

Remarks and a Question-and-Answer Session at a Meeting of the Economic Club in New York, New York February 6, 1991

The President. Thank you so very much. And Dick, thank you, sir, for inviting me to this most prestigious organization. May I pay my respects to Secretary Brady who is with us, came up with us from Washington, and in my view is doing an outstanding job for our country. And I'm just delighted he's here.

And I want to thank one other, Ray Price, an old friend who I understand does a lot of heavy lifting for this organization—a lot of the organization. And each one of you, all of you—and I want to thank you not for standing up to greet me, for heaven sakes, but for standing up for all those fighting against aggression tonight in the Persian Gulf, and especially all the coalition forces, but especially the fighting men and women of the United States of America.

Looking around at this dais and at the audience, I wonder who's home minding the GNP. [Laughter] This is a classy, star-studded audience, and we are very pleased, again, once again, let me say, to be here.

This year, as Dick said, marks a defining hour—a moment of truth—for this generation, for this country, and I'd also add for the United Nations. We were patient and we were cautious. But when the moment of truth came, America and the world did what was moral, what was just, and what was right.

We said the occupation of Kuwait would not stand. And 3 weeks ago tonight, at just about this time, we announced that the liberation of Kuwait had begun. Three weeks ago tonight, allied forces moved to end a conflict that we did not seek and that we did not begin. But ladies and gentlemen, it is one that we and our allies will finish. And I can tell you firmly that tonight we are on course and we are on schedule. Mission by mission, hour by hour, Iraq's capacity to wage war is being systematically destroyed by American and coalition forces.

The road to real peace will be difficult—long and tough, I'd say. But we will prevail. And when we do, we will have before us an historic opportunity. From the con-

fluence of the Tigris and the Euphrates, where civilization began, civilized behavior can begin anew. We can build a better world and a better new world order.

Tonight the world is united by shared commitments, shared interests, shared hopes. Our efforts will determine the kind of legacy that we bequeath our children, the kind of world they will live in. And so, let us rededicate ourselves to the ideals in which our troops so resolutely believe. Because in the final analysis, America and her partners will be measured not by how we wage war but how we make peace.

I said in my State of the Union Address that "we are the nation that can shape the future." And shaping the future is a job that begins at home. And so I want to talk to you tonight about the economy. Long-term economic growth is central to the quality of life for America's families, quality of decency for America's communities, and to the quality of leadership America can bring in its special role as the world's leading diplomatic, cultural, and economic power.

Just over 8 years ago, when we came out of a recession, the longest peacetime expansion in American history began. Working together, we created millions of new jobs, cut both interest rates and inflation in half—a triumph driven by the energies of the most dynamic and diverse economy on Earth.

Against this background, the events of 1990 served to remind us that even a fundamentally healthy economy faces the risk of temporary disturbances, short-term setbacks. For example, when Iraq invaded Kuwait in August 1990, it was a shock to the world's conscience. Business and consumer confidence fell. We all remember the rise, the dramatic rise, in oil prices. Inflation worries rose, and interest rates reflected an extra risk premium. Taken together, this produced a very real blow to an economy that had already slowed down.

But make no mistake: The current reces-

sion does not signal any decline in the fundamental, long-term health or basic vitality of our economy. America is a can-do nation. And America is home to the largest, most productive economy on Earth. Our administration's economic policies are designed to strengthen the foundation for a solid recovery and guarantee the highest possible rate of sustained economic growth. I described the three pillars of that foundation in the State of the Union Address: encouraging economic growth, investing in the future, and giving power and opportunity to the individual.

Encouraging economic growth means reducing Federal borrowing by cutting the growth of Federal spending. That's why we sent Congress a budget proposal that holds spending growth below the rate of inflation—the lowest increase in spending in 5 years. And that's why the budget law was armed with real teeth—pay-as-you-go provisions and enforceable spending caps—aimed at cutting the growth of debt by nearly half a trillion dollars over 5 years. True, the deficit is high, unacceptably high. The S&L costs, the war, the economic decline haven't helped a bit. But thanks to the budgetary reforms that began last fall, the deficit will be virtually eliminated by 1995.

To ensure economic growth, this administration will also redouble its efforts to weed out counterproductive government regulations. *[Applause]* I thought there might be some enthusiasm for that one because I really believe that the market must be allowed to work without unnecessary Federal intervention.

