

The Economic Club of New York

331st Meeting
83rd Year

The Honorable John H. Sununu
White House Chief of Staff

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Questioners: Richard A. Voell
President and Chief Executive Officer
The Rockefeller Group

John J. Phelan, Jr.
Chairman and Chief Executive Officer
New York Stock Exchange

Introduction

Chairman Rand V. Araskog

Ladies and gentlemen, welcome to the 331st meeting in the 83rd year of the Economic Club of New York. Tonight we are very privileged in a particularly critical time period to have with us the Chief of Staff to the President of the United States, the Honorable John Sununu.

He was born in Havana in 1939 and the White House sent me a press release biography that says he was born while his parents were visiting on a business trip to distribute French films.

(Laughter) He lived in Queens, in New York. He received his bachelors, masters and PhD degrees from MIT, the PhD degree in Fluid Dynamics. He has eight children, a computer expert. When he was completing his tour as a professor at Tufts, he entered politics and was three-time governor of the state of New Hampshire and is credited with a great role in delivering the state of New Hampshire to now President Bush at a critical point in time in the campaign.

President Bush stated at the time he selected him to be his Chief of Staff, John Sununu has the background and experience necessary to work not only with former colleagues in the nation's state houses but also to build a constructive relationship with the United States Congress.

(Laughter) And we're going to hear about that. The press in Washington at one time jokingly called Mr. Sununu, Governor Sununu, that is the pit dog of the White House, to which he responded, I am nothing but a pussycat. Governor Sununu, please...(Applause)

The Honorable John H. Sununu

White House Chief of Staff

Thank you very much Rand. I appreciate that. All the honored guests at the dais and very honored and distinguished audience that is out here, I am very honored and pleased to have been invited to address the Economic Club of New York. I was actually rather impressed about being asked to do so, and when I got here I leafed through the membership and realized it couldn't be that impressive since I recognized a lot of old friends on the list and you can't really therefore be very selective or very exclusive. (Laughter)

But it is a pleasure to be invited to come to New York anytime. I am an old resident of the city and frankly I am absolutely positive that all my problems in Washington are that they discovered I am still a New York Giants football fan. (Applause) They warned me that if I came here to speak tonight and if I was going to be partisan in any way at all, I ought to warn the audience. So please consider yourselves warned. (Laughter) I am going to be partisan tonight. But then again it wouldn't be very interesting if I wasn't.

These are very interesting times. They're very critical times. I can't imagine that any one of us at this dinner tonight, a decade or two from now, will not entertain our grandchildren – or in the case of some of you out there, your great-grandchildren, in the case of some of you who are a

little younger than most of us, your children – about what you were doing and what your involvement was during this wonderful exciting period, not only in American history, but in world history.

Certainly what happened in Eastern Europe and what is happening now in the Soviet Union, and that wonderful event of October 3 in Germany with the celebration of the reunification of that country, every one of those events represent changes that virtually none of us would have been able to predict would have taken place if we had been asked the question a couple of years ago. Not only is the magnitude of the change stirring, but certainly the rapidity of the change that is taking place has been amazing. The changing texture of the world, the changing situation, is all reflective of the fact that these are times in which leadership is required, in which business as usual is not only a luxury we cannot afford but is clearly something that ought not to be permitted.

And I suggest to you that what is taking place in Washington today under the leadership of a president that came to the office certainly acknowledged to be well-prepared, but in my opinion underestimated in terms of the self-discipline he brings to the office, in terms of the understanding of the nuances, both in foreign policy and domestic policy, and in terms of understanding what has to be done to make that awfully large, cumbersome, difficult machinery of public policy do the things that are necessary for this country to meet its obligations to itself and its citizens and to people around the world.

That president was asked a question the other day – a very interesting question. Mr. President, the member of the press asked, why is it that things seem to be going better in terms of foreign policy instead of domestic policy? And for the first time since he's been president, I think, the president gave the wrong answer. He indicated to them that he thought it was based on the fact that he had a strong personal interest in foreign policy and that sometimes the domestic policy issues did not excite him as much as dealing with some of the critical issues around the world. Frankly, that was the wrong answer.

The reality is that in foreign policy, the President of the United States does not have his daily, his monthly, his weekly, his annual actions micro-managed by Congress. But in fact, every domestic policy issue is micro-managed by every sub-committee chairman in Congress trying to fine-tune what the educational policy of the smallest town in this country ought to be, what healthcare policy ought to be, the way doctors ought to practice medicine, the way brokers ought to sell stock, the way housewives ought to cook in the kitchen, and the way we ought to make our sidewalks safer, without cracks, and a little bit unfortunately more difficult to plow in the winter. It is that daily micro-management, it is that interference of Congress in a way that is meddlesome on domestic policy, that I believe is the distinction between the capacity of this country to aggressively respond to big issues in the international arena and find itself still operating at a dinosaur's pace when it comes to dealing with critical domestic issues.

