say we ought to talk about foreign policy. We ought to talk about welfare reform, catastrophic health insurance and all of those good things, but right now I want to talk about one thing and that is how do we get a bipartisan accord, we haven't had one in a long time, on economic policy, and address it to that special issue of how do we get that deficit under control without the self flagellation of an automatic sequester. That is what I hope for.

(Applause)

ROBERT DILENSCHNEIDER: Senator Baker a followup question on that, regardless of whose fault the deficit is, you indicated the President is committed to doing something about it, what specific steps is he going to encourage the Congress to take.

SENATOR HOWARD BAKER, JR.: Well if I tell you what he is going to do I might as well not negotiate with Jim Wright. But I will tell you in general terms what the President feels. And I have touched on it here. He really is committed to the idea, to the proposition that there are a lot of problems, but that taxes being too low is not one of them. Now that is not to say that under every circumstance at every point in the histo-life of the country that we won't consider taxes. But it is to say that if taxes haven't gone up and spending has, and that you are going to have to

do something about spending. That is why Gramm-Rudman was put in place to begin with. To say, if you don't do it yourself, we are going to make it automatic. So one of the things the President is going to try to do and insist on is that we focus on this business of readjusting the budget so we do get the downward glide slope on deficits that the Act requires. Exactly how that is done is a matter of negotiation. Exactly how the balance is made between revenues on the one hand and expenditures on the other hand, is also something to be considered. Let me make one observation for you in this respect, because I know lurking in your mind, whether you ask it or not, is the question, will the President ever give on taxes. Well let me suggest to you, just this, without going beyond my authority or implying something I shouldn't. The statement made by the President is perhaps as important for what it did not say as for what it did say. It did say we should have a bipartisan consultation on trying to reach this target. It did say that he had instructed those of us who worked for him to go try to do that. It did not say that the guidelines are you ain't going to have any taxes, we are going to have only spending cuts and defense is off limits or we are not going to touch this, this or the other. He didn't say any of those things. So I suggest that what wasn't said, may perhaps be as pregnant with importance as what he did say. I guess what I am telling you now is that the President is willing to pay a price of some sort to restore a basis for a bipartisan approach to this, but I am not prepared to tell you what that price is, because otherwise I would have no chance with Jim Wright and I may not have much anyway.

E. PENDLETON JAMES: Senator, if I can, to change to the Persian Gulf which is occupying a

lot of our attention today, it appears that this conflict could be a prolonged conflict, and if so, where do you see this conflict in the Middle East taking us?

SENATOR HOWARD BAKER, JR.: In the policy of the United States Government, is to first try to end the war between Iraq and Iran. And to proceed on a dual track through diplomatic initiative and also to the U.N. diplomatic initiative to bring about a cease fire and a cessation of hostilities. The Security Council of the United Nations had already passed a resolution calling for a cease fire. The United States is sponsoring, but the Security Council has not yet considered or passed a second resolution calling for an arms embargo on either country that does not accept the cease fire proposal. That is the fundamental cornerstone of US policy, to end the war in the Persian Gulf, the war between Iraq and Iran. The second policy of the government of the United States is that while that conflict is going on, and because of the importance of the region to the free-world, and because of the abstract concept that the United States must not be denied or deprived of access to free transit on the high seas, on international waters, that in the case for American ships, or American flagships that we will see that, that right is not interfered with. Now that gets you into the question of well, why on Earth are we agreeing to escort or convoy Kuwaiti ships. The answer to that goes much farther back and it goes back to the question of the relationship of the United States to the Arab states as well as to Israel. To the relationship of the Arab states and Israel, to the Soviet Union and to the conviction of the states of that region that the free transit of international traffic on the high seas must be preserved. And on request, by the Kuwaiti government to the United States government, and to the Soviet government, that they

accept their flagging responsibility for certain missed vessels. It was agreed that we would do that. And once we undertook that responsibility, we had the concomitant responsibility to protect those ships and we are doing it. The policy of the United States government is not to escalate that conflict, as Secretary Weinberger said in his remarks on Monday, we have no desire to escalate. We have no desire to go any further. This event is over. But we also want to make it clear that we will not stand idly by and make no response when there is a hostile attack on a ship that is flagged under the U.S. flag. That will happen again, in my opinion, if there is another attack on American interests. It is our hope that it won't. It is our ambition that the war will end, and our principle effort in that respect is through the United Nations.

ROBERT DILENSCHNEIDER: Senator Baker, in view of the events of recent days, do you think the Administration is still intending to urge Congress to further deregulate the financial system in this country?