We must also fuel economic growth by providing incentives to promote private savings and job-creating investment. Our budget includes tax-free family savings accounts, penalty-free IRA withdrawals for first-time home buyers, and a reduced tax for long-term capital gains. And that will help bring down the cost of capital, which will help American businesses compete at home and abroad.

We must also renew our investments in America's future. And that means investing in the education and safety of our children, investing in the infrastructure of our transportation system, investing in reforms for the financial services system, investing in

high technology and in space.

The budget proposal that we sent up there to Capitol Hill has been well-received. I'm not saying we don't have any critics—*[laughter]*—but when you look back over your shoulders, I think it's fair to say this one has been well-received. It includes a record \$76 billion for research and development, one of the most important investments we can make in the long-term economic and military strength of our nation. It also recognizes that government must help translate the results of basic research into the generic technologies that strengthen our industries and improve our lives. This isn't an investment in machines; it's an investment in people—in the scientists, the engineers, and the educators who will produce the advances of the 21st century. And together with the Nation's Governors, we've launched a comprehensive effort at reform and restructuring, aimed at producing an educational renaissance.

We've still got a long way to go. But we won't sell our kids short. As one observer said of the troops manning Patriot missiles in the Gulf: "In one day, they wiped out the idea that young Americans are not smart enough for the 21st century."

Investing in the future—it also means modernizing our financial system, which is exactly what our able Secretary of the Treasury unveiled yesterday with our banking reform proposals. These reforms will continue to protect every insured depositor in America. But they will also address the reality of the modern financial marketplace by creating a U.S. financial system that protects taxpayers, serves consumers, and strengthens our economy. We don't want to be back again in a couple of years to do this all over again. That's why halfway solutions won't do. We have to do the whole job, and we have to do it now.

The challenges ahead are great. But by any historical standard, the current downturn is expected to be mild and brief. And today in America, the bottom line is this: While our economy may be beset by difficulty, it should not be beset by doubt.

A healthy sense of confidence is backed by the facts. Inflation has been kept under control. Interest rates are beginning to de-

cline further. The trade deficit declined for the third year in a row. Inventories have been kept down, reducing the need for many production cuts to work off excess inventory. Because our major trading partners are seeing relatively strong growth and the price of U.S. exports on world markets remains low, the pace of U.S. exports will continue to set record highs. In spite of many prewar predictions that a Gulf war would send oil up to \$80 a barrel—and I think we can all remember those speculative days—oil prices have fallen substantially since their peaks in October, especially since the start of Operation Desert Storm. I believe that by standing up to aggression in the Gulf we are guaranteeing the future security and the stability of that entire area, an area that is so vital to global economic prosperity.

Later this month, the administration will release our National Energy Strategy. The strategy will propose Federal, State, and private sector initiatives to increase energy efficiency and conservation. It recognizes the need for creating a clean, safe environment. And it also recognizes that we must find more domestic oil and gas, and use more alternative sources of energy.

Our strategy is designed to reduce our vulnerability to foreign oil supply disruptions. Now, some will argue that reducing our energy vulnerability is not enough and that we should embark upon more drastic measures designed to achieve total energy independence. That's down the road, because the reality is we are a long way from total energy independence and we must avoid unwise and extreme measures that would seriously hurt American consumers, American jobs, American industries.

Yes, we've got to begin reducing our energy vulnerability now. Our new strategy will do that because it is prudent, it is balanced, and it is comprehensive.

And finally, don't forget another underlying strength of our economy: the flexibility of America's free market system. To preserve this flexibility, we must keep our markets open and hold government restrictions to a minimum. This, frankly, is not easy. I will continue to oppose protectionism. I will continue to fight for a level playing field, so that international trade is free and fair.

And that is what we are doing in this Uruguay round of trade negotiations—trying to lower the barrier to the free flow of goods and services around the world. And that is also what we seek in the negotiations that we will launch this year with Mexico and Canada to create a North American free trade area. And our Enterprise for the Americas Initiatives—and again I salute Secretary Brady for his key role in all of this—is intended to extend the benefits of flexibility throughout the Western Hemisphere.

To build a new, peaceful world order we must secure the democratic triumphs of the past year. I'm thinking especially of the Revolution of '89. The new democracies in Central and Eastern Europe inspire us all with their commitment to free societies and free market economies. But look, they face daunting obstacles from the Communist past as well as severe new problems brought on by lost markets and brought on by higher oil prices.