This country is faced with a very significant domestic problem in terms of its economy. It has, in

fact, seen over almost two decades the evidence of the kind of problem we are talking about. It has seen for virtually half a generation the continual growth of a deficit, continual growth of debt, and the continual growth of putting off 'til tomorrow the tough decisions that are necessary to deal with our economic needs.

There's a legend – and it is a legend – that the reason for that is an unwillingness to raise money by increasing revenues. Well, the fact is, is that if you really did your accounting well, you would see that the proclivity, the problem is the proclivity in Congress to increase spending levels. Let me point out to you that without any fundamental change in our revenue laws, without any fundamental change in our tax laws, the federal government under even a small growth year has about \$80 billion additional dollars a year to spend – \$80 billion additional dollars per year to spend. I think if you do the arithmetic and analyze what is going on, you'll see that's roughly a 7 or 8% increase in revenue. It is roughly an increase in revenue significantly greater than the average increase experienced by any household in the country. It's an average increase in revenue greater than the average corporation. And yet those folks are able to cope with changing times without drastic changes.

But the legend persists that what we ought to do is merely increase taxes. The president tried to deal, in as constructive a way, by presenting on two occasions, twice in the last, in his first year and now again in the second year, budgets that demonstrated very clearly how to move down the glide path without changing the basic tax structure of this country. And frankly, twice Congress

chose not to vote on those budgets, not even to deny by vote those budgets, chose not to vote on those budgets because they felt the cuts in spending required them to cast too tough a vote.

As we moved into the early part of this year, it didn't take much of an economist, it didn't even take the Economic Club of New York, to tell the country that we were moving into a period of time where growth would slow down, and that what was needed was a constructive response at the federal level – not only by Congress, not only by the president, but by all the components of government associated with making policy and implementing policy that makes a difference in the economic vitality of this country. And frankly, one of the things that concerned the president was the glacial pace of response by Congress to that real need. The president sent a budget up on time. The president asked Congress to respond on time. And in its traditional manner, Congress failed to do anything significant.

Let me emphasize that even with the pressure the president has put on Congress we are today six months late in Congress acting according to its own laws on the needs for budget, budget resolutions and reconciliation and appropriations bills as required to give this country a budget so that it can start its October 1st fiscal year. We're about two years into that fiscal year and with all the pressure, all the cooperation, all the prodding, all the concessions, all the compromise made by the president, Congress is still struggling very hard trying to figure out how not to have to cast the tough vote to meet its responsibility.

At the risk of rehashing old history, let me remind you that last April when the president sensed this was going to happen, he called the leaders together, and he said let us try and not fall into the trap we fell into the previous year – and if you remember, they were again late and going into October and November the president had to accept moving into sequester the automatic cuts under the Graham-Rudman, and had to sit there and stay there and manage the government under that drastically reduced level of spending until Congress came around and passed a budget that at least had a significant part of the savings that he had asked for. By the way, if you think back to last October and November when we had that very significant reduction in available spending under sequester, the startling thing about it is nobody even noticed. And in a way, it underscores the fact that perhaps we are spending too much.

But nevertheless, the president did not want, sensing what was happening in terms of our economy, in terms of the world economy, did not want that to happen again. He asked the leaders, and to their credit they responded constructively in putting a Budget Summit together – a Budget Summit consisting of the leaders, members of the administration – some of us softhearted and warm and cooperative, others not so. And in a process that is now six months old, we have tried with the leadership of committees and so on to put together a package that addresses not only this year's need, but to try and put a five-year framework so that we can demonstrate the government of the United States can manage its economic business, can meet its economic responsibilities to itself, and can address the problem of an ever-growing deficit.

The president and congressional leaders have charged ourselves to coming up with a \$500 billion real, no smoke and mirrors, real, effective, binding, credible package for reducing that deficit over a five-year period. And to the credit of the bipartisan group that met, it came forth with an agreement at the Summit – an agreement that did a number of significant things. First of all, in a time where the euphoria was suggesting that what we ought to do is gut our defense budget, in a time when all of a sudden we discovered that that was not the thing to do, we were able to maintain an orderly reduction over this five years of the level of spending for defense – not a trivial number, about \$170 or \$180 billion worth of reduction – rather significant, and yet done in an orderly enough fashion that we meet our responsibilities to the men and women in the Gulf and in fact recognize that we will continue to have significant defense responsibilities over the next few decades.

In addition to that, contrary to efforts in the past, the package that came forth from the Summit had about \$120 billion in real spending reductions – not based on the assumptions of legislation to follow, but constructed in such a way that it would be part of the law as passed – immutable in law and something that we could count on rather than hope for. It contained, in addition to that, some very significant features in terms of giving credibility to the package. It reestablished the firm Graham-Rudman targets rather than the soft, flexible ones sought by some congressional leaders who would prefer to work with a fuzzy target than a real target. It established mechanisms for automatic spending cuts, the automatic sequester structure, and it had even a fine structure to it, unprecedented in the past where within categories if there was overspending, there

would be automatic reductions in associated programs. It had a pay-as-you-go requirement that after this reconciliation bill is passed, after this budget is finalized, any new program – whether it be mandatory programs or discretionary programs – must have a compensating structure. That is to say, if you want to increase spending in one area, you must decrease spending in another area or show clearly how the program will be self-paid for.

