

O/CONGRESSIONAL AFFAIRS
87-1146

THE WHITE HOUSE
WASHINGTON

March 23, 1987

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Dear David:

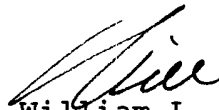
Thank you very much for participating in our briefing recently in the Old Executive Office Building. It was productive for us to meet and discuss the legislative agenda and the overall priorities of the Administration.

I am enclosing the list of House Members to which I referred in my comments, and I hope you will be mindful of the important vote they cast for the President's policy in Central America. In addition, I have enclosed the President's Legislative Message to the Congress. It is essential that we all remain familiar with the major points in this message. I hope you will share it with the rest of your legislative team.

Thank you again for being with us, and we look forward to working with you in the months ahead.

Best regards.

Sincerely,



William L. Ball, III
Assistant to the President

Mr. David Gries
Director of Congressional Affairs
Central Intelligence Agency
Washington, D.C. 20505

Enclosures

DEMOCRATS VOTING AGAINST MORATORIUM OF CONTRA AID (40)
H.J. Res. 175
March 11, 1987

Barnard
Bennett
Bevill
Biaggi
Byron
Chappell
Daniel
Darden
Dowdy
Dyson
Erdreich
Fascell
Flippo
Gibbons
Hall (TX)
Harris
Hatcher
Huckaby
Hutto
Jenkins
Leath (TX)
Montgomery
Murtha
Nelson
Nichols
Ortiz
Pepper
Ray
Robinson
Roemer
Rowland (GA)
Sisisky
Skelton
Smith (FL)
Stenholm
Stratton
Tallon
Tauzin
Thomas (GA)
Wilson

REPUBLICANS AGAINST MORATORIUM (156) H. J. Res. 175	Gingrich	Nielson
Archer	Gradison	Oxley
Armey	Grandy	Packard
Badham	Gregg	Parris
Baker	Gunderson	Pashayan
Ballenger	Hammerschmidt	Petri
Bartlett	Hansen	Quillen
Barton	Hastert	Ravenel
Bateman	Hefley	Regula
Bentley	Herger	Rhodes
Bereuter	Hiler	Rinaldo
Bilirakis	Holloway	Ritter
Bliley	Hopkins	Roberts
Boulter	Houghton	Rogers
Broomfield	Hunter	Roth
Brown (CO)	Hyde	Roukema
Buechner	Inhofe	Rowland (CT)
Bunning	Ireland	Saiki
Purton	Johnson (CT)	Saxton
Callahan	Kasich	Schaefer
Chandler	Kemp	Schuetz
Cheney	Kolbe	Schulze
Clinger	Konnyu	Sensenbrenner
Coats	Kyl	Shaw
Coble	Lagomarsino	Shumway
Coleman (MO)	Latta	Shuster
Combest	Lent	Skeen
Coughlin	Lewis (CA)	Slaughter
Courter	Lewis (FL)	Smith (NE)
Craig	Livingston	Smith (NJ)
Crane	Lott	Smith (TX)
Dannemeyer	Lowery (CA)	Smith, R. (NH)
Daub	Lujan	Snowe
Davis (IL)	Lukens, D.	Solomon
Davis (MI)	Lungren	Spence
DeLay	Mack	Stangeland
DeWine	Madigan	Stump
Dickinson	Marlenee	Sundquist
DioGuardi	Martin (IL)	Sweeney
Dornar (CA)	Martin (NY)	Swindall
Dreier	McCandless	Taylor
Duncan	McCollum	Thomas
Edwards (OK)	McDade	Upton
Emerson	McEwen	Vander Jagt
Fawell	McMillan (NC)	Vucanovich
Fields	Meyers	Walker
Fish	Michel	Weber
Gallegly	Miller (OH)	Weldon
Gallo	Miller (WA)	Whittaker
Gekas	McInari	Wolf
Gilman	Moorhead	Wortley
	Morrison (WA)	Wylie
	Myers	Young (FL)

**TO THE CONGRESS OF
THE UNITED STATES**

**A QUEST FOR
EXCELLENCE**

1987

**TO THE CONGRESS OF
THE UNITED STATES**

A QUEST FOR EXCELLENCE

I. INTRODUCTION

Tonight, I have come personally before the Congress to report on the State of our Union and outlined how we can meet the goal of renewing the American spirit — a spirit of excellence. To achieve this, I have asked all Americans to commence a new Quest for Excellence that will produce the third great American century. I said about America: her best days have just begun.

This message — *A Quest for Excellence* — spells out in greater detail how we as a nation can successfully meet the challenge of that century.

**II. PREPARING FOR THE CHALLENGES AND
OPPORTUNITIES OF THE TWENTY-FIRST
CENTURY**

Meeting the Competitive Challenge

America's competitiveness in world markets is critical to maintaining and expanding our standard of living and the national security. I have established a national goal of assuring American competitive preeminence into the 21st century. Achieving that goal is the responsibility of all Americans.

Businesses must work more efficiently, setting high standards of quality, streamlining operations, discarding outmoded systems and management styles, adapting to change, and building on their tradition as entrepreneurs who saw a better way, had a better idea, worked a little harder. Workers must be enabled to reach their potential by taking advantage of new technologies and investing in education, training, self-improvement, and a pride in their work.

Families, in concert with State and local governments, have the greatest responsibility of all — creating an educational environment that can make our children productive citizens, able to achieve the best, both spiritually and materially. We must strive for excellence in education.

To fulfill the Federal Government's responsibilities, I am launching a six-part program aimed at:

1. Increasing investment in human and intellectual capital;
2. Promoting the development of science and technology;
3. Better protecting intellectual property;
4. Enacting essential legal and regulatory reforms;
5. Shaping the international economic environment; and
6. Eliminating the Federal budget deficit.

Increasing Investment in Human Capital

The National Commission on Excellence in Education concluded in its report "A Nation at Risk," that "our once unchallenged preeminence in commerce, industry, science, and technological innovation is being overtaken by competitors throughout the world.... If an unfriendly foreign power had attempted to impose on America the mediocre educational performance that exists today, we might well have viewed it as an act of war."

Much progress has been made since the Commission's report, but much remains to be done:

- Forty percent of thirteen year olds are reading below the skill level for their age;
- Only 75 percent of high school students graduate on time;
- SAT scores are considerably below where they were in the 1960's.

In order to correct this situation, our society must continue the reforms sparked by the National Commission's report and focus education, particularly in the elementary and secondary schools, on acquiring the basic skills that will be necessary for jobs and careers in the 21st century. We must teach our children to read, write, and compute in the early

grades. By the time of graduation from high school, at a minimum the student should have:

- ▶ four years of English;
- ▶ three years of mathematics;
- ▶ three years of science;
- ▶ three years of social science; and
- ▶ proficiency in the use of computers.

I am charging the Secretary of Education with continuing to work with our Nation's governors to identify what works in American education and to seek out places of educational excellence that will serve as national models.

In addition, our colleges and universities should adopt more rigorous standards and higher expectations for academic and student conduct. Our teacher preparation curricula should shift from heavy emphasis on technique to subject matter mastery, and schools overall should do more to help parents form the character of their children. State and local governments also should consider extending the school year, as well as making better use of the time spent in school.