SENATOR HOWARD BAKER, JR.: I don't know. I just don't know. To begin with, I am not an expert in this subject, and in the second place, I haven't addressed it, and I guess you are going to have to hear another story. This story is about the first lawsuit I ever tried. And my father was at the counsel table and I finished my summation to the jury and I turned to my dad and said, "How did I do?" My father thought for a minute and said, in the future you should guard against speaking more clearly than you think. (Laughter and applause) And if I answer that question, I will tell you more than I know. So I believe I won't.

E. PENDLETON JAMES: Senator I would like to turn a little bit to the Executive and Legislative Branch and as you know, during the Watergate hearings of 1972, 1973, there seems to have been a number of changes in the relationship between the Executive and the Legislative Branch and I have to say it appears that the power of the presidency has been diminished since that time, and the authority to Congress has somewhat increased. With your perspective, I would be interested in your comments on the changes of attitudes of these two branches as well as some of the legislation that is taking place, and in this case, I refer to specifically the Ethics and Government Act.

SENATOR HOWARD BAKER, JR.: Okay. You have covered a lot of things there. Let me agree with you that in the last couple of decades that shift in power, relative power between the White House and the Congress is pronounced, but so is the shift in power between the Court and the Congress and the White House, all three departments are sort of a planetary system and one is in the ascendancy and the other is in ascending mode and that is just the way it has been all along and it shifts. But there is a new phenomenon here, may I suggest, and that is that the power is not so concentrated now as it is diffused. You say that the Congress seems to be more powerful and the President less powerful. The President certainly is less powerful, in terms of budgetary affairs. He is almost cut out of the loop as the President is fond of saying, he sends up a budget and it is dead on arrival in the eyes of the Congress. And they just don't do anything with it. They send one down and it is sort of the same. That is sort of a problem we got. But it is

not really that the Congress has gained more power, it is that the power is more diffused and not just between the branches. The story goes, Jack Valenti told me one night that...who worked for President Johnson as you know, that back in President Johnson's day, President Johnson could call Richard Russell and Everett Dirksen and tell within two votes how something was going to go. But you can't do that now. The Senate, in particular and I suspect the House as well, it is far more an aggregation of individuals than it is a functioning parliamentary system. And I don't know exactly why that is. But the only modification of your observation I would make is that it is not so much that the Congress is more powerful, but rather that it is more diffused. And that has also contributed to the change in the relationship. The fact that the country has apparently fallen into the tradition of investing the power of checks and balances, not only in the institutional arrangements of government, but also the political system has had an affect. And what I mean by that, for many years the party of the President usually had control of the Congress. But now for many years, it almost never does. Ronald Reagan has had one House of the Congress for six years. Both Houses of the Congress I believe Eisenhower only for two years. It is almost as if the country decided if you are going to have a Republican for President, you should have a Democratic Congress. Well that may look good on paper, my friends, but let me tell you that doesn't work worth a darn. And especially when both Houses are in the control of the party opposite the President's, it doesn't work hardly at all. That has also contributed to this shift in power and the relative importance of the branches. On the Ethics and Government Act, I noticed today that my friend Dan Evans, I guess yesterday, my friend Dan Evans, a first term Senator from the state of Washington, a former governor, distinguished public servant,

announced he wasn't going to run for the Senate again. After his first term. And I don't know what the reasons are, I haven't talked to Dan about it, but I will bet you without talking to him, that part of the reasons are that members now live under such rigid restraints and restrictions and disclosure requirements and prohibitions on earned income that it simply is hardly worth the effort. And as I watch Rudy Boschwitz and before him John Hines and before him Bob Packwood try to recruit people to run for the Senate and recruit the bright young men and women who ought to be in public service, greater numbers of them said, I wouldn't put up with that. I wouldn't put up with all of those forms and all those requirements and all of those blind trusts and all of the taxes I am going to pay in order to stay out of harms way, I just won't do it. And they don't. And it may get to the place pretty soon where the only people who will run for Congress are either rich or young and broke. (Laughter) and that is not the way it ought to be. But, while the ethics and government effort, binge, I started to say, that came after Watergate, was certainly well intentioned, well motivated, I think it has very unfortunate and I am sure unintended effects and I think it has on balance been a net minus instead of a net plus.