Those are all very important features. They are all critical features. They are all the kind of features that the president envisioned ought to be included in the package. They're the kind of features he talked about in the budgets he presented and they're the kind of features that everyone agreed should be there. But frankly, a few months ago, the budget was going nowhere. The budget was going nowhere because we could not get people to come to the point of talking the details of what would be in the budget. And all of a sudden it became obvious that a lot of folks wanted to hold the capacity of putting this deficit reduction package together hostage to forcing the president – not to take the approach of cutting spending exclusively, not to take the approach of discipline in the spending structure, not to take the approach of trying to get the growth in revenue curve to catch up by slowing down the growth in spending curve – but wanted to make sure that the president had to eat the broccoli, if you will, of added revenues.

Now let me tell you what I think is a mark of leadership. There are two things a leader should do. Number one, when commitments are made, he should stick to those commitments. And the President of the United States did that, did that for two years. But I think the toughest thing a

leader can do is to recognize when it is more important for the country to accept a change in policy in order to get a success for the country. It's a sign of leadership to do it, not in a willy-nilly way, but to do it in a way that you can move a stalemate.

The president knew he would take a political hit for accepting the fact that revenues would be considered and "on the table" if you remember the phrase of the time. He knew it would not be popular. He knew he would be given grief for it. But he took a hard look at the economic realities, not just the tea leaves, but the indicators that all of you understand better than I do and certainly as well as most of the good advisors the president has. And he recognized he had an obligation to try and move this package forward quickly. And so he ate that broccoli, he accepted the responsibility of including within the package, revenues, not because the revenues are the only way to make this package work, but because accepting revenues was the only way to get the congressional system to respond in order to give this country the package it needs. I think that is a sign of leadership. It's a sign of recognizing that one should not create political capital merely to hoard it, but one should create political capital with a willingness to expend it for the good of the country.

We are now going through the very tough – we hope – closing stages of that process. The fundamental structure of that agreement has been somewhat fractured. And yet the basic structure which is so critical, the issues I've raised, the level of spending in military, the real savings – they've been somewhat reduced because the vote on the floor of the House chose not

to accept that level of savings – it was a very hard political vote for people to cast, and I think underscores the fundamental flaw in the system. And the debate now is over about roughly 10%, 15% of the package in terms of the texture of the revenue that is there. In that respect I think the good news is that we are so near, and the bad news is that we are at a point where the traditional bad habits of Congress are beginning to dominate the system.

For those of you that watch Congress from afar, watch the federal government process from afar, it is sometimes very hard to explain what we mean, what I mean, when I talk about these bad habits. I've dealt with the legislature before. I've dealt with the legislature as governor. I've dealt with a legislature that literally went home every night to live amongst their constituents, couldn't avoid them. There was a problem that our legislature in New Hampshire had and we were the most democratic, that's a small "D", democratic, the most democratic Republican legislature in the country in the sense that we had one representative for every 2,300 citizens.

And what that means is that everybody knew their legislator and they ran into them at the post office or the supermarket or the dump, and whatever problem they had, they heard about it. And I can tell you, though, that that legislative structure never, never, never got itself hung up with a fear of casting a ballot because it was a tough political question.

And yet in Washington today, I think the biggest problem we have is that it is awfully difficult for folks who see more important the turf they own as chairman of a committee or as chairman of

a sub-committee, see more important the fact that they have been there for 20 and 30 years sometimes, more important to them is the return to office than fulfilling the obligations which have given them that responsibility of office in the first place. And to get those folks to cast a ballot for cutting what are perceived as favorite programs around the country is an awfully difficult thing to do. Even with the help of the Summit, in which some of the very tough decisions were made on a bipartisan basis, Republican leaders and Democratic leaders together taking, if you will, the political heat for joint endorsement of spending cuts, it was difficult to get them to cast that ballot.

And we are going through some tough times as we try and fine-tune it and find a package that is still one that will work, one that is credible, one that meets the test of the markets – both domestic and international – one that meets the test well enough to achieve what we hope will be the first step reward of a reduction in interest rates as that is passed – interest rate reductions which will help home buyers and consumers and businesses who want to expand job opportunities for people. But also a package that is real in the sense of being large enough, \$500 billion, and a package that is real in the sense of being cast into law rather than merely being passed in the hope of changes that will come in the future.

Now all of a sudden, as we get to that point where these tough decisions have to be made, the bipartisan mantle of the Summit begins to have a few cracks in it and we begin to hear some of the more partisan cries, not only because the decisions are tough, but because if you look at your

calendar, about two and a half weeks from now, three weeks from now, we have an election.