In addition so that no one is left behind, we must renew our efforts and refocus our resources to help disadvantaged youth to enter the mainstream of our society. The Department of Education will be developing and publishing a *What Works* on the education of the disadvantaged. Furthermore, my Administration is proposing reauthorization of Chapters 1 and 2 of the Education Consolidation and Improvement Act (ECIA), and targeting resources on the neediest schools and youngsters; fostering greater innovation, experimentation, and parental choice; building accountability into the program; and providing incentives and rewards for success.

To assure that every American — no matter what age — learns to speak, read, and write English so as to be able to fully participate in our society and take advantage of the opportunities it affords, I am announcing a goal of raising literacy levels dramatically by the year 2000. In addition, we will be submitting proposals to reform bilingual education, allowing greater flexibility and innovation in Federally funded bilingual education programs.

Promoting flexible job skills and greater workforce mobility is also an important part of competitiveness. We will be

proposing a new program to help all workers who are displaced by adverse economic factors, such as rural economic problems, technological changes at the workplace, or increased imports. This \$1 billion program, combining the best elements of the current Trade Adjustment Assistance (TAA) and Job Training Partnership Act (JTPA) programs, will help an estimated 700,000 additional workers each year to adjust to change, learn new skills, or update old ones through retraining and counseling programs developed under the guidance of local private industry councils (PIC's). It will also provide incentives for early return to the work force to lessen the burden on our unemployment insurance program.

In addition, we will be proposing necessary legislative changes in the administration of our Employment Service (ES) and Unemployment Insurance (UI) programs. These changes will give States greater flexibility in developing comprehensive approaches to target human capital problems. Specifically, we will ask that we amend our UI laws to devolve the financing, operation, and administration of these programs to the States, and that we amend the Wagner-Peyser Act to enhance State capability in designing and administering community labor exchange services.

Equally as important as helping dislocated workers to adjust to new demands of an increasingly global market is assuring that economically disadvantaged youth are not forgotten. We must assure that they are given the help and opportunities to acquire skills to make them productive citizens in an America that will critically need their talents.

My Administration is proposing an \$800 million youth initiative targeted towards improving the skills of children in welfare families. This program would permit States and localities to use Federal funds to provide summer jobs, develop year-round remedial education and job training services, or a mixture of both. In addition, we will propose a new employment and training effort under the AFDC program: Greater Opportunities through Work (GROW). This program will encourage teenage parents and other young recipients of AFDC assistance who do not have a high school education to either stay in or return to school. Services under these programs could include remedial education and skills training that would help these

young people break out of the welfare cycle and move towards real opportunities for rewarding careers and jobs.

Finally, I have asked the Secretary of Labor to initiate a study of the private pension system to see how it could be improved to reduce barriers to greater mobility in the U.S. work force. In addition, to enhance the effectiveness of the private pension system in providing retirement income security to American workers, my Administration will propose statutory changes to the Employee Retirement Income Security Act (ERISA) to make it more flexible in dealing with overfunded pension plans while requiring employers to take needed steps to strengthen underfunded pension plans.

Promoting the Development of Science and Technology

Science and technology are fundamental to U.S. competitiveness. America's preeminence in research and innovation has long been the envy of the world and a critical source of our national strength. Breakthroughs by Americans in such areas as medicine and transportation have consistently set the pace for an improved standard of living around the world, and American developments in communications, space, and even entertainment have captured the imagination of successive generations, setting benchmarks for American excellence in the years to come.

But, we must recognize that our trading partners, in their desire to improve their standards of living and market share, are catching up. We must ensure that adequate incentives are in place that will not only maintain our preeminence in initiating ideas and know-how, but also our lead in setting the pace at which these are translated into new products and processes.

Our policies must serve three broad objectives:

1. Generating new knowledge in the sciences and advanced technologies;
2. Swiftly transferring technologies to the marketplace; and
3. Expanding the Nation's talent base in science and technology fields.

We will initiate a number of measures to achieve these objectives. I am proposing that we double over five years the budget of the National Science Foundation. My Administration will establish a number of new government-private "science and technology centers" based at U.S. universities. These centers will focus on fundamental science that has the potential to contribute to our Nation's economic competitiveness, including areas such as robotics for automated manufacturing and micro-electronics, new materials processing, and biotechnology.

I am directing the Departments of Agriculture, Commerce, Energy, and Health and Human Services and the National Aeronautics and Space Administration to initiate a "Technology Share" program involving multi-year, joint basic and applied research with consortia of U.S. firms and universities.

We also will initiate a "People-to-People" exchange program in which scientists and engineers from Federal laboratories and the private sector will be encouraged to make their expertise available to each other through temporary assignment exchanges.

In addition to improved access to the know-how of our Federal scientists, the U.S. private sector must be encouraged to take advantage of our Federal science and technology enterprise. Since 1982, we have taken several actions to help commercialize the results of Federally funded research by transferring management of Federal technology to those closest to its invention and encouraging cooperation on basic research between government and industry and among businesses. To enhance these efforts, I will issue an Executive order containing a number of measures:

— To encourage scientists working in Federal laboratories to patent, license, and commercialize their research so that the private sector, including consumers, can benefit, Federal agencies must implement royalty sharing programs with Federal inventors;

— To fully exploit foreign science and technology, the Department of State will develop a vigorous recruitment policy that encourages scientists and engineers from other Federal agencies, academia, and industry to apply for assignments in U.S. embassies abroad; and

— To promote technology transfers and commercial spin-offs from Federal research and development efforts, Federal agencies and Federally operated laboratories will seek out "science entrepreneurs" to act as conduits between the laboratories and business, venture capitalists, and universities;

— To ensure that industry and academia benefit from research and technology abroad, the Departments of State and Commerce and the National Science Foundation will develop a mechanism to ensure that this information is made available in a prompt and efficient manner.

My Administration will implement a policy permitting all Federal contractors to own software, engineering drawings, and other technical data generated by Federal contracts in exchange for royalty-free use by the government. This will help commercialize non-patentable results of Federally funded research.

Because it is important that business have adequate incentives to fund research here in the United States, we are seeking legal and regulatory stability for research and development in the R&D tax credit, as well as Section 861 tax rulings on the allocation of R&D expenditures overseas.

Speaking of incentives, we must not forget the scientists and engineers of tomorrow — our children. Not only should we help our young people become more familiar and interested in science and engineering careers, but we must also broaden our notions of "basic skills." I am directing that the National Science Foundation and other Federal science agencies work with the Department of Education and State and local governments to assure that our children have the scientific literacy needed for the 21st century. To promote interest in careers in science and engineering, these agencies will:

- establish internships for promising students at Federally supported research labs;
- advise in the development of first-rate scientific and technical curricula — textbooks, software, and lab materials — using the expertise of top U.S. scientists and engineers;
- provide matching contributions to schools and universities for instructional scientific equipment and computers; and

— undertake promotional efforts regarding science and technology careers for minorities and women.

My Administration is also expanding our strong budgetary support for basic research, which has grown in real terms by 42 percent since 1981. Key new or expanded initiatives proposed in my 1988 Budget include design and construction by the United States, in conjunction with our friends and allies, of a permanently manned space station; development of a National Aerospace Plane; development of advanced civil space technology; global geospace science and planetary sciences programs; improved manufacturing technologies; hyper-speed integrated circuits; and mapping human DNA.