Our administration is committed to help, and we're committed to lead. Despite the burden we are bearing in the Gulf, I've asked Congress for \$470 million in new assistance for Central and Eastern Europe—a substantial increase over last year's request.

Four decades ago, the Marshall plan helped build a West European zone of prosperity and security that greatly benefited the United States. Together with our Western European partners, we can now extend this success to create a Europe whole and free—an entire continent of prosperity and stability that fulfills the vision of that Marshall Plan.

With their great human potential and commitment to market economic reform, Central and Eastern European countries offer real opportunities for U.S. trade and investment. And I urge American business to seize these opportunities, as many are doing.

I see Jack Welch over here. Well, G.E. weighed in with \$150-million joint venture with Tungsram in Hungary. Drew Lewis, who is not here with us tonight—but his Union Pacific stepped up to the plate with an impressive effort to modernize Poland's railroads. And Bell Atlantic and U.S. West

have begun a \$80-million telecommunications venture in Czechoslovakia.

History is moving decisively in favor of freedom, thanks in large part to American ideals and perseverance—the touchstones of the modern world which the emerging democracies are now striving for: free markets, free speech, free elections. America has lived by these tenets for over 200 years. And they've given us both our power and our purpose.

And that is why America and our allies are going to prevail in the Gulf. And that is why America and our partners are going to prosper in the years to come. You see, I firmly believe that our best days are before us. And I can assure you, America, and the world that we will continue to fight for principle, we will continue to do the hard work for freedom.

Thank you all very much. I'll be glad to take your questions. And may God bless the troops in the Gulf and the United States of America.

Free Trade

Q. Mr. President, every year there are 80 million new more mouths to feed in this world. You and your Presidency have been sensitive to their needs—not only to help feed them, as we can, but more importantly to help them economically to be able to feed themselves. Recently you sent Carla Hills to the GATT negotiations, and she has done a superb job of moving the world's food trade to the top of the agenda at GATT in an effort to try to get more market-oriented agricultural trade which would help enormously during the next decades in getting food produced where it should be produced and into the mouths of hungry people.

Now, while we try for free trade, just about every country we compete with is using managed trade in a democratic, socialist mercantile system replete with export subsidies—like Japan and the EEC. In view of the fact that they seem to be rejecting our desire that they move toward freer trade, do you think GATT will ever be able to solve the problems of that kind, or will we have to go to a managed industrial policy like most of the Western world in order to compete?

The President. Well, Dwayne, I don't want to give up on the GATT round. I go from optimistic to sometimes pessimistic. I still believe that we have an opportunity to get a successful conclusion of the GATT round. Whether it will be done by the time our fast-track authority runs out, I'm not sure.

But I believe that we can get the kind of conclusion that will avoid making the situation that you've described even worse. Because I don't want to see us resort to the kind of government-mandated targeting and the government controls that go with the kind of economies that you have described. So, I am still hopeful that we can get the successful conclusion. The major hang-up on the GATT round involves agriculture. And we have had a great deal of difficulty getting some of our friends in Europe, and to some degree the Japanese, fully on board in terms of agriculture.

Carla Hills is tough as nails, and she will continue to work hard to get this done. But I think we ought to—before we start going down the road of managed economies and targeted products like some of the others that we compete with do, I think we ought to go all-out to see that we can successfully resolve that round.

At the same time—I was talking to David at dinner and to Rand—we are working hard on this new North American free trade zone. And I believe that, even if GATT gets hung up for a while, we should keep pushing hard for a free trade zone with these three countries—Canada, Mexico, and the United States. And that would lead, I think, inextricably to a hemisphere that is free and fair.

So, I want to keep pushing on that. I worry about the problems that you throw out there, but I'm not prepared to give up yet on GATT. And we are weighing in heavily with the EC, with France, with Germany, and with Japan so we can reach a successful conclusion.

Japan and Germany

Q. Mr. President, wars are often historic moments in the relationship among nations. In this war, our two largest economic partners, Germany and Japan, appear to have

become our two most reluctant and troubling political partners. Will this adversely affect our economic relationships with these two countries or, on a brighter note, do you think that the war will make Germany and Japan realize the need for closer political and economic cooperation with the United States?