People run out looking for bumper sticker slogans. And one of the great bumper sticker slogans of all time under which the Democrats have succeeded in hiding all kinds of mischief is that all we are going to do is tax the rich.

Let me tell you that the American public, the working man and woman out in the hinterlands, ought to be livid at the deception that has been portrayed on them under the mantel of all we're going to do is tax the rich. Last night, a Democratically-controlled House with virtually all Democratic votes – there were only ten Republican votes in passing this – passed a tax bill which they called, was a tax-the-rich bill which raised the income taxes on working men and women by about \$40 billion, one-quarter of the total tax bill, and raised it on them in a way that was hard to find, but I guarantee you is there and you don't have to be very good legislative analysts to find it.

They did it by delaying the indexing of the brackets. That means that every working man and every working woman in the lower and middle-income range had their income tax raised. And the fact is, is that they're raising about the same amount of money at the lower and middle end as they are from the high end which they are bragging about having raised taxes on. That's not only a deception, it's not only a misrepresentation, it is tangible evidence of what the president said would happen. He drew the line on the tax rate increase because he knew how addicted the Democrats are to playing around with income tax rates and all they needed was one taste of

raising income tax at any end of that scale and they couldn't stop. They'd raise the rates on everyone. It only took a few days for that addiction, that compulsion to tax and spend to drive the Democrats into that package which two days ago they were crowing about and I guarantee you two days from now they're going to try and figure out how to get out from under. They're trying to figure out how to get out from under it because their bluff was called by a president out on the trail that pointed out to America that that bumper sticker deception was nothing but misrepresentation.

This looks like a pretty rich crowd. So let me tell you that I've got bad news, I've got very bad news, and I've got some good news for you. The bad news is the Democrats say they want to tax the rich. The very bad news is under that deception, they are really taxing every working man and woman in the country. And the good news is that George Bush isn't going to let them get away with it. (Applause)

Just to make sure you don't miss the point, (Laughter) and I do get accused of being extremely subtle at times, let me give you the new version of the old story you've all heard about the three biggest lies in the world. The first one is check's in the mail. The second one is I'm from Washington and I'm here to help you. And the third one is the Democrats are just going to tax the rich. It is in the category of the first two, I guarantee you. They may have conned the American media – and boy, have they done a job of conning the media – but sometimes I get the feeling they like being conned by the Democrats. They may have conned the media, but George

Bush is not going to let them con the American public.

Having said all that, let me talk a little bit more about the process. Certainly the process itself is somewhat the culprit in this system. There is, believe it or not, a tradition in Washington that Congress not only misses the dates, but sometimes it forgets to complete the budget process at all. And so we don't end up with all the laws at all as required under the law. We don't even end up with all the appropriations bills. And what we end up with is these business as usual resolutions that have some kind of a "hide it if you can" structure in there that just says, okay, it's okay to spend a lot more money this year than we did last year.

We got to that point about a week ago, just before the Columbus Day weekend, right after they had missed passing the budget resolution. And Congress said they'd like to go home for the weekend. It was Columbus Day – they'd like to take three or four days off, and wouldn't the president just let them pass a continuing resolution and wouldn't he just sign it so they could leave.

Well, the president thought back to last August when he asked them to stay instead of going on vacation. We were in the Summit. Wouldn't the Summit folks stay and work out the details? Wouldn't Congress stay and help the Summit along? And they said, no, let us go back, on vacation, we'll come back in a much better mood and we'll give you a budget right after Labor Day. Well, we were a long way from Labor Day. It was Columbus Day. They hadn't done their

job. They passed this continuing resolution, sure that the president wouldn't close down the government, wouldn't stop the government from functioning, and started to pack their bags to leave, and the president vetoed it.

The President of the United States again took the political burden – and it is a political burden, you don't make a decision like that without having a political impact – and shut government down. And you remember the media scrambling around to find every seven-year old child that had gone to the Washington Monument and wasn't able to go in and every one of the folks that were at every one of the national parks around the country asking them the question, didn't they think it was terrible that government was shut down? You know why they had to do that, by the way? Other than that, nobody ever noticed that the government was shut down. (Laughter and Applause)

Now the Democratic leadership again in Congress is posturing that the President of the United States ought not to shut government down. I don't know what decision the president is going to make on Friday at midnight when they try and give him another continuing resolution. But he liked the formula of vetoing the one a little over a week ago and liked the fact that Congress stayed around Saturday night, Sunday night, and Monday and got him a budget resolution, and finally got around to doing the first step that they should have done. I can't tell you what he will do. He will evaluate it. They might pass him a continuing resolution that's got some significant spending cuts built into it so that at least if he gives them a little extra time, we're beginning to

save the way we should. But I can tell you this. He means business. This country deserves a president who means business. And Congress ought to respond to the fact that the country wants this problem solved.