The Department of Defense in fulfilling its mission of ensuring our national security, also plays an important role in contributing to U.S. economic competitiveness. I am directing the Department of Defense, whose investment in R&D, testing, and evaluation will increase about 17 percent this year, and has more than doubled since 1982, to accelerate its ongoing efforts to "spin off" technologies to the private sector. Previous commercial applications of defense technology have included such things as night vision capability for use in police and rescue work and computer-based reading training programs to develop basic and job skills. Technologies targeted for future potential spin offs include: ceramic composite materials for more efficient engines; ultra-reliable radar for air traffic control systems and commercial aircraft; and enzymes for improved toxic waste disposal and decontamination. In addition to its primary function of strengthening deterrence, our Strategic Defense Initiative (SDI) should yield important spin-offs. As with the Apollo and space shuttle programs before it, SDI will advance scientific progress across a broad range. The Department of Defense will also work to assist industry in renewing its manufacturing competitiveness in the critical technologies.

Better Protecting Intellectual Property

Critically related to improving development of science and technology is ensuring protection, both domestically and internationally, of the property rights of inventors of new products and services and creators of new ideas and works of art.

We will seek statutory changes to: encourage patent owners to engage in newer and more novel ways to license their patents by limiting the "patent misuse doctrine;" raise protection for products resulting from patented processes to the same level as that accorded such products by our major trading partners; and amend the Clayton Antitrust Act to provide a more flexible standard of review for intellectual property licensing arrangements. Furthermore, we will restore the bargaining power of parties contracting to license technology by codifying and clarifying the Supreme Court holding in *Lear v. Adkins*; eliminating the current injury requirement from Section 337 ITC proceedings to exclude imports; and restoring the term of patents covering agricultural chemical products and animal drugs up to a maximum of five years to account for the period lost due to mandatory Federal premarketing regulatory review and testing. My Administration will propose statutory changes to reduce the cost of defending patent rights by: (1) mandating an award of attorneys' fees in frivolous suits on cases of willful infringement; and (2) requiring challenges to patent validity to first go through an administrative proceeding before going to court.

We will also seek a "technological" solution to the potential problem of unauthorized copying of copyrighted material on digital audio tape recorders.

We will also be proposing the necessary statutory changes to our copyright law to permit the United States to join the Berne Convention for the Protection of Literary and Artistic Works. Seventy-six countries have signed this treaty; by joining, our country will gain copyright relations with approximately 20 countries with which we currently have none, or relations are unclear.

I am directing all Federal agencies to take into account the treatment of U.S. intellectual property when they are negotiating international agreements or providing bilateral economic assistance.

I will issue an Executive order to better protect business confidentiality under the Freedom of Information Act (FOIA) by giving businesses the opportunity to object to the release of commercial information submitted to the government.

My Administration will also propose statutory changes to FOIA expanding the definition of the "trade secrets" and "confidential commercial information" exemption to permit the government to withhold information that would cause harm to the Federal Government or commercial sector if released.

In addition, the Patent and Trademark Office will be making its technology file of U.S. patents and English language abstracts of Japanese and European patents available as a research tool to business and universities through private contractors or regional search centers.

Enacting Essential Legal and Regulatory Reform

Outmoded rules, regulations, excessive paperwork, and self-imposed disincentives can place us at a major disadvantage in an increasingly competitive world marketplace. We will propose a number of legal and regulatory reforms to eliminate these obstacles to competitiveness.

We must stop draining off resources from our economy through product liability judgments that have gotten out of hand. We will propose legislative measures to reduce the costly product liability insurance spiral affecting the production costs of U.S. goods while still providing the necessary protections for consumer health and safety.

Businesses in the 21st century will have to compete on a global scale; to do so, they cannot be bound by rules designed to fit the far different markets of the early 20th century. Thus we will be proposing antitrust refinements to allow firms to develop new ways of organizing and operating that take account of the increasingly global nature of markets.

I am directing the Cabinet to undertake a review of the export controls program and report to me by early March, 1987. While preserving U.S. security interests, the Cabinet is to provide recommendations to achieve the following: decontrolling technologies that offer no serious threat to U.S. security; eliminating unilateral controls in those areas where there is widespread foreign availability; and reducing the time necessary to acquire a license by at least one-third and implementing a fair, equitable, and timely dispute resolution

process. These actions must be coordinated with efforts by our allies to make procedures more uniform and enforcement more rigorous.

We will reinforce our efforts to improve the competitiveness of American industry through deregulation and paperwork reduction. I have asked Vice President Bush to direct the Task Force on Regulatory Relief to take a fresh look at the Federal regulatory structure from the competitiveness standpoint and to improve or eliminate unnecessary regulatory and paperwork burdens. We will press for legislation to complete the deregulation of the trucking industry and will oppose efforts to re-regulate air and rail transportation. We will continue to pursue legislation to seek full deregulation of the pricing and transportation of natural gas, including repeal of demand restraints in the Fuel Use Act, and to repeal the windfall profits tax. We will also propose legislation to implement oil pipeline deregulation.

Shaping the International Economic Environment

The litmus test of whether we will be truly competitive in the 21st century will be our ability to meet the competition head-on — and win — in the international marketplace. The Federal Government can play a key role here by helping to shape an international environment in which American knowledge, talent, and entrepreneurship can flourish.

In an increasingly interdependent world, currency flows, foreign government policies with respect to spending, saving and taxes, and trends in foreign investment all have a major impact on the competitiveness of American firms. We must shape these factors in ways that enhance, not inhibit, our competitiveness. This will require improved economic and monetary cooperation on a global scale. We will build on progress over the past year, including the new institutional arrangements we have developed both multilaterally and bilaterally, to guarantee a more stable and realistic value for the dollar, improved growth abroad, and an accompanying growth in markets for American firms.

The developing countries, particularly those in Latin America, represent new growth markets of the next century.

We will work to ensure that these markets meet their full potential by pressing our initiative on the debt problem, with a view towards increasing private investment and encouraging the necessary policy reforms within the developing world.

My Administration has aggressively used the funding provided in last year's "war chest" legislation to combat aggressively foreign predatory financing practices. We will focus our efforts on achieving an international agreement limiting these practices. But at the same time, our trading partners and competitors should be on notice that we will use our full authorities to counter foreign subsidized credit offers. To this end, we will be seeking the additional \$200 million in "war chest" monies promised last year.

We will not tolerate closed markets, trade barriers, and unfair foreign subsidies that disadvantage American firms in the world marketplace. We will aggressively seek to open foreign markets through multilateral and bilateral negotiations and eliminate foreign unfair trade practices whenever and wherever they occur through the active use of our trade laws.

We must ensure that the laws of the trading system recognize the commercial realities of the 21st century. We made major progress this past year in securing the launch of a new round of multilateral trade negotiations in GATT. We will push hard for quick results from the Uruguay Round in areas critical to our competitive future, including agriculture, services, intellectual property, and investment.

We will also seek to achieve a major market opening close to home. More trade passes between the United States and Canada than between any other two countries in the world. We are now engaged in historic negotiations with Prime Minister Mulroney's government on a free trade agreement that will improve commercial opportunities on both sides of the border and serve as a model for trade liberalization on a global scale. We will work with the Canadians and the Congress to conclude an agreement in our mutual interests.