The President. In the first place, I believe that it is not fully realized that Japan has pledged \$9 billion to Desert Storm in addition to the billion they spent before we were in the war, and Germany has now pledged \$5 billion. Those are very generous contributions in my view—or appropriate contributions, in my view. And I am grateful to Prime Minister Toshiki Kaifu and to Chancellor Helmut Kohl for doing this.

So, the concept of burden-sharing that has concerned the American people on the costs of the war is in far better control than I think we've made clear. In other words, I feel comfortable where it is. Now, I think we have to recognize that Japan and Germany have constraints, constitutional constraints placed on them as a result of World War II.

I think if you look around the world and you take a look at the Pacific countries, particularly the countries out there, the ASEAN countries, there still is some concern about a totally rearmed Japan. And that's a sentiment that is shared by many members of the Japanese Diet. So, we should not be saying to them, you've got to do more in the way of tanks and planes and military force.

So, I'm hoping that the world will see that they are pitching in and will continue to pitch in as these costs mount, because clearly we are doing a lot of work that benefits the people in both those countries. They are both dependent on foreign sources for oil—both of them heavily dependent on oil from that part of the world. But I think they understand that.

In terms of the long run, it is my hope that because we have taken this lead role in the coalition—because we have put together what I think history will show is an historic, albeit diverse, coalition—that the people of Germany and the people of Japan as well as others around the world will see a United States that has a vastly restored

credibility, and that that will help us, I think, as we talk to them about other kinds of problems.

So, I don't see anything out of this that should diminish our interest in continuing strong economic relations with them. Having said that, I'd go back to Dwayne's question. Both—particularly Japan has got to give us access, and Germany in agriculture as part of the EC has got to give us access to markets. But perhaps our credibility will be such because we've bitten off this really tough—decided to bite off this tough assignment and complete it, that we will have some—I wouldn't say leverage on them but persuasiveness that will lead to a more harmonious trading relationships.

Soviet Union

Q. Mr. President, every European nation now has a comprehensive trade treaty with the Soviet Union including investment guarantees. Western Europe this year will do eight times as much business with the Soviet Union as we do, and in manufactured products almost 30 times as much.

Now, looking ahead, and with special reference to the problems you see involved in the negative attitudes of Congress, how do you see the possibility of U.S. business and industry catching up with the long lead that the Europeans have in trade with Russia?

The President. Well, right now, Dwayne, as you well know, why, we have some big problems. And you've seen the EC pull back within the last few days on some of their trade breaks for the Soviet Union. You see the pressure mounting in our Congress for me to pull back on most-favored-nation and on the moderate steps that we took to include the Soviets or to encourage the Soviets to join some of the international financial organizations. And that stems from the fact that there is this visible repression against the Baltic States.

A little history: We have never recognized the incorporation of the Baltic States into the Soviet Union. And so we have enormous problems when we see force used against those three Republics. And it is a big problem. And it concerns me deeply, it concerns the American people deeply. And there are certain constraints on what we

can do in moving forward until we get satisfied that this was an anomaly and not a new way of life.

Mr. Gorbachev faces enormous problems inside the Soviet Union. You've heard suggestions that—maybe you heard the press conference yesterday—the tone of some of the questions: “Well, you ought to start dealing with other leaders.” He's the President of the Soviet Union. He has done wonderful things in terms of reunification of Germany, in terms of getting out—of freeing up the Eastern European countries. But he's faced with big problems.

And these are internal affairs of the Soviet Union that I've got to be a little careful discussing. But for the United States standpoint, we've got to see that no more force will be used against these Baltic States and that there can be peaceful resolution to these questions. Otherwise, not only will our trade relations be set back, as they are now being set back in some European countries, but the rest of our overall relationship could undergo a problem. I don't want that. They have been steadfast in support of our objectives in the Gulf. And that is very, very important. They have lightened up on their sending military equipment into this hemisphere, a problem we have always had. We're having cooperative work with them in terms of freedom in Angola. So, it is to our interest to work closely with the Soviets for many things.

But when we see a repression in the Baltics, it is very hard to have business as usual, say nothing about trying to catch up. So I'm very hopeful that the representations that were made to us when Mr. Bessmertnykh was here will prove to be do-able by President Gorbachev, and I am hopeful that we can find a way to move this productive relationship forward. But I am not in a position at this juncture to say exactly what we can do more positive while we have this big problem of—the human rights problem and the problem of this military crackdown in the Baltics. It puts us in a very difficult position, and I think the Soviet leaders know this. I've talked frankly to them about this, and I believe they know it. So, let's hope that these things can go forward with a peaceful resolution to the question of the Balts.