He'll probably get hurt in the polls again. He'll probably take a little bit of heat from Republicans as well as Democrats. But I can tell you that no presidential domestic action in decades has been or can foreseeably be as important as this president standing firm, saying no more business as usual. Stay here, do what you were elected to do, and get this country a deficit reduction package that straightens out the economy. And I guarantee you, that's what they'll hear, one way or the other, Friday night.

Let me add a couple of things and then get to the part you probably like, the part of asking questions, and I'll see if I can handle those. I want to stress that the responsibility the president accepts on this issue is not just focused in a domestic sense. It certainly is the domestic economy he cares about. But when he has to go abroad, deal with world leaders, I can tell you one of the inevitable questions, one of the inevitable wonderment – although frankly sometimes I wonder at the people who are asking them whether they have looked at their own economies when they're asking the question about ours – is when is this country going to deal with its deficit problem?

It is an important problem because it has become an important problem. It is a critical problem because the response that will follow, either its accomplishment or its failure, will be determined

because people think it has to be done. And I can't underscore that fact too much, and yet it is important for people to realize that there will be dozens and dozens and dozens of excuses coming forth for suggesting that we put it off just a little bit more. A statistic you ought to remember, in the last ten years Congress has come to this decision a number of times. Some of them have been tougher than others. And 37 times it has chosen not to face up to that decision and 37 times it has passed a continuing resolution to let it slide past the problem and put it off. I have a feeling that the president is not going to let them have a 38th business as usual resolution.

Thank you very much for letting me come tonight. Thank you for tolerating what I know a lot of you think is a strongly partisan viewpoint. But I guarantee you that as partisan as this may sound, the concerns I have raised are real. The flaws I have identified are real. And the commitment of this president to doing what this country needs is realer, if there is such a word, more real than all of the others put together. Thanks very much for your courtesy. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN RAND V. ARASKOG: Thank you very much Governor Sununu. Our distinguished questioners tonight are Mr. Richard A. Voell on my left, President and Chief Executive Officer of the Rockefeller Group, and Mr. John J. Phelan, Jr., the Chairman and Chief Executive Officer of the New York Stock Exchange on my right. And we'll begin with Mr. Phelan.

JOHN J. PHELAN, JR.: Governor, many Americans have expressed their disillusionment with the entire process by which our government forges a federal budget. How would you assess the process itself? And what changes would you recommend to improve it?

THE HONORABLE JOHN H. SUNUNU: It would be a heck of a lot easier with a Republican Congress. (Laughter) You want more, John? (Laughter) You want me to deal with the secondary issues? John, that is not as facetious as it sounds. One-party control for over 50 years in essence creates problems. Those of you who live in New York understand the problem of one-party control. It creates fiefdoms. It creates fiefdoms in which the primacy of the chairman dominates the constitutional obligation that is real. And whether it was 50 years of Republican control or 50 years of Democratic control, I can tell you nothing would be more healthy than a true competitive character with a relatively frequent change of leadership within Congress. And I suspect that's why, whether the budget is passed quickly or not, you may hear the president over the next two weeks urging folks to help him get a brand-new Congress.

RICHARD A. VOELL: Governor, it's been suggested in more ways than one that the checks in our system are overwhelming the balances. Certainly we're spending more than we can afford, but in the political sense we also face a situation where the ability of one branch of government to check the other appears to be getting out of control, to be exceeding the balance that even the former framers of the Constitution intended. And so we have what we appear to have today as a gridlock. We've had situations in the past where the Executive Branch and the Legislative

Branch were controlled by different parties, yet we didn't prompt the kind of crisis that we're seeing today. And in your judgment, what is causing that difference? And assuming we get beyond the immediate budget crisis, how do we address this political issue going forward?

THE HONORABLE JOHN H. SUNUNU: Well, I think there is a sense out there by the American public that there's a fundamental flaw in the system. And I think if you think back to what the framers of the constitutional structure had in mind when they gave powers to the legislative side and to the executive side, they in fact were thinking of a part-time legislative structure which would come in, pass some laws, and go home. And what we have now is a legislative structure that has decided to come in, pass some laws, and hang around and try and micro-manage the Executive Branch. And I think that's part, if not as much, of the problem as anything else. And I also think the longevity of a congressman is part of the problem as I've talked about. That combination has created a structure there where there is an unholy partnership between congressman and their staffs and the fifth, sixth, and seventh layers in the bureaucracies in which the capacity of the Executive Branch to manage these executive agencies and departments is very much different than was envisioned under those that put the Constitution together. I cannot suggest how you might shorten the period of time in which Congress was in Washington, but I can suggest to you that the idea of term limitations may be an idea whose time has come. It happened to have been part of the 1988 platform that the president ran on. It may be resurrected, if you will, in terms of visibility because of what happened in Oklahoma in terms of a referendum out there. And I think this is going to be more and more of an issue and an idea that

ought to be examined. I think then you're going to have men and women – it does two things – one, by shortening the term it also shortens in a sense the obligation and people can go back and serve in public life with a sense that they can give a few years to it and go back to what my kids often tease me about as being a real job instead of just service for the public trough. And the fact is that I do think that term limitations ought to be considered and might be the kind of solution to the problem that would make a big, big difference. (Applause)

JOHN J. PHELAN, JR.: Governor, there have been some in the Republican party in Congress who have said that on this whole budget issue, the president has been too laid back, taken too much of a backseat, and that if indeed he agreed to increases in taxes – whether they be personal income tax or others – that in the decade of the 90s there would be not much to separate the Republican party from the majority party in Congress. How would you reply to that?