We will continue to assure that bribery to gain markets is deterred with criminal sanctions. However, uncertainty and ambiguity arising from portions of the Foreign Corrupt

Practices Act serve as a needless disincentive to American business. My Administration will again propose amendments that eliminate these uncertainties by clarifying the Act's "reason to know" and other provisions and reduce its costly and duplicative accounting requirements.

Our trade laws have proven to be effective instruments for opening foreign markets and defending American industries against unfair practices on the part of our competitors. I will propose improvements to these laws that will enhance our ability to meet the challenges from abroad without erecting protectionist barriers at home. Our proposals will emphasize opening markets through multilateral and bilateral negotiation, not closing them; encouraging adjustment while providing improved relief to industries injured by import competition; and tightening our laws to make them more effective in dealing with unfair foreign competition.

Reforming Federal Spending

Controlling Federal spending remains an essential element of our efforts to strengthen the economy and place it on a firm footing for the future. My Administration is continuing efforts to reduce the deficit. We have proposed a budget that meets the Gramm-Rudman-Hollings deficit target, and does so by reducing spending, not by raising taxes. I urge its passage by the Congress.

Working together, we need to begin to explore ways in which the budget process itself can be reformed and improved. Many Members of Congress feel that the system through which budget decisions are made is not working the way it should, and I share that view. Its deficiencies, unfortunately, are reflected in the results. Deadlines for congressional action too often are missed or ignored; the threat of a government-wide shutdown has become an almost regular feature of the beginning of fiscal years; and the end product of this process remains a Federal budget that provides for excessive spending and a large deficit. I am committed to working with the Congress to establish procedures to encourage cooperation rather than confrontation between the Executive and Legislative branches on the crucial issues of Federal spending and to adopt

measures that will help make the budget process more responsible and more accountable.

Finally, I will again propose that the Congress adopt a Balanced Budget Amendment to the Constitution and the establishment of a line-item veto. Adoption of a Balanced Budget Amendment would represent our acceptance of a simple yet fundamental principle — the Federal Government must live within its means. A line-item veto would further enhance our capacity to reduce and eliminate wasteful and redundant expenditures. I strongly recommend that these two reforms be adopted.

Agriculture

From the beginning of this Republic, agriculture has been the backbone of America and is the Nation's largest single industry. We can be proud that each American farmer now feeds 88 of our citizens plus 30 people abroad. Yet in spite of this bounty, all is not well in rural America. Farmers have suffered from events that in many cases have been beyond their control, such as unfavorable currency exchange rates, unfair competition, and government interference. Still, most farmers retain their faith in America and their dedication to our free enterprise system. We must stand by them through these troubled times.

Major farm legislation was put into effect last year to address those concerns. The Food Security Act of 1985 was a significant improvement over previous legislation but has not addressed several continuing problems. Commodity programs still provide too much incentive for overproduction. Our farmers are required to produce to qualify for payments and loans. Program costs are at an historic high, and some farmers receive very large individual payments. In addition, our sugar program is unfair to our consumers, our trading partners, and many developing countries.

We will ask the Congress to make improvements in farm legislation. Our proposal will be designed to break the link between eligibility for payments and production decisions, to further lower target prices and loan rates and to impose tighter

limits on farm program payments. We will also ask for an overhaul of our sugar program. These changes will help U.S. agriculture focus more on market forces and less on Washington; net outlays for agriculture will come down gradually and will still be very generous for the next several years. The resulting reduced government influence and greater reliance on the marketplace will be essential to the long-term competitiveness and viability of U.S. agriculture. At the same time, we will continue to press aggressively for comprehensive agricultural negotiations during the Uruguay Round. Our farmers deserve a level playing field in order to compete fairly in international trade and we are committed to make that objective a reality.

Competitive Financial Services

The financial services industry must be permitted to keep pace with changing technology, global competition, and consumer demand for expanded services. I am proposing that the Congress implement the recommendations of Vice-President Bush's Task Force on the Regulation of Financial Services. We must rationalize our Federal regulatory structure.

A little over one year ago, the Congress asked us to devise a plan to rescue the Federal Savings and Loan Insurance Corporation (FSLIC). We responded early in 1986 with a plan based on two fundamental principles. First, we have devised a truly self-help plan; the taxpayers will not be required to bailout a profitable industry that, with some measure of sacrifice over time, can help itself. Second, our recapitalization plan has sufficient resources (about \$25-30 billion over five years), available when necessary, to meet the very real problems that exist today. By giving FSLIC the resources to handle the hundreds of insolvent Savings & Loans still in operation, we will protect almost \$900 billion of depositors' savings insured by FSLIC.

Both Houses of Congress passed our FSLIC recapitalization plan in the closing days of the 99th Congress, but it was not enacted into law because of disagreements about unrelated amendments. We cannot afford additional delay. I urge the 100th Congress to enact our FSLIC plan quickly and

cleanly so that it can get the resources it needs to safeguard America's small savers.

I also urge the Congress to work with us and the rapidly growing coalition of forward-looking financial firms to develop a comprehensive modernized legal structure for the financial services industry. The "protectionist" approach of repairing the crumbling walls of 50-year-old financial oligopolies will not work: consumer tastes, technology, the marketplace, and our international competition will move beyond.

Working men and women want to receive the best services at the lowest prices. They also seek safety and convenience. Our businesses and local governments want competitive and innovative financial offerings. Many banks and other firms are pressing for an opportunity to supply these products and services. Our laws should not stop them.

We need to promote a freer, more competitive financial services marketplace, complete with proper supervision and meaningful disclosure. In doing so, we can help this vital American industry to reposition itself on the leading edge of the financial services world.

Management, Civil Service, and Procurement Reform

We will submit proposals to improve the management of the Federal Government. These management reform measures are designed to achieve long-term gains in Federal efficiency and productivity and include proposals to improve existing financial procedures, combat fraud, waste and abuse, and generally make more effective tools available to Federal managers. The Congress should establish productivity improvement as a national goal. There can be no more important task than that of delivering government services to all our citizens in a more efficient, effective, and timely manner.

As part of this effort, we will submit a number of proposals for civil service reform — proposals that will help our government give the American people what they pay for by deregulating the bureaucracy and by rewarding individual merit and achievement. By straightening out the way our Federal bureaucracy does its work, we can deliver on our promises to the American people quickly and efficiently. The proposed Civil Service Simplification Act will streamline an

overly complex system. It will free our public servants from thousands of pages of unnecessary rules and regulations that have made it hard for them to do their jobs. As with deregulation of *private* business, this proposal will deregulate the *public* business; it will provide for a Federal pay system truly based on merit and individual performance; it will, in other words, introduce into our Federal Government the traditional productive values of the American workplace: entrepreneurial freedom, responsiveness to the people, and reward for hard work.

To aid in achieving the goal of a three percent annual productivity increase, we will also propose reform of seniority pay for Federal employees. This will introduce pay-for-performance throughout the government by shifting from the current system — which gives seniority-based salary raises to virtually all Federal employees regardless of personal achievement — to one based solidly on merit and individual performance. With stronger incentives to deliver, Federal employees will participate more in the program and apply their insights and skills to the development of productivity initiatives.

My Administration will propose that the Congress enact the Health Insurance and Payment Verification Act. This legislation would establish a process to ensure that existing employment based health insurance would pay health care costs before payment was sought from taxpayer funded health programs.