Banking Reform

Q. Since it's the Economics Club, we have an economics question. In reaction to the S&L crisis and in response to new and tougher guidelines from banking regulators, many banks have now become ultra-conservative—some to the point of making no loans at all.

We all know that sound bank lending is central to stimulating the economy and getting us out of the recession. Do you think the regulators have gone too far, and do you think the new legislation that we've just heard about will stimulate and encourage bank lending in the United States?

The President. To answer the easy part, I think the—less controversial part—[*laughter*]*—the new Brady proposal—it will be called the Bush proposal if it's successful—[laughter]—should indeed renew confidence. Regulatory reform is long overdue. I headed a task force when I was Vice President that I thought came up with some very sound recommendations for regulatory reform.*

Now Secretary Brady has come up with some recommendations that I think are even better. They're more simplified. The Fed manages one set of organizations and the new organization under Treasury another. And I should think this would renew confidence. I think the interest rates coming down should instill confidence. And, yes, I do believe that some of the regulators—I'm not sure I can answer it specifically on regulations per se—but I think some of the regulators in the past got overzealous, and I think that scared some of the banks.

Just to be fair about it, I think some of the banks made some bad loans. [*Laughter*] And so what I think we're seeing is, in an effort in this reform legislation and hopefully as the economy starts coming out, a banking system that is fundamentally sound, a banking system that deserves the confidence of the American people—and I think these reforms will help on that—a banking system that will be able to get into other forms of business, as some of our competitors abroad do. And that, I think, should usher in a whole new era of prosperity involving fundamental loaning by these

banks.

Low-Income Housing

Q. Mr. President, I was talking with an old friend of yours, Tip O'Neill, the other day. [Laughter] And he seems to be now one of your greatest friends and advocates and supporters of your—particularly of your management of American foreign policy in your Presidency. But he asked me to ask you—[laughter]—housing is fundamental to our economy. The rate of housing and construction is less now than it was in 1982. And he feels it ought to be at least 20 percent higher. What do you have in mind, if anything, to correct this situation?

The President. First, let me profess my love for Tip O'Neill. [Laughter] And I really, sincerely mean it, as I think many people—I know Barbara knows, and I really feel strongly about it—the guy has not been well lately, nor has Millie, his wife, who we love dearly. So, I will take this opportunity through C-SPAN or whoever to pay my genuine respects and affection to him. He knows this. And I think you've phrased it very well—we do have a different approach on how housing should be done in this country. I think when Tip goes back, he was talking about government-paid-for, government-owned housing.

Our approach is something else. We believe that the best way to do it is to have tenant management, encourage ownership, voucher systems. We have a program called HOPE, which relates fundamentally to home ownership as opposed to Federal ownership. We have put much more money in the budget for this. We happen to believe that enterprise zones going into low-income areas would do an awful lot to bring business there and thus enable people to buy more homes.

So, I hope that the program that we've put forward, the HOPE program, will have the support of many of Tip's former colleagues. I have a feeling it will. We'd made a good step on it last year in the Congress and got good support from both sides of the aisle. But if Tip is referring to the government-owned-bricks-and-mortar approach, we think that that has been tried, and we think in many instances it has failed. We think it has built misery into the system.

You've seen programs in St. Louis that at one time looked good, and then they had to tear them down in their entirety.

So, I would like to encourage support for this new approach which empowers the people and I think will lead to far more housing.

New World Order

Q. Mr. President, you have talked several times about basing the future on a new world order. Can you give us a definition of the new world order? And if it depends on the collaboration between the Soviet Union and the United States, how do events in the Soviet Union affect this concept?

The President. Well, it doesn't depend entirely on it, but it would be greatly enhanced by a Soviet Union that goes down the line with its commitment to market reform, to private ownership of land, to a free economic system, to a system that resists and does not use force to assure order amongst the Republics, that goes farther down the road with elections and all the openness that I give President Gorbachev credit for. And as well as the openness in terms of *glasnost* and the reforms in terms of *perestroika*—we're going to continue to support those concepts. But it was this, it was the farsighted vision of Mr. Gorbachev that enabled us to work together in the United Nations.