THE HONORABLE JOHN H. SUNUNU: Let's talk about it in terms of what the president, with his style – and it is a particular style, everybody who is president has a style and has to complement that style by the structure of the administration that he puts together – what the president has done, as long as it has been in terms of this budget cycle, you know, six months late is a long time, but in terms of how quick it has been, in terms of a 20-year old problem, what this president has done is brought the system to a point where we are talking by an order of magnitude about the largest package of deficit reduction ever, \$500 billion, with virtually 90 - 95% of it relatively agreed on, with structures within the package that provide the enforceability,

credibility, and assurances that what is agreed on will actually come into play. And having been able to do that in this short period of time, I think, if anybody looks as to whether or not the style is effective or not, is a tribute to the style that he has. And then again if the president needs a little bit firmer stance and more aggressive dealing with issues, there are some other members in the administration that are willing to not be the ones that speak softly. (Laughter)

RICHARD A. VOELL: Governor, if you agree, and you very well may not, that the two most likely scenarios in the Gulf Crisis are either a war or a sustained long-term military presence, how does this square with the budget numbers currently being put forth by the administration and/or the Congress?

THE HONORABLE JOHN H. SUNUNU: Two points, in terms of the military defense budget, this budget anticipates expenditures of about \$15 billion over the next six months to one year for Desert Shield and assumes that half of it will be paid for by our allies. Those numbers are very consistent and, in fact, very conservative relative to the rate of expenditure and the reality of funds that have been forthcoming from the allies. So in terms of the budget impact, it ought not to be seen as a budget impact.

JOHN J. PHELAN, JR.: Governor, would you describe how economic policy is formulated within the White House, that is, relative roles of Treasury, OMB, CEA, etc. and what shortcomings you may see in the present structure and what would you recommend as a change?

THE HONORABLE JOHN H. SUNUNU: Well, the policy of economic policy formulation in the White House is very simple. The president decides. The policy of recommendations to the president is rather complex. There are recommendations that come from Treasury. There's no question that Nick Brady, as a long-time friend of the president, carries not only the stature of Secretary of Treasury but someone that is very comfortable with the president, someone the president is very comfortable with. And the advantage of that is that the discussions that take place there are very frank and forthright. I happen to, one of the assets that I think I brought to the system was having developed a good relationship with the president during the two years of campaign. Dick Darman has the years of experience, both in Treasury and now at OMB, Mike Boskin from Stanford, someone that president handpicked himself because of the relationship he had developed. And I guess the point I'm trying to make is that the discussions in terms of economic policy are very direct. They're very frank. They take place with the president by people he has confidence in and people he has enough confidence in that he hopes if there is a problem will argue in front of him, either with him or amongst themselves the pluses and minuses on it. And I can tell you the discussions are hot. They are heavy. There are no punches pulled. This is not merely discussions for the ritual of discussion. These are discussions in which the president sees these issues laid out with no qualms by the players in terms of his hearing it. In addition to their relationship with the president, by the way, this administration has one other asset that I think has been underrated and that is the relationship amongst the players. The press in Washington is very upset that this is an administration that does not leak tales on each other. It is a group of people that get along well, that have hard, tough arguments, and can walk away

from those and know that what it is, is an exercise in trying to find the right course. And that once the president decides – and the evidence I think is very clear that this is the way it is practiced – once the president decides, although privately folks may continue to argue, publicly he gets the kind of support that is necessary to make those decisions work. The worst thing is not to have tough decisions go one way or the other in terms of their impact on the country, the worst thing is to have tough decisions continue to be argued in public so that the capacity of those decisions to make an impact is undermined by the pettiness of the continued discussion.

RICHARD A. VOELL: Governor, last week a *New York Times* CBS poll showed more than two-thirds of the respondents saying it was time to replace most members of Congress, a really very startling fact in view of the recent elections in which 98% of the incumbents were returned to office. In your judgment, and in your opinion, what does it take to translate these public concerns and frustrations into action?