An expiring provision of the Deficit Reduction Act of 1984 allows the Federal Government to recover delinquent debts owed Federal agencies through the offset of income tax refunds otherwise due the taxpayer. This program is very successful and through legislation we will seek to extend this authority for another two years.

Last year, significant changes were made in defense procurement processes. My Administration will work with the Congress this year to make numerous needed reforms in the Federal Government's non-defense procurement area. These will include a comprehensive recodification of all existing procurement statutes into one simplified, consistent statute, as well as authority for Federal civilian agencies to enter into

multiyear contracts. The Federal Government should depend more on the private sector to provide support services for Federal activities. We will pursue this objective through a variety of initiatives aimed at reducing any adverse effects on government employees from contracting out. For example, we will explore measures to encourage employees to form their own business and take over their government jobs as private contractors.

Government procurement should be competitive in all aspects, including keeping pace with costs and salaries for comparable services procured by the private sector. We will propose legislation to increase the Davis-Bacon and Service Contract Act threshold levels to \$1 million for defense contracts and \$100,000 for non-defense Federal contracts. This increase is important in light of increases in salaries and other costs over the past several decades.

Credit Reform and Privatization

In order to operate more efficiently to the benefit of taxpayers, the government must take better account of the true budget costs of Federal credit programs. We are proposing legislation to reform government assistance programs by requiring that the present value of Federally provided subsidies from any agency making or guaranteeing loans be appropriated in advance, into a new central revolving fund within the Department of the Treasury. Newly made direct loans will be sold and new guarantees reinsured in order to establish the market value of Federally assisted credit and measure the subsidy. This will improve both the allocation and management of Federal credit.

The private sector should have the opportunity wherever possible to produce goods and services currently provided by the Federal Government in order to reduce government expenditures as well as provide the benefits of market competition to consumers. In light of our successful efforts to authorize the sale of Conrail, we are now proposing the sale to the private sector of the Naval Petroleum Reserves, the Alaska Power Administration, the helium program, and excess real estate, as well as the disposition of certain Amtrak assets. We are proposing legislation to authorize a study of a possible

potential divestiture of the Southeastern Power Administration. In addition, my Administration will expand our pilot program of selling existing loan assets without recourse.

Small Business and Entrepreneurship

Small business is at the cutting edge of America's competitiveness. The 1986 National White House Conference on Small Business has provided us with recommendations on many issues addressed by my legislative agenda. These recommendations are directed towards creating a better environment for our Nation's small business owners who, through their vitality and creativity, contribute significantly towards our prosperity. The recommendations range from tort law and product liability reform to reducing the deficit and improving our international trade position. These views have been incorporated in framing our positions on these issues. In addition, we soon will have a permanent Administrator for the Small Business Administration (SBA), and I can assure you that small business will continue to have an important voice in the councils of government.

III. VALUES: THE SOURCE OF OUR EXCELLENCE

As we work to expand economic opportunity for all Americans, we must also take steps to sustain the traditional cultural and moral values that are the bedrock of American democracy. We must renew our belief in the dignity of self-supporting individuals and families, in safe and self-governing neighborhoods and communities, and in a government that is both limited and close to average citizens. By promoting policies that sustain and enrich these values, we can help to create an environment in which all Americans utilize their individual talents to achieve excellence and contribute to family, community, and nation.

Education

I have already said how important quality education is to our future economic success. But we must also promote policies that recognize the importance of education as the main transmitter of our shared history and values and as the primary means of escape from poverty for America's poor. Following

the pattern of *What Works* and *Schools Without Drugs*, the practical handbooks issued in 1986, my Administration will prepare a clear and reliable handbook this year to explain what works in the education of the disadvantaged.

Low Income Opportunity

A year ago, I asked the White House Domestic Policy Council to evaluate our Federal public assistance programs and to propose a new national strategy for helping poor Americans "escape the spider's web of dependency." This year, I will address the main findings of that evaluation, which was contained in our report, "Up From Dependency," released in December.

Our report shows, clearly and persuasively, that our vast and expensive welfare system is a tender trap: while it rescues many Americans from short-term distress, it also sustains far too many in long-term dependency. Our current welfare system is a complex labyrinth of 59 major programs that cost more than \$132 billion in Fiscal Year 1985. Forty other Federal programs for the poor brought total low income spending to \$150 billion, yet our poor and our taxpayers receive little in return for this enormous annual investment. The current welfare system is so complex and its incentives so perverse that it demoralizes the poor, undermines the willingness to work, and weakens families and communities.

I will propose a major new national strategy to reform this flawed welfare system. Our goal is to create a system that gives poor Americans the opportunity and aid to escape the tender trap of welfare and become more productive and self-reliant contributors to American society. Our proposal will ask that Federal welfare requirements be waived to allow States to establish a series of demonstrations in welfare policy. We are not proposing to cut Federal welfare benefits for the truly needy. The idea is to begin a process that will tap the hundreds of good self-help and anti-poverty ideas currently blossoming around the country. For too many years our Federal welfare policies have assumed that all of the answers could come from experts in Washington, D.C. Those policies have had 20 years to work and have failed. Our demonstration strategy seeks to find solutions to poverty and welfare dependency in the

practical genius of the States, communities, and individuals who must cope with those problems every day.

The Family

The problem of welfare dependency cannot be separated from the well-being and solidity of America's families. Both common sense and social science tell us that intact, two-parent families will be far better off financially and socially than will families led by a single father or mother. Family breakup remains the primary reason that family income falls below the poverty line.

My Administration is committed to supporting public policies that strengthen the role and bond of families in American life. Last year at this time, I charged my Domestic Policy Council's Working Group on the Family to study and issue a report on the state of the American family. This year I am endorsing the report, released to the public in November, as a landmark in understanding the ways in which government policies have affected, often adversely, family life in our Nation. My Administration will also work to implement the recommendations contained in the report.

Since 1973, after a divided Supreme Court ruled in *Roe v. Wade*, nearly 20 million unborn children have perished in our land due to abortion. This toll continues to climb — despite increasing evidence of the humanity of the unborn child and the growing desire of millions of young couples to adopt. My Administration will submit legislation this year to further my commitment to protect the rights of unborn children. Our proposals would prohibit Federal government funds from being used to: (1) perform abortions, except when the life of the mother is endangered if the unborn baby were carried to term; and (2) support, through Title X family planning grants or contracts, any organization (except a grant or contract directly administered by a State or local government) that provides abortion procedures or referral for abortion, unless the life of the mother would be endangered.

Health

Our Nation's health care system is the finest in the world, yet it is also a very expensive system with costs that are

continuing to rise faster than the rate of inflation. My Administration has worked since 1981 to create incentives that would keep health costs down and improve quality by encouraging more competition in health care delivery. In 1987, we will again ask the Congress to pass legislation to expand the use of private health plan options — paying a fixed, predetermined price for health services — to the government medical programs of Medicare and Medicaid. My Administration will also propose that Medicare payments to doctors who practice in hospitals be reflected in a set price for each medical diagnosis; this will provide further incentives for doctors to provide quality care at lower costs.

To encourage private health care competition, my Administration will propose an optional Medicaid health plan, offering States fiscal incentives to place Medicaid beneficiaries in private health insurance plans that provide comprehensive, managed care for a predetermined price. We will also ask Congress to pass a Medicare Expanded Choice Act, which will allow the elderly to choose the private health plan that best suits their needs. Each plan would have to offer coverage at least equivalent to that of basic Medicare.