Now, my vision of a new world order foresees a United Nations with a revitalized peacekeeping function. I think most that follow the United Nations see the economic and social side of the United Nations as having performed well since it was founded. Most people that follow it find that the peacekeeping function for the most part has not been effective. And one of the reasons it hasn't is because of the veto in the hands of the five permanent members of the Security Council, one of them being the Soviet Union.

When I was Ambassador 20 years ago in the U.N., we hardly ever voted with the Soviet Union. Now we're with them on many, many things. So, the new world order I think foresees a revitalized peacekeeping function of the United Nations. But I cannot and I will not predict a Soviet

Union going back, turning its back on reform—*perestroika*—turning its back on *glasnost*—openness. I don't believe, no matter what the ferment in the Soviet Union today, that they're ever going to go back to that. And I don't think anyone there wants to go back to that.

And so it would envision, though, a much more cooperation between the United States and the Soviet Union. And on matters of the Gulf, in international matters, not bilateral, it envisions a greatly enhanced peacekeeping function of the United Nations itself.

One of the reasons we have so much support for this is that we went to the United Nations 12 times. There are 12 resolutions that speak to the Gulf, and that has mobilized world opinion. And so when we are successful in fulfilling all 12 of those resolutions, I think there's going to be new credibility for that peacekeeping function, new credibility for the United States. But we should have and should strive to have Soviet cooperation all along the way. And that's why I'm not going to back off on my efforts to try to improve relations with the Soviet Union.

Then we've left China out of the equation, and we ought not to do that. They've been through a difficult time. I took on some shots for trying to keep relations from China. I was offended as anybody else was by the human rights abuses at Tiananmen Square and spoke out on it. But I think it is in the interest of the United States to have continued relations with China. And I think it is vital to this new world order that that veto-holding member of the Security Council go along and be with us on these matters of trying to bring peace to troubled corners of the world.

Soviet Union

Q. Mr. President, this is a followup question having to do with Soviet trade. The Jackson-Vanik amendment, the Jackson-Vanik bill, has been in effect since 1972; really, in effect, says that we cannot have normal trade with the Soviet Union until they have permitted free emigration from their country.

There's no question but what the Jackson-Vanik legislation has played a role in

Gorbachev's decision to free emigration. So in that sense, it has been a success. Now the emigration rate from Israel is about 600,000 a year, which is 10 times more than we asked for. And most of the religious organizations that I know are saying they're very happy with it and very well satisfied. And as a matter of fact, Prime Minister Shamir of Israel has said publicly that he thinks it's totally satisfactory.

There doesn't seem to be much possibility that they're going to get around to codifying that, but it's the custom in Russia for 100 years that emigration is an administrative decision. I'm wondering, recognizing the problems in Congress, do you think there's a possibility, in view of the fact that they have fulfilled that commitment, that Congress will authorize business with the Soviet Union on the same basis that we trade with other countries somewhere along the line here?

The President. The provisions of—what they have agreed to do is pass legislation that will, I think as you put it, codify this. They have not been able to do that. I think they've got some internal problems inside the Soviet Union on this. Under our law, they have to be passed before we can have the kinds of trade agreements and other things with them that we would like to have.

I think you make a very good point on the fact of emigration. The Israelis are pleased. The Israelis have started up—taken a step through consular relations for diplomatic relations, and they're very happy with the exodus, and so am I, as one who have been very much concerned about the exodus of Soviet Jews to Israel and to other places.

I don't want to overstate the problems of the present. I can tell you it would be extraordinarily difficult to pass anything of this nature in terms of waivers given the current situation inside the Soviet Union. It is very difficult to do. You see all kinds of legislation getting talked about and some perhaps already being offered that would indeed move the relationship backwards, not towards understanding of this nature. So it is my fervent hope that problems that I've outlined earlier in the Baltics can be

resolved peacefully, and demonstrably so, so that we can get on with finding ways to improve our trade relations.

Defense Spending

Q. Mr. President, with the end of the cold war, many Americans believe we might be able to reduce our spending on national defense, creating a so-called peace dividend. Has the Gulf war and the problems inside the Soviet Union delayed or eliminated the chance for a peace dividend, or do you see it long-term?

The President. No, we've actually—well, let me get to dividend in a minute. But in terms of—I always had a different concept of dividend—[laughter]—you have a profit, you pay a dividend. If you don't, why, you don't. We're operating at 300-and-some-jillion-dollar deficit—[laughter]—so we're not in exactly a dividend-paying mode, but the fact of the matter is that we have reduced defense spending.