(CHANGED TAPE SIDES) I'll give you that except one thing. The question of how much money you can earn or how much money can be contributed is a political question. It ought to be a legal question. The legal requirement ought to be that you report it and disclose it, in a timely fashion. So the country can decide whether they like that or don't. But when you start substituting a statutory requirement that you can't earn but a certain amount of money or you can't receive but a certain contribution and you try to substitute that for the judgment of the electorate and I think the ethics effort has intruded into the political realm and has produced an

adverse effect. I will stop there. There is more to the lecture, but I will stop at that point.

(Applause)

ROBERT DILENSCHNEIDER: Senator. A several part question on the Supreme Court. We have all read and heard and seen a lot about the nomination of Judge Bork and clearly Judge Bork is probably not going to make it. One is, could you give us your candid opinion on why Judge Bork is not going to make it. Number two, there is obviously a short list of candidates who are going to be nominated. Who is on the short list? And finally in your last answer you indicated and I think everybody in the room agrees, we need top people in key positions in the leadership of this country. Would you consider a position on the court? I keep trying Senator.

SENATOR HOWARD BAKER, JR.: I don't get to do this often. No. (Laughter) No, I won't. Why did Judge Bork fail? And almost surely he will. I suppose it is possible that the vote will be different, but in all candor, both Judge Bork has said publically as had the President, as have I, that realistically the votes aren't there to confirm him. And if some last minute miracle occurs, I will be delighted, but I don't see it as a prospect. Why he failed? I suppose there are a thousand reasons. Let me say first of all that Robert Bork is stunningly bright, he is extraordinarily qualified, he would bring quality and stature and depth and instinct to the court that I think is in the very best traditions of the Federal Judiciary. I am very high on Bob Bork, believe me.

(Applause) But I guess if I had to give you one reason why, other than the old adage, with it my enemy would write a book, you heard that. Well Bork is a prolific writer, of opinions and of

lectures, and papers so you know there is lots to shoot at there, but if I were to assign one reason for his apparent demise, it would be the politicizing of the process. Now you may think that is strange from a politician, but let me tell you what I mean. I have been involved in the selection of every Supreme Court Justice in the last 20 years, except two, in the Senate or in the White House. And I have never ever before seen a political campaign mounted, complete with 30 second and 1 minute paid TV spots. It became a referendum on Bob Bork. Now if we would have meant to elect judges the constitution would have said that. That is why we appoint them for life, is so that they are free of that political coercion. That is what I would say, the first thing. There was a highly successful, well organized, well financed, political campaign against Judge Bork. And I happen to think, that is not only bad for Bob Bork, I think it is bad for the judicial system. I think it will have a distorting effect on future choices and future confirmation proceedings. And Bob Bork says that. You will see a lot of speculation in the paper maybe, those who follow this sort of thing, that the White House tried to get him to withdraw, that is simply not so. What is so is this, and I am sure Judge Bork will not mind me saying it publically. After Senator Specter announced that he would not vote for him, the numbers began to shift dramatically and that sort of was the beginning of what I call the Southern Avalanche. After that happened, I talked to Bork on the phone, and Bork was really blue, and I can understand that. He was talking about withdrawing and frankly he was talking about retiring from the Circuit Board of Appeals and I can understand that too. You know, in politics you can really get down. I have been there. But, I said, look Judge, you really, really mustn't do that. You have to think about this. It is not lost yet, we have to see where we are, don't do anything rash. And I walked that 26

steps down to the President's office and went in and said, you better call Judge Bork, and he did. And he asked him to think about it overnight. And to come in to see him the next day and that he oughtn't to go ahead and make a withdrawal decision. And Bork did that. He said he agreed to do that and he said he would be in the next day. Well the next day turned into the following day, and he wanted to think about it and the President promptly agreed to that. He came in then on a Friday and he changed his mind. He said, look, I understand we are going to lose this thing, but I think it is important for the system that they vote. It is bad enough to lose, but to lose to a political campaign, by withdrawal would be worse, so I am going to stay in. The President said, I am delighted, and I will do everything I can to make your point. And he did that. And we are going to have a vote tomorrow or the next day in the Senate and as I said, absent a miracle I suppose that Judge Bork will not make it, but he is a courageous man, he is a qualified man, he has been badly treated and I don't know what the country can do to make it up to him, but he should have been confirmed and he should be sitting on the U.S. Supreme Court as it sits in its October session. (Applause) There is one other addendum to that. Some people say, well why didn't you have a political campaign and buy one minute TV spots and the answer is, because neither the President nor Judge Bork wanted that and I admire them for that decision. Now who is on the short list? Well, if there is anybody here who wants to be they should talk to me.