THE HONORABLE JOHN H. SUNUNU: The problem, the problem with that poll is, like most polls, the press publicizes the number that is most newsworthy. But if you probe that number, most folks have always said that they think Congress is not doing a good job, that Congress ought to be replaced, but everyone thinks their congressman is doing all right. It is sort of the opposite of familiarity breeding contempt. Familiarity breeds familiarity and I guess people are traditionally happy with the old pair of shoes they happen to be wearing. I hope, though, that there has been enough broad publicity about the problems associated with this process that

people are a little bit discriminating as they go to the polls in November and take a good, hard look at not just did the congressman vote for their favorite program or against their favorite program, but does the congressman or the congresswoman that they are looking at, have they voted in terms of taking stands on the tough programs, the tough issues that make a difference for the country as a whole. And having run for office a number of times, and having won a few times, let me tell you that I've got a lot of confidence in the long run in the American voter that if you give them something to look at and if the issue is highlighted well enough for them to give it a little extra examination, they generally come out with the right answer. So this may be a tough, tough time for some of those incumbents – particularly of the party that has had control of Congress for a long time – this November. Frankly, those of us in the White House who are looking at this kind of hope that that's the scenario that's played out three weeks from now, he says non-partisanly. (Laughter)

JOHN J. PHELAN, JR.: Governor, just in case we may have missed it in your formal comments, would you go over again what it is that the administration objects to about the Rostenkowski two-budget plan.

THE HONORABLE JOHN H. SUNUNU: Well, particularly the fact that it has reduced the level of spending cuts significantly and traded rather drastically spending cuts for overall tax increases. That's the first point. And secondly, that a great number of those tax increases are associated with changes in income tax rates across the board, including a very heavy dose of

income tax increases on lower and middle-class America. That is not only a bad way to go, it creates a precedent for playing around with this very easy way to generate funds – the income tax rate – it feeds the spend and tax frenzy that has been the business as usual formula in Congress. It, in a way, also impacts the capacity to grow since the administration feels very strongly that income tax increases and increases of taxes on private sector entities, corporations, partnerships and so on, are both anti-growth. And it is the anti-growth aspect of it, it is the resorting to excessive taxes, and in particular the income tax increase in lower income and middle income America.

RICHARD A. VOELL: Governor, development of initiatives to increase America's energy independence in the past decade has frequently been thwarted by competing environmental objectives. I'm referring specific to obstacles to offshore drilling and to nuclear energy. In the wake of the latest oil shock, can a better balancing of energy and environmental objectives be achieved to enable fuller development of America's energy resources? Oil, gas, nuclear?

THE HONORABLE JOHN H. SUNUNU: I'm glad you reminded me. We also object to the fact that the Rostenkowski package stripped out all of the incentives for energy development and energy exploration. I think in the long run, the country will do a better job of balancing priorities. The very worthwhile goal of protecting the environment has to be seen not as an absolute, but as one amongst competing goals. As in most decision-making processes, there are a lot of good issues that have to be addressed, and most solutions are ones that do not focus just on one

priority or another but blend the relationships of those priorities. I think for too much of what we have been doing, particularly in the energy area, we have not been balancing priorities, we've been allowing one to dominate. And I think what has happened in the Gulf has made it clear that that perhaps is not the best way to go. And I think we will go back, it make take a little bit of time, it certainly will take a commitment on the part of the public to understand that that automatic vote of no when we talk about capacity to do additional exploration such as in the Alaskan lands that are one of our major resources in oil for example, is not, should not be an easy automatic vote for a congressman to cast to curry favor with his constituency without concerning themselves with the long-term viability of the country.

RICHARD A. VOELL: Can I just ask you a short followup on that? Do you think we can anticipate any changes in the licensing procedures to prevent what happened at Shoreham and Public Service of New Hampshire?

THE HONORABLE JOHN H. SUNUNU: I think there's two things that have to be done, at least one of which is already underway. I think the nuclear industry has a responsibility to be more credible in terms of its capacity of dealing with public concerns. It has to, in some way, be more consistent with its process. Perhaps standardized design is a better way rather than making each unit to a custom-made order. And secondly, again, the licensing process, just as those who make legislation, those who license have to be willing to blend priorities. I think that too will develop over the years. It won't happen overnight, but I think some of the good news can be seen in the

fact that Shoreham's sister-beleaguered power plant, Seabrook, is on line now. It is producing at about 90% capacity and in terms of its impact on oil, is reducing demand by hundreds of thousands of barrels of oil and that's a very significant difference, particularly in the crisis that we have.

JOHN J. PHELAN, JR.: Governor, this summer you spent some time in Moscow advising President Gorbachev on the structure and function of the Office of the Presidency drawing on your own experience. What kind of advice did you give him?