My Administration will also continue to invest in research to cure heart disease, cancer, and other life-threatening diseases. In particular, we will continue our work to find a cure for acquired immune deficiency syndrome, or AIDS. We are also increasing basic research to better understand the causes of AIDS and to find a cure for AIDS or a vaccine to prevent it. Last year the Surgeon General issued a report that was a landmark in public education about AIDS. We will expand that education effort this year, stressing that education about AIDS to schoolchildren must be grounded in the moral and cultural values of parents and communities.

Catastrophic Illness Coverage

All Americans, and especially our elderly, face a small but significant risk of a devastating illness or accident that will bring with it crushing medical bills. Most of us have adequate financial protection through private or public insurance, but because the risk is small, not all of us pay attention to the

implications of a truly disastrous illness. We need to remind ourselves to make sure we are adequately protected, and both private industry and government should continue to work together to be sure that such protection is available to all of us at affordable prices.

With this in mind, I will shortly submit to the Congress a proposal to improve catastrophic illness coverage to the elderly to avoid the fear of an acute care illness so expensive that it can result in having to make an intolerable choice between bankruptcy and death.

The Crusade Against Drugs

Nothing erodes our Nation's basic social fabric more than drug abuse. Last year our Administration made the fight against drug abuse a top priority, working with Congress to pass sweeping legislation to attack this problem both among users and suppliers.

This fight is a top priority again this year. We will continue to implement our six-point program to achieve a drug-free America, through achieving drug-free workplaces and schools, expanding drug treatment and research, greater international cooperation, enhanced law enforcement, and increased awareness and prevention of illegal drug use. We are devoting large and appropriate amounts of money to this fight. From 1981 to 1986, Federal drug enforcement funding increased by 130 percent, and the number of FBI and Drug Enforcement Agency agents assigned to drug investigations nearly doubled. Our task this year is to implement the new legislation and to use our money wisely, even as we continue our public and educational campaign to change, once and for all, any lingering perception that drug abuse is a victimless crime. We will work through the National Drug Enforcement Policy Board, and with our friends and allies in the world community, to implement the enforcement provisions of the anti-drug law aimed at reducing the supply of drugs into our country. Just as important, our Departments of Education and Health and Human Services will expand their efforts to reduce the demand for drugs, especially among our children. The resources in the fight against drug abuse consist of much more

than Federal money, however. They include the efforts of all Americans and institutions — parents, schools, churches, civic groups, and State and local governments. We must continue, as an Administration and as a nation, to encourage every American to “Just Say No” to illegal drugs.

Housing and Community Development

Part of the American dream has always included safe and affordable housing, and this Nation’s housing quality and rate of home ownership are among the best in the world. Our last four years of economic progress have reduced interest rates and raised take-home pay, putting home ownership within the reach of ever more Americans. Industry studies show that more Americans are now able to afford housing than at any time in the last eight years.

Our challenge now is to bring quality housing within the reach of even poor Americans. To do this, we will continue to expand the use of rental housing vouchers, which increase mobility and housing choices for the poor. Since 1984 more than 141,000 vouchers have been appropriated for poor families. We will also continue our public housing home ownership initiative. On January 8 of last year, a McKeesport, Pennsylvania, family became the first in the country to buy its own home under this initiative, which seeks to give poor Americans the sense of personal pride and responsibility that comes with home ownership. We will also continue our efforts to reduce housing construction costs through the Joint Venture for Affordable Housing, to improve the management and upkeep of existing public housing units, to fight housing discrimination by strengthening government law enforcement, and to better target our public housing aid by asking the Congress to approve a Tenant Income Verification proposal that would make it easier to determine who is truly in need.

Pride in ownership also depends on pride in neighborhood, and once again this year we intend to ask the Congress to revitalize our Nation’s poor neighborhoods by passing legislation to create enterprise zones. More than half of the States have already demonstrated how much these zones can contribute to economic growth by removing tax and regulatory

obstacles to development in depressed urban and rural areas. My Administration will also work to help distressed communities by asking Congress to extend the National Flood Insurance Program to 1992, and by seeking legislation to make disaster assistance more timely, cost-effective, and better managed. As part of my Administration's emphasis on strengthening Federalism, we will continue to eliminate excessive Federal directives for State and local community development activities under our Community Development Block Grant program.

Federalism

In this 200th year of our Constitution, we as a Nation need to reaffirm the basic federal principle that the best form of government is often the one closest to our citizens. In April of last year I signed a "Statement of Federalism Principles" to begin this reaffirmation, and last November I reviewed a report on the "Status of Federalism in America" prepared by our Administration's Federalism Working Group. The revitalization of Federalism as our system of constitutional government is a return to the vision of an indivisible union of States — a system in which the national government exercises sovereign authority in accord with the limits of its constitutionally enumerated powers, and the States exercise sovereign authority in all other areas.

This year we intend to implement reforms outlined in our report. We will review proposed legislation and executive actions to identify their constitutional authority and justification and their impact on our Federal system's balance of powers. We will also continue to oppose the use of grants as a means to indirectly regulate States in areas, such as the 55 mile per hour speed limit, in which they have traditionally exercised authority. We will oppose efforts to preempt State laws, except when the Constitution plainly indicates a legitimate Federal concern.

Justice and Personal Freedom

Our Constitution is dedicated to the belief that our system of justice must strike a balance between enforcing the rules of a civilized society and sustaining human liberty. In areas where

our laws or court decisions have tilted too far in either direction, we must do what we can to restore the proper balance.

My Administration will work first of all to regain this balance in our criminal justice process. In 1987, I will again support legislation to impose the death penalty in appropriate Federal criminal cases and to modify *habeas corpus* procedures to reduce delay in State courts and make it clear to criminals and society that justice is swift and sure. I will also submit legislation to modify the exclusionary rule so that evidence seized by police in a good-faith belief that the seizure was lawful may be introduced as evidence at a trial. Based on last year's report of the Commission on Pornography, I have also approved a seven-point program designed to curb the growth of child pornography and obscenity. I call upon the Congress to pass swiftly the legislation we will propose to protect our children from this menace.

On behalf of human and religious liberty, I will again ask the Congress to pass a constitutional amendment to restore the right of students to voluntary, vocal prayer in the public schools.

In appointing members of the judiciary, I have tried to select women and men committed to justice under law. Chief Justice Rehnquist and Justice Scalia, confirmed last year to their positions on the Supreme Court, understand well John Marshall's insight that our Constitution provides "a rule for the government of courts, as well as of the legislature" and the executive. I will ask the Senate to continue working with me to appoint judges who understand the dangers of unrestrained judicial power, and who are committed to legal interpretation based on our Constitution rather than on individual policy preferences.

I will also propose initiatives to reduce the increasing burden of litigation in our society. I have already mentioned that we will again propose tort reform legislation. We will also investigate potential reforms to help with the problems of increasingly high attorneys' fees and damage awards.

My Administration remains committed to enforcing our civil rights laws. We must not be diverted from our pursuit of justice because of government policies that treat individuals

differently based on their race or ethnic background, even when those policies are well-intentioned. My Administration will oppose legislation that provides government preferences based on race or other special categories, and not to all Americans. The American ideal is to allow equal opportunity for all, not to enforce equality of results or outcomes.

