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THE SECRETARY OF THE TREASURY  
WASHINGTON

THE PRESIDENT HAS SEEN

May 12, 1989

*5/15/89*

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MEMORANDUM FOR THE PRESIDENT

FROM: NICHOLAS F. BRADY *ZFN*

SUBJECT: Weekly Update

Rather than give you an update on all of the issues moving through Treasury, I want to continue our discussion about the dynamics of the Ways and Means vote this week rejecting the Administration's financing plan in the savings and loan bill.

The on-budget, off-budget debate is much more than a savings and loan issue.

Since our meeting last night, I have discussed the vote with members of Ways and Means from both parties. I am finding that people do not have deep philosophical convictions about how the bailout is financed. There is no public outcry about financing and few, if any, constituents are phoning their representative. Nor is anyone lobbying on this point directly, though savings and loan lobbyists may be at work behind the scenes seeking some leverage for a floor fight to reduce capital requirements. The members I spoke to account for the vote in a variety of ways:

- 1) A staged confrontation to undermine the budget agreement, perhaps ultimately to challenge you on the no-new-taxes pledge.
- 2) A lack of discipline in the House stemming from the Speaker's distraction over other matters.
- 3) The Chairman positioning himself should the Speaker resign by showing he is not bound to the Republican position out of loyalty to you.
- 4) Ways and Means flexing its muscle in the latest round of the traditional rivalry between that committee and the Budget committee.
- 5) Genuine confusion about which financing method will really be more expensive.
- 6) Growing disillusionment with the Gramm-Rudmann process.

Bush Presidential Library Photocopy

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Whether the real reason is one of these or a combination of all of them, it is something we should pay attention to. For instance, it might affect the meetings you have scheduled next week with congressional leaders after the budget agreement passes. Some are likely to publicly question why we should even have the meetings. At the very least, some sharp questions about whether the agreement is even viable anymore will be asked during the meetings, which are likely to be followed by more negative comments to the press after they are over.

I don't have a solution to this, but I feel we should keep our antenna up until we find out what the real story is. The only short-range operational precaution we can take is to maintain real vigilance over the budget victory meetings. We should do whatever we can to impose some discipline on the budget resolutions victory meetings as they draw to a close.