THE HONORABLE JOHN H. SUNUNU: Good. (Laughter and Applause) To their credit, the Soviets have understood that there's a difference in running the Office of Presidency than running a dictatorship. And that may not sound like a profound statement but it really is. The operational requirements of developing policy are very different for a presidency that is responsive to the public. The way you deal with such mundane things as correspondence is very different. The circular file is sufficient for a dictatorship. It is not appropriate, nor sufficient, for a presidency. The way you interact with managing of the structures out in the hinterlands is very different. The patronage structure, the personnel structure, is very different. The relationships with a pro-forma or an automatic legislative structure under a dictatorship are very different than the real, tough interactions that take place between the Office of Presidency and a legislative body that really has power and really has a level of independence under the Soviet Union. So what we did is try and talk about how we do things, not necessarily saying these are the only way

they could be done, but in the discussion to try and raise the issues that they ought to address in their own fashion, in their own style. I think probably the most important message I tried to give is that the Office of the Presidency most immediate to the president must be designed not to respond to a national heritage or a tradition of the bureaucracy but must really be designed to fit the personality and style and assets of the president in power and, in fact, must be shaped by the desires of the president himself. And believe it or not, that probably more than anything was a surprise to them. The bureaucracy that we were talking to, like our bureaucracy, thought that the bureaucracy ought to tell the president of the kind of a structure that he ought to work with. And so if I had to put my finger on any one thing that I hope they heard loud and clear was that it is the president who ought to decide the structure. Just as this president decided the structure of the White House, President Gorbachev ought to decide the structure around him.

RICHARD A. VOELL: In a much lighter vein, anyone that saw you on the Today Show this morning would not question whether you're an articulate spokesman, though partisan, for your cause. Using your own terms, softhearted, warm, and cooperative, you handled that very effectively. When you were governor, you voluntarily took an Omni Intelligence Test and I believe the average scores in that test, for the average person, were around 100. And unless I'm mistaken, you came in well over 170 which was off the chart. And my lighthearted question to you sir is whether you think it would be a good idea for members of Congress, before they debate some of these issues? (Laughter)

THE HONORABLE JOHN H. SUNUNU: I have to tell you, probably one of the dumbest things I ever did in my life was take that test, and I have regretted it ever since. It always turns up in every biography. And so it is evidence that it's quite easy to do dumb things. Quick, John, ask a question. (Laughter)

JOHN J. PHELAN, JR.: Governor, I really would like to get to the key question for the evening and one in which everybody in this room has a vital interest in. We've had a lot of talk about financial markets, both domestically and internationally, but there's been absolutely no mention of the continuous market for baseball cards. Now you are a noted collector and an expert in this area, and would you give some advice on buy, sell, or hold at this time.

THE HONORABLE JOHN H. SUNUNU: Well, as you know, John, baseball cards are somewhat counter-cyclical. For those of us who like to specialize in the old classics, anytime is a good time to buy them. For those of us who are young enough, old enough to have started collecting them when we were young, my collection starts at 1948. It goes up through 1964. And if there's any out there who have any in the attic you'd like to get rid of, please send them to me in care of the White House. I do not have a 1952 Mickey Mantle. I do have a 1990 George Bush – left-hand throwing, right-handed hitting I think, first baseman for Yale. The numbers weren't so hot but the heart was big. It is one of my, the way I entertain myself in my lighter moments. And I must tell you that I am astounded, I am absolutely astounded at the fact that any city I go to, in almost any part of the country, it is not that difficult to find a baseball card shop. So I

would suggest that it probably is an expanding business and for those of you that are looking for things to invest your money in, it's probably not a bad place to go. (Applause) But if I can quote somebody whose name I can't remember, you've got to have one rule. You've got to have the simplest of tastes. You can only buy the best. But then again, those of you in the market understand that.

RICHARD A. VOELL: Governor, Rand tells me this is the last question so I'll give you a chance to make your closing pitch. When this not-so-partisan, not-so-wealthy audience, when we leave here tonight, what would you like us to do? (Laughter)

THE HONORABLE JOHN H. SUNUNU: I'm tempted to say, vote early, vote often. (Applause) Don't be silent. Don't be silent. A lot of what takes place in this country takes place with people angry over coffee in the morning and at the newscast in the evening without taking the initiative to respond. And Congress, because of the concerns I have raised is responsive to your responses. But most of what they hear is from well-organized lobbies on specific issues, narrow, narrow slices. And that's, in fact, the heart of the problem with the budget. Everything in a \$500 billion deficit reduction package, every piece in it, is a chunk of medicine. And every chunk of medicine in it has an organized lobby opposed to the pieces. What we need is the unorganized lobby of Americans who care about the whole, who care that we do something about this issue, to rise up and let their congressman know that merely responding to one of the slices and throwing the whole pie away is not what you want. So get angry enough to be responsive, and in the case of

phone calls, you can call early and you can call often. Thank you very much. (Applause)

CHAIRMAN RAND V. ARASKOG: Governor Sununu, we thank you for a very interesting, enlightening, and enlivening evening. And we, all of us, wish you very well in the difficult task you have ahead of you. And I think our advice from Mr. Voell is maybe we all go home and go to bed. And John, thank you very much, and Dick, thank you very much for your questions. And again, Governor, we really appreciate your being up here. Goodnight everyone. (Applause)