It is substantially reduced with almost every other account going up in this budget. When you take a look at what we put out there yesterday, you'll see that defense spending is down. I think it's robust enough to have the kind of rapid deployment force that's going to be required in the future.

You heard Cheney yesterday doing a superb job testifying about why we're having to lay up some of the battleships that are proving themselves today off Kuwait. He said he had to make the tough choices, and we've done that. But we are not going to do it to the degree some of the antidefense Members of Congress want, where they want to go in and slash 30 percent out of the muscle of defense.

And I think if there ever is a reason not to do it, you just have to look halfway across the world today. So we're not going to stand for that. And I think that we are going to try to find ways to further reduce defense spending, but not at the risk of weakening our fundamental defense. And I think that some of the criticized high-technology weapons are paying off.

I am annoyed at the propaganda coming out of Baghdad about targeting civilians. This has been fantastically accurate. And that's because a lot of money went into high-technology weaponry—these laser-

guided bombs and a lot of other things, Stealth technology—many of these technologies ridiculed in the past now coming into their own and saving lives, not only American lives, coalition lives but the lives of Iraqis.

And so, we are going to have to have a high-tech, a highly mobile force. And it ain't going to come cheap. It's not going to come cheap, not going to be achieved by slashing the muscle of our defense. And I will keep it strong. And I think yesterday's budget, which is at a reduced number from what we had before, is going to provide us that kind of force. But anything less I won't stand for.

Block Grants

Q. Mr. President, our Governor Edgar was grinning from ear to ear, very, very pleased about the Governors' meeting the other day where it was explained to him your new plan to transfer a good many functions to the States. I wonder if you would mind telling us the philosophy behind this new emphasis on State activity.

The President. Actually, one, it's a concept that could have the label "block grant." The Governors heretofore have been suspicious of block grants because they never got the funds with it. They got the mandates; they had strings attached. And this is a block grant where we have proposed by name the elimination of programs. And we then say the money saved—\$15 billion is the figure we're using—will be distributed to the States to use as they see fit.

And the philosophy behind it is very, very true. I have been President only 2 years. But I believe that the best problem-solving is done as close to the people as possible, at the State level or at the local level. And so this concept is to give these Governors the opportunity in these various fields, and the money with it, to solve the problems. It will cause innovation, it will cause a lot of experimentation, but it will be done without some centralized mandate from a committee chairman or committee action in Washington.

So, the concept isn't spectacularly new,

but it has never been tried where you actually get it fully funded and give the Governors that flexibility. Now, some of the mayors are upset because they say, "Hey, don't give it to Governors, give it to us." We can't give it to everybody, so we'll give it to the Governors and let them use their legislatures to distribute it.

But it was well-received by liberals, conservatives, Republicans, and Democrats at the gubernatorial level. Now our fight is to take some of these entrenched committee interests in the Congress and have them look at it with the same farsighted view. [Laughter]

Economic Stimulants

Q. Mr. President, the war in the Gulf has shown your decisive leadership. Every American is proud of American technology and American servicemen and the success we're having there. But at home, one of the unfortunate things that's happened is businesses have postponed expenditures, consumers are postponing spending, travel is down—a lot of things have been put on hold. What would you tell us all, and what can you and business do to regain this momentum?

The President. Well, I think I tried to address some of that in the remarks I made earlier, because I believe we should have more confidence. We are in a recession; there's no question about that. But I think it will be shallow. I believe that the financial reforms we're talking will help. I believe the lowering of interest rates will help. I believe that the budget that, in spite of the magnitude of the deficit, with the restrained growth in the spending that is held to less than the rate of inflation, would help marginally—because the deficit works the other way.

Some people are talking about stimulating—the old Keynesian approach of pump-priming, stimulating the economy. We've got a major—if government spending is what stimulus is, we've got the stimulus that comes from an unacceptable deficit. So, I will resist all these programs that are going to be offered up of make-work job programs or special housing programs or special added spending programs. They will not bring this economy out. I believe it's

going to be shallow for the reasons I gave—inventory and interest rates and a lot of other reasons.

So, I think what's needed is a boost of confidence. You mentioned travel—I understand that some people are afraid to travel because of security. I remember the charge going up, well, maybe we shouldn't have the Super Bowl because of security. We've got good security, and we've got good intelligence. And I think the American people should have confidence in travel and tourism. And I think people should come here with a renewed sense of confidence and travel.