E. PENDLETON JAMES: I want to....there is a lot of talk going on in the Senate on the War of Powers Act, that is taking place, and in fact, I noticed at night there is the debate between Al Haig and Senator Reichert on this subject, which would be interesting to watch. Could you

comment upon the debate that is taking place on the War of Powers Act and where you think this is leading or?

SENATOR HOWARD BAKER, JR.: And I have no trouble with that. For I am a man standing before you who was invited to speak at the dedication of the Javits Library at the University of New York at Stony Brook, on the occasion of dedication of the Javits Library, the Book of Contributions. And remember Javits was the author of the War of Powers Act and he had forgotten that I had voted against it. And I love Jack Javits, I really did and do, but I want to tell you, my speech had an absolutely therapeutic effect on Jack. He was so mad at me for saying that I thought the War of Powers Act was unconstitutional that it is hard to describe what he was trying to do in that wheelchair. But Jack and I understood each other, and he was not offended, and I suppose he knew that when he invited me to speak. But let me tell you what, the lawyer in me says that the first half of that Act is okay. It requires notification within a period of time after American troops or military forces are committed to combat or introduced into an area where there is the imminent danger of hostilities. I don't have any problem with that. That is in Section IV. When you get to Section V though of the War of Powers Act, it says, and after that, if the Congress does not in both Houses approve that commitment, that the troops must be withdrawn. That is unconstitutional for a bunch of reasons in my opinions, one of them is because it constitutes a one House veto, the equivalent of that, which the Supreme Court has already shot down. The one House veto is if either House of the Congress disapproves of a regulation for instance, that it won't become effective. The Supreme Court in the Chadha decision said, that

won't work because there is a method. You know, you pass a bill and send it to the President and he signs it or vetoes it or you pass it over his veto or it becomes law without his signature after a period of time, but not this way. That is one reason it is unconstitutional. The other reason simply is you can't have 535 Secretaries of Defense. Or Secretaries of State. The Constitution makes the President the Commander in Chief of our armed forces, it vests in him the exclusive authority to manage and administer the foreign policy of the country and I do not believe that by statute you could effectively abrogate the provisions of the Constitution. So, it has been my advice to President Reagan in the case of the Persian Gulf, in the case of, well in three cases since I have been there. That the Notice under Section IV the War of Powers Act be distributed to the Congress as the Act suggests and that the words be we are submitting this letter to you consistent with the provisions of the War of Powers Act. Now that may be shoveling a little smoke, but not in obedience to the provisions. Then, to go on to say, this President as every other President before him, Republican or Democrat, has never acknowledged the constitutionality of that Act. And that is the present situation. Finally, sooner or later we are either going to have to change that Act to get rid of this perennial question of constitutionality, or we are going to have to have a court test to decide whether the Supreme Court agrees with me on that interpretation. But it simply cannot go on this way, having one debate after the other about whether the President within 60 days must withdraw troops or ships or whatever, it is inimical to the interest of the United States, it is confusing to our allies, and it is an invitation to our enemies. (Applause)

ROBERT DILENSCHNEIDER: Senator, there are some who call Mikhail Gorbachev the

toughest politician in the world today. Could you comment and give us your opinion on the effects of Glasnost in the United States, on the American people and specifically secondly on Western Europe and its attitude toward the United States as a result of Glasnost.

SENATOR HOWARD BAKER, JR.: Can I tell you another story first. The President loves Russian stories. If we have a Summit, you know the biggest diplomatic problem we are going to have to handle is whether he tells all these stories to Gorbachev and I know he will. But, his current favorite which I guess he made up, I had never heard before, but his current favorite is about Gorbachev deciding he had done such a good job abolishing drunkenness in the Soviet Union that he was going to abolish speeding. So he issued an edict that said, no more speeding. No one over 55 and no exceptions. The story goes on that Gorbachev was at his dacha in the country, and he had to get back to town and he got in his limousine. They were going along at 55 and he tapped on the divider and said, speed up, I have to get back. He said, I can't. He said why not. He said, you put out an edict. He said, God I did that, didn't I. I tell you what, I like to drive anyway, you sit back here and I will drive. It is not going to bother me and he was zinging along at about 80, and two motorcycle policemen saw him and one went out and stopped him, and he rolled down the window and they talked for a minute, and the policeman slowly came back to his buddy as the car drove away. His buddy said, did you give him a ticket? He said, no, I didn't. He said, why not, you know there were no exceptions. He said, I know, but there is an important man in that car. He said, who was it? He said, I don't know who it was, but Gorbachev was driving. (Laughter and applause) If you think I have any chance of convincing Ronald Reagan