Energy and Environment

My Administration has worked throughout its time in office to protect our environment, even as we have worked to develop our enormous natural resource wealth —on and off shore. Last year I signed bills committing Federal money to clean up toxic waste and to protect the Nation's supplies of drinking water.

This year we will continue to study the issue of stratospheric ozone depletion. We will also continue to work with private industry, the scientific community, and our neighbors in Canada to monitor and find solutions to the presence of acid rain in forests and waterways. We are also developing proposals that make use of market incentives to control air pollution caused by sulfur dioxide and nitrogen oxide emissions and the causes of acid rain. We hope to work with the Congress to ensure that air quality is improved without reducing economic growth or damaging the competitiveness of our Nation's industry.

We recognize the importance of maintaining America's energy security. In 1987 we will consider one of the decade's most important resource management decisions — the future use of the coastal plain of the Arctic National Wildlife Refuge in Alaska. This area is blessed both with abundant wildlife and potentially enormous oil reserves that are vital to America's energy security. My Administration will recommend to the Congress a management solution that best balances our environmental heritage with the Nation's economic and national security needs. I have received the report of my Commission on Americans Outdoors, and it will be studied by the Domestic Policy Council. We will also continue to fill the Strategic Petroleum Reserve, to reach an eventual goal of 750 million barrels. And once again, we will seek legislation to standardize designs and simplify licensing for

nuclear power plants. Our goal is a stable, predictable process that encourages nuclear plant construction that is reliable, cost-effective, and environmentally sound. Our democratic allies in the developed world have proven that well managed nuclear power can be a major source of safe and cheap home-grown energy; thus, America needs to revitalize its own nuclear power industry. I have also ordered a high-level interagency review of U.S. energy security to determine what other actions we can take to avoid overdependence on foreign oil and to strengthen our domestic oil industry.

Transportation

America's transportation network is the envy of the world, yet the demands of our expanding economy require that we continue making expansions and improvements. For 1987 I will propose legislation to extend and amend the Airport and Airway Improvement Act. This legislation will allow my Administration to continue to modernize the Nation's air-traffic control system, increase the number of air-traffic controllers and aviation inspectors, and improve the Airport Grant program. Last year was one of the busiest but safest ever in America's air transport history, and these new proposals will ensure the continued safety, reliability, and capacity of our national aviation system.

My Administration will also seek continued authorization of Highway and Mass Transit programs through FY 1990, and we will propose legislation to increase both State and local discretion in using Federal highway funds. In accordance with our federalism principles, we believe that State and local governments are usually better able than the Federal government to determine local transportation improvement needs.

Private Sector Initiatives

In the past six years, my Administration has worked to inspire private individuals and companies to play a more active role in their communities. We will continue this successful effort, which is now being copied around the world. If individuals and community groups take more responsibility for public affairs, we are less likely as a Nation to cede our freedom and opportunity to the Federal government.

IV. INTERNATIONAL PEACE AND FREEDOM

In the past six years my Administration has pursued a foreign policy based on realism — about the world we live in, about the nature of our adversaries, about the need for American leadership. To close gaps that had opened in the past, we were obliged to undertake a significant rebuilding of our defense capabilities. As a result, our allies have greater confidence in America, and the Soviet Union is more willing to work seriously for arms reduction.

Peace and progress, of course, depend on much more than a sound military balance. That is why, in the same spirit of realism, we encourage democracy, freedom, and respect for human rights by all nations. In this decade democracy has been on the march. Country after country has joined those nations where the people rule. We have supported those freedom fighters who bravely make sacrifices so their nations will enjoy freedom and independence.

The successful conduct of foreign policy rests upon a strong bipartisan spirit in the Congress, and close cooperation between the Legislative and Executive branches. I am pledged to continue this long-held tradition, and hope the Congress will see the importance of doing the same. Toward that end, in the near future, I will send the Congress a full and comprehensive report on American foreign policy.

East-West Relations

Last October, my Iceland meeting with General Secretary Gorbachev brought great progress in the area of arms reduction. There is much work to do, and we continue to work in this area. It is, however, only one of several items on our agenda with the Soviets. No fundamental and lasting progress is possible in one area of our relations without improvement elsewhere.

My Administration is engaged in a broad range of bilateral and multilateral arms control negotiations. Our objectives include: deep, equitable, and verifiable reductions of nuclear arsenals; a cooperative transition by the United States and the USSR to a strategic regime based increasingly upon defenses;

verifiable limits on nuclear testing; a global ban on chemical weapons; and conventional force reductions to redress imbalances in Europe. In each of these negotiations, we are guided by principles of equity, increased stability, effective verification and strict compliance with both past and future agreements. I look forward to meeting again with Mr. Gorbachev to advance this important work.

Responsible Soviet conduct abroad is essential to a peaceful international environment. I have urged Mr. Gorbachev to withdraw all Soviet forces from Afghanistan and to allow genuine Afghan self-determination, to cease support for Cuban expeditionary forces in Africa, and to promote a withdrawal of Vietnamese forces from Cambodia. In the absence of such actions, the Soviet Union can hardly expect to be treated as a respectable member of the international community.

In the Soviet Union today there is much talk of change. We must hope for a true break with the past, but we see both hopeful and discouraging signs, especially in the critical area of human rights. Certain better-known dissidents have been released while others continue to receive very harsh treatment; tragically, emigration remains at an historic low, and religious persecution continues unabated. My Administration will welcome, and respond to, positive steps toward greater respect for human rights, while expressing our views on the enduring nature of the Soviet system.

Since I met General Secretary Gorbachev in Geneva, exchanges between our two societies have gained momentum. I hope for further expansion of people-to-people contacts in 1987.

One of the most important obstacles to improved East-West relations, which touches on all elements of our agenda, is the continuing unnatural division of the European continent. Toward the states of Eastern Europe, our policy of differentiation remains intact; in particular our trade relations with them will continue to reflect the extent of internal freedom and foreign-policy independence from Moscow.

America in the World

The extraordinary surge of democracy that we have seen in the past six years, particularly in the developing world, benefits us politically, economically, and strategically. Democratic transitions are nonetheless fragile; they require constant nurturing and careful support. This Administration will continue to work with and support those nations that share our interests and values. By diplomatic and other means we can help create the peaceful environment in which free institutions flourish.

To help create such an environment, the Congress should support adequate funding levels for economic and security assistance. The year 1987 is the 40th anniversary of the Marshall Plan, a reminder that American commitment and generosity serve our own interests while changing the course of history for the better. Our goal is to foster peace and stability by helping friendly nations to defend themselves and by encouraging market-oriented economic growth abroad. We continue to work toward the elimination of hunger and extreme poverty for both humanitarian and security reasons. Thus, American interests are harmed if our programs in this area are cut by the Congress below adequate levels, as they have been.

The advance of democracy and the strengthening of peace are closely related. Nowhere is this clearer than in our own hemisphere. We must continue to provide support and assistance to freedom fighters in Central America. To that end, I will ask the Congress for renewed assistance for the Nicaraguan democratic resistance, which faces a Leninist dictatorship that has received over a billion dollars of Soviet-bloc arms. I also strongly support a supplemental appropriation for the economic development of the Central American democracies.