So, some of it is psychological; some of it is something the government can do something about, and I hope some of the programs that I've mentioned here tonight will do that. But I'm certainly not discouraged about the economic future in this country or our ability to get back on the growth path for the reasons I said in the speech itself.

Mr. Voell. We'll have two more very short questions. Dwayne, have you got a short one?

Postal Rate Increase

Q. All right, I was just told that we're at the end. But I have a short one. [Laughter] But, Mr. President, it's my duty to deliver you just a bit of bad news, I'm sorry to say. It's about that 29-cent stamp. [Laughter] I hear that the ladies would like to have it made 30 cents because the problem that the post office has with the pennies is enormous, and there's a rumor going around the Middle West that maybe this was a conspiracy of the copper people to increase the consumption of copper. [Laughter]

The President. No comment. Next question. Thank you very much. I'll look into it. [Laughter] It's better than saying, "I'll study that one." [Laughter]

Economic Forecast

Q. Mr. President, the final question. The outlook right now is not as great as it should be for the economy. What's your prediction for the rest of your term—this term and your next term?

The President. No, I predict that in a

couple of quarters we'll come out of this and that we'll have a robust economy. It will grow—the estimates that we used in our budget figures are somewhere in the middle of the blue chip estimates. They're not overly optimistic. They were less than the CBO, the Congressional Budget Office; normally, administration's are on the rosier side than the CBO. So I think we've got a real opportunity before half the year's over to start seeing a recovery and see us come back on a growth pattern and see us resume our economic vigor. And then I think that will begin to be felt as these interest rates, hopefully, come down in the housing market.

I think the transportation program that I didn't talk about tonight will have a stimulatory effect in the construction industry. I think the fact that oil prices are lower than where many of the pessimistic predictors would have them is another reason that this will not be as severe a recession—or put it this way—will be a shorter recession if prices stay in this range than have been predicted.

So, basically, I'm optimistic. I think we've had too much pessimism. I can understand why, and if I were an auto worker laid off I guess I'd have every reason in the world to have doubts. But I think the fundamentals are still there. I do not think that this war is going to add an unacceptable burden to it. When you heard the testimony as to the cost that will inure to us after the others come in with their support—I believe that that's another reason that the economy will recover fast. I can tell you I don't believe—I will say this without any fear of contradiction whatsoever: This is not and will not be another Vietnam. This is not going to be a long, drawn-out, difficult situation with an ill-defined ending. I'm absolutely confident of that.

And I can't tell you what and when and how, but I can tell you I have never been more certain of anything in my life. We're going to win it, and we're going—and I think to some degree—and this is your business, not mine, but the market seems to be saying there is reason to be far less pessimistic—or turn it around—more optimistic than many had felt in the late fall or even when we first got in there and the oil prices were spiking up around \$38–\$40 a barrel.

So, the fundamentals are good. Some industries are hurting. Some regions in the country clearly are doing better than others. But basically we're a strong nation. We're a productive nation. We can out-trade anybody if we can get the playing field level, and so that means renewed efforts on GATT or on our free trade areas.

And I'll end up this way: I'm very optimistic about the United States of America. Thank you all very, very much.

Note: The President spoke at 8 p.m. in the Grand Ballroom at the New York Hilton Hotel. In his remarks, he referred to Richard A. Voell and Ray Price, chairman and president of the Economic Club of New York; Secretary of the Treasury Nicholas F. Brady; Dwayne O. Andreas, chairman and chief executive officer of Archer Daniels Midland Corp.; Carla A. Hills, U.S. Trade Representative; David Rockefeller, chairman of the Rockefeller Group; Rand V. Araskog, chairman and chief executive officer of ITT Corp.; Prime Minister Toshiki Kaifu of Japan; Chancellor Helmut Kohl of Germany; President Mikhail Gorbachev and Foreign Minister Aleksandr Bessmertnykh of the Soviet Union; Thomas P. O'Neill, Jr., former Speaker of the House of Representatives, and his wife, Millie; Prime Minister Yitzhak Shamir of Israel; Secretary of Defense Dick Cheney; and Gov. Jim Edgar of Illinois.

Exchange With Reporters on the Persian Gulf Conflict February 8, 1991

Q. Mr. President, sorry to interrupt you, sir. Could you say something about Jordan

and the apparently escalating administration comments on the subject?