not to tell that story....the question though, what do I think of Gorbachev and what do I think Glasnost...what affect it has had on the US and on the world community, especially our European allies. There isn't any way to really judge. You are really talking about, what do I think of Gorbachev because he is Glasnost. There is no way to judge that on the basis of present evidence. You know, it is an intriguing, fascinating, beguiling thought that there is a Russian leader of this century who wants to really change the Soviet Union and maybe he does and maybe in your prayers at night we ought to ask for that. But it is prudent I think to require proof of that. And that proof will come in our efforts to negotiate with the Soviet Union and our efforts to insist on the elaboration and extension of human rights and the fundamental changes that are suggested, but have not yet occurred on any grand scale in the Soviet Union and their social and societal systems. I guess the best way we will have to judge that is, if there is a Summit meeting between President Reagan and General Secretary Gorbachev on arms control. I have a pretty good idea about what an INF Treaty would look like, if we decided to go forward with it and that is not a done deal. But in the course of final negotiation that will get a little better insight into what makes Gorbachev tick. The President has said publically and he has insisted through diplomatic channels, however, that INF is not an isolated accomplishment. It has to be in the context of a START Treaty that is reduction in strategic weapons and conventional weapons and perhaps chemical weapons. So we get a little better insight into the more distant future as we explore how willing he is to talk about asymmetrical reduction and conventional forces in Europe because they so far outnumber us. To have any sort of meaningful equality, they are going to have to reduce a lot more than we do. That will give us a little better insight. But what

we really need to see is how well Gorbachev can ride that horse. And see how well he can bring the Soviet system along with him and perhaps the Soviet people along with him. So if I can turn your question around a little, I really am not as interested in what affect he has as a personality on the United States or Western Europe, as I am in what affect he has on the Soviet people themselves. And we will just have to wait and see. I am hopeful, but I am not certain that we have entered a new era. If we have, it is a virtual political millennium. If we have not, we should not be taken by surprise. And that is where we are.

E. PENDLETON JAMES: Senator Baker, I would like to ask a question about the President. We read in the paper quite frequently nowadays that the White House aids are shielding the President especially for press conferences because they feel that he is slipping, that he is losing command of the facts and losing the momentum of the Presidency, and these stories, and I would like to hear your comment on that.

SENATOR HOWARD BAKER, JR.: Let me tell you, I see this President every morning at 9:00, usually at 9:00, and nobody there except me and my deputy and usually the Vice President. Less frequently the Vice President, I may say, but he seems to have a particular attraction to Iowa and New Hampshire these days, as do some of my former colleagues in the Senate. But the President is extraordinarily healthy. He is alert, he is fully engaged in the debates that rage around him. He is a strong and decisive person, he shows no sign in his mental processes of aging at all. And it is simply a bum rap that Ronald Reagan is losing it. He isn't. He is a strong vital and fully

functional person. The press conference. Let me tell you what, maybe none of you will remember, I hope somebody remembers that at the beginning of the Iran Contra Hearings, there is an announcement from the White House that said, during those Hearings, the President will not have a public press conference because to do so would have the effect of projecting him into those hearings. He would have to deal with all of those questions. He will make a national address when those hearings are over and he did that. And today we announced that there will be a press conference tomorrow, a national press conference in prime time. There was never any desire to see him forfeit that forum. It is not idle to say that he is the best communicator I know of on television and he is thoroughly capable of handling facts and difficult situations and hostile questions from the press. And on live national television. That is no small chore, but he approaches that not only willingly but with enthusiasm and I think you will see tomorrow night, a man who is an absolute marvel. He is 76 years old. He is as bright and quick as any person I know. Let me say one more word about my boss. And I am not saying this to curry favor, I am saying it because I really mean it. He is perhaps the most presidential person I ever knew and I have known a lot. I have known every President since Dwight Eisenhower and by presidential I mean this. You can dispute with me if you like, because everybody has their own view on what a president ought to be. He is absolutely at peace with who he is, he knows who he is, he knows what he believes, and you can agree or disagree with him, but he has a central core of conviction that drives virtually every other decision he makes. And he is at peace with it. He is fully alert and aware. He has a broad perspective and he makes decisions easily. And after he makes them, he is at ease with that too. He does delegate to his staff and I can testify to that first hand and

Don Reagan can too. He does that, but he puts a demand on his staff that is extraordinary. He says, I want the best briefing, I want the best options, I want the best information you can give me, on the ultimate decisions and he gets that. And then he makes those decisions. And then he goes on to something else. But that is presidential and that is the way it ought to be in my opinion. And I must tell you that I ran against this man in 1980 and I have been tempted to apologize ever since.