State-sponsored terrorism has increased dramatically in the last few years. When such incidents go unpenalized, further terrorist efforts are encouraged. We will continue to build our capability to deter and, when necessary, to combat swiftly and effectively state-sponsored terrorism worldwide. In this regard, I am requesting necessary funding to continue

the multi-year program to improve the protection and security of our personnel and facilities overseas.

The people of the Philippines, whose history is closely linked with ours, acted last year to reconfirm their democratic traditions. We encouraged them, and applauded their success. This year, my Administration will seek additional support to assist the Aquino Government, as it confronts serious economic and security problems. The rebuilding of political institutions and restoration of investor confidence are Filipino goals that America must support.

My Administration will continue to enforce the Comprehensive Anti-Apartheid Act of 1986. We seek an end to Apartheid and will use our influence to foster a peaceful transition to a truly free, democratic, and multi-racial society. We will offer a special economic assistance program for southern Africa. We will also seek to restructure economic assistance to Africa so as to reinforce positive policy reforms in a growing number of African nations. This approach, whose goal is to promote investment and economic growth in Sub-Saharan Africa, is reflected in the Administration's FY 1988 budget request.

The United States must be able to communicate information and ideas on a worldwide basis. Ongoing expansion of America's international broadcasting capability — the Voice of America, Radio Free Europe/Radio Liberty, and Radio Marti — must therefore continue. Increased resources for the United States Information Agency are also needed to reach this goal. In addition, the National Endowment for Democracy and its subsidiary elements — including free labor, free enterprise, and the political parties — permit the United States to help strengthen the infrastructure of democracy, particularly in the less developed countries. Funding for this program is very small; the potential return on our investment, very high.

In the past, the ideals of the UN Charter have often been trampled under foot. The United States remains committed to restoring efficiency and impartiality to the United Nations and effectiveness to its peacekeeping activities. We will use our influence to restore respect in the UN for the principles on which it was founded.

My Administration will continue efforts to achieve the fullest possible accounting of our servicemen missing from the Vietnam War. Recent progress can continue with the strong bipartisan support in the Congress for this humanitarian issue. Also, my Administration is committed to aiding refugees and those countries providing first asylum to them. International organization support, multilateral and bilateral programs, and resettlement opportunities in the international community are all required to ensure humanitarian treatment of these homeless and shattered peoples.

The Administration is proud of a path-breaking agreement reached this past year with the Pacific island states over the long-contentious tuna fishing issue, one that our adversaries have tried to exploit. Modest but indispensable funds are needed to meet our obligations under the agreement.

Maintaining a Strong Defense

The increased resources we have devoted to national defense in the past 6 years have brought many benefits — above all, a lasting peace. Our forces have been modernized, the quality and spirit of those in uniform have risen to the highest levels, and we have begun work on new technologies that can protect America in the future and free us from the nuclear balance of terror.

All these efforts must continue. We need realistic and sustained growth in defense funding to consolidate the real gains we have made. The budget I have proposed meets this goal. The alternative is unacceptable: spending less will unavoidably mean less security. We cannot keep America strong without committing the resources that this effort requires.

In keeping with the recommendation of the Packard Commission, and as required by the 1986 Defense Authorization Act, I have submitted a two-year national defense budget for 1988–1989. The Packard Commission stressed no point more than the need for greater stability in defense funding. Roller-coaster, surge-and-starve budgeting leads to higher costs and dangerous risks to national security.

Furthermore, I want us to get our money's worth from every defense dollar spent. Under the leadership of the Secretary of Defense, with the expert help of the new Under Secretary of Defense for Acquisition, this Administration will continue to take important strides toward improving the acquisition system. Other major changes in DOD organization and the procurement system have been underway, some since the beginning of this Administration. So, I hope the Congress will withhold further efforts to legislate defense procurement reform until the effect of these changes can be fully evaluated.

Our Strategic Modernization Program is essential to assuring our national safety in the years ahead. The strength it provides is also the indispensable foundation for negotiating the deep cuts we seek in nuclear arsenals. The Soviets are willing to bargain and make concessions only if they understand that — in the absence of agreements — America will provide for her own security.

Strategic Defense Initiative research explores the way to move toward a world in which effective defenses, rather than threats of retaliation, keep the peace. This vital program reinforces our policy for arms reductions — as an incentive for the Soviets to agree to real arms reductions and as an insurance against cheating on arms reductions agreements. The pace of research to date has been impressive, and I will ask the Congress to increase funding so that we can continue moving forward.

My Administration will continue to maintain an effective nuclear deterrent, but at the same time it is essential that we and our allies modernize and strengthen conventional land, air, and naval forces so they can carry out their missions in the face of a steadily increasing Soviet threat. That will cost more money than the Congress has been willing to vote the last two years, but it is essential.

America will continue to deploy military forces throughout the free world as proof of solidarity with our Allies and other friendly nations, and as a deterrent to those who might threaten our peace and freedom. Forward deployments not only underscore our national policies, but also provide valuable exercises and training for Active, Guard, and Reserve Component Forces.

The Soviet Union has the world's only operational ASAT system. The U.S. miniature homing vehicle ASAT system that can deter the Soviets from using their system in times of crisis is in development. Its test program, however, has been blocked by a congressional unilateral ban that prohibits tests against targets in space. The Soviets are under no such prohibition. I will continue to urge the Congress to lift this moratorium as soon as possible. I will strongly oppose its extension beyond October 1, 1987. Such unilateral restrictions on the U.S. leave the Soviets with capabilities that endanger America's security.

Keeping America strong means more than acquiring ships, tanks, and planes. Those who wear the uniforms of our armed forces must receive appropriate recognition for the sacrifices and hardships that they are called upon to endure on our behalf. My Administration will take the necessary steps to continue to improve the quality of life for those in uniform. In this way we can retain the high-quality trained people serving now, all as volunteers, and provide sufficient incentives to recruit the qualified people that we need in the future.

As we revitalize our naval forces, we face the need to build home port facilities that can accommodate our growing fleet and to protect our vital merchant ports in the least vulnerable but affordable way. We must continue to implement and expand our strategic home-porting program.

Last fall I sent to the Congress a classified report on the threat to our security from the activities of hostile intelligence services. The report set out a blueprint of legislative and administrative measures to enhance our ability to meet this threat. I hope the Congress will act on our recommendations.

We must maintain the viability of our technology base and pursue new developments in conventional weapons technology. The armaments cooperation initiative with our Allies helps us to improve acquisition management, share technological advances within the Alliance, and enhance collective defense. The Soviet Union should regard the industrial unity of the West as an unbeatable force. We must not squander our gains through careless or felonious transfers of technology to potential adversaries. My Administration will continue our successful effort to curb the theft of strategic technology by the Soviet bloc.

V. CONCLUSION

This year of the 200th anniversary of our Constitution affords us the opportunity to make momentous strides in our quest for national excellence. It will require the efforts of all of us — not just the government, but all the people. To achieve this greatness really comes down to just being our best. No government plan or program is capable of enacting such sweeping change and reform. All the Federal spending in the land cannot buy excellence. It must occur as part of the natural instinct of free people to compete for the highest standard. The proposals and actions outlined in this message will form the foundation to meet the challenge of the third American century.

I look forward to working with the Congress in a bipartisan fashion in order to achieve this worthy goal. For when it comes to the future of America, there must be no Republicans or Democrats — only Americans.

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The White House
Washington

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