ROBERT DILENSCHNEIDER: Senator, you knew the late Bill Casey and obviously because of your position you knew what was going on in the CIA. How much of Bob Woodward's book is true?

SENATOR HOWARD BAKER, JR.: I don't know. Bill Casey's funeral had a closed casket and I have not thought that to be conclusive. (Laughter) I have not read Woodward's book. I only read books that the authors send me complimentary copies of. But seriously I have not read it, I do not know what...except what I have seen in the press, those accounts, and then once again I simply don't know enough to comment on it. I can't tell you. Surely you are running out.

E. PENDLETON JAMES: No. We have a lot more. If I can get a little personal here, you have been Majority Leader and a member of the Senate for a number of years, and now you are the Chief of the White House Staff, and that is great. That fills two perspectives on the U.S. government. It is unique. Could you comment upon the views of the two roles you have had?

SENATOR HOWARD BAKER, JR.: Well it is unique and I haven't decided yet how to do that, how to make a comparison. They are vastly different in many ways, but they are remarkably similar in others. I guess with the superficial observations first. The hours aren't very different. If anything, the hours in the White House are a little less demanding than the hours in the Senate. I get to work every morning about 7:30 and have my first staff meeting at 8:00 and I usually get home about 7:30 at night. That is a standard day. If there is something else going on it may be different. But in the Senate we sometimes had a more leisurely schedule, but if you are leader, you are there when it opens and there when it closes and the hours can be very long indeed. So from the standpoint of physical exertion, it isn't very different, especially when you are comparing leader to White House staff. From the standpoint of the range of problems that confront you, clearly the Chief of Staff to the President sees more kinds of issues. Every unresolved controversy within the Executive department unresolved controversy ends up coming across my desk. And it sometimes seems like the focus of the world's woes are there on my desk. And so from that standpoint, there is a greater variety of things. No more important, really but a greater variety of things that come across my desk, than in the Senate. But in the Senate, in a very real way is more difficult to try to bring a consensus out of the majority that we had or in the entire Senate, when we had the minority. We are trying hard to meld conflicting points of view, or various points of view, into a functional policy that some way or other resembled governance. The congressional system is a messy business and the most remarkable attribute of it is that it works and it works really pretty well, most of the time. On the White House side I

don't have that problem. I have a dispute within the staff and either I resolve it or I walk those 26 steps once again down to the Oval office and I come back and say, the President said so and so and they all take that at face value and that ends that. (Laughter) And some of them suspect sometimes I say the President said so and so and I didn't even talk to him. But they will never know. (Laughter) But they are different jobs but similar jobs. And one of these days I will sort through that. I am, like Bill Schreiber he said, he doesn't read the paper, he puts them in a box and threatens to do that in six months. I am doing that, about my impressions of these two jobs. I am a fortunate man though, I really am. I sometimes let myself think about that just for a moment. There haven't been many US Senators, really when you think about. And there have been far fewer majority leaders or minority leaders and I was the first Republican ever elected to the Senate from my state. I served during a historic time. And now to be at the White House under extremely difficult circumstances, to come on board at the President's request as he is facing hearings that not only were unpleasant but might threaten his political existence. And to move into a brand new occupation at my age, and experience, is an enthralling experience and one of these days I will sort through that and figure out what it all means, but I am an extremely fortunate man and I am pleased for the opportunity. (Applause)

MODERATOR: Senator Baker that was an extraordinarily rewarding experience and evening for all of us. Now I recall that I commented earlier in the evening that you were qualified by character, intelligence, experience and temperament to be the President's point man. You made a lot of points tonight to be the President's right hand man. But now when you were answering all

of these questions I began to suspect, Howard, that you might be over qualified and I have noticed that you are only about 15 feet from the Oval room and I accept that as circumstantial evidence, but I don't know of what. Now one of our many traditions is the Steuben Apple which we have adopted as a symbol of the Economic Club and I hope you will accept this with our sincere thanks for giving us a great evening. Thank you. (Applause) And now also to Bob Dilenschneider and James, our thanks and I would ask you all please remain a couple of minutes while our guest can move out of the building because we have to get him back to Washington tonight and he has farther to go than we have. So now this meeting of the Economic Club of New York is adjourned. (Applause)