

**ANTICIPATED NOMINATION OF
HON. LLOYD BENTSEN**

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED THIRD CONGRESS
FIRST SESSION
ON THE
ANTICIPATED NOMINATION OF
HON. LLOYD BENTSEN TO BE SECRETARY OF THE TREASURY

—————
JANUARY 12, 1993
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**ANTICIPATED NOMINATION OF
HON. LLOYD BENTSEN
TO BE SECRETARY OF THE TREASURY**

TUESDAY, JANUARY 12, 1993

**U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.**

The hearing was convened, pursuant to notice, at 10:30 a.m., in room SD-106, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan presiding.

Present: Senators Baucus, Boren, Bradley, Pryor, Rockefeller, Breaux, Packwood, Dole, Roth, Durenberger, and Grassley.

Also present: Senators Gramm and Conrad.

[The press release announcing the hearing follows:]

[Press Release No. M-1, January 7, 1993]

HEARING ON THE ANTICIPATED NOMINATION OF SENATOR BENTSEN SCHEDULED

WASHINGTON, DC—The Senate Finance Committee will hold a confirmation hearing and executive session on the nomination of Senator Lloyd Bentsen (D., Texas) to be Secretary of the Treasury.

The Committee will meet at 10:30 a.m., Tuesday, January 12, 1993, in room SD-106 of the Dirksen Senate Office Building.

**OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN,
A U.S. SENATOR FROM NEW YORK**

Senator MOYNIHAN. A very good morning to our distinguished nominee and our guests.

This is a regular session of the Committee on Finance in which I have been asked to serve as acting chairman by our Chairman, Senator Lloyd Bentsen, who appears before us as the nominee of the President-elect for the position of the Secretary of the Treasury.

We will proceed directly if it is agreeable. We have two very able colleagues who are here to introduce Senator Bentsen. And we have a rather conspicuous absence of support from the Democratic side. [Laughter.]

Here comes Senator Breaux. Thank God.

I would like to announce, if I may, that Senator Wallop is returning to the committee after having served with us for 10 years. And we welcome him back.

And on the Democratic side in the course of events that we fully expect, Senator Conrad of North Dakota will be joining us. He will assume the Danish seat on the Finance Committee. [Laughter.]

Now, sir, in order of seniority and in order that he might join us promptly, Mr. Baucus, we welcome you, sir, to introduce Senator Bentsen.

[The prepared statement of Senator Moynihan appears in the appendix.]

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you very much, Mr. Chairman.

Mr. Chairman and all the colleagues in the Finance Committee, I have the great privilege of presenting Senator Lloyd Bentsen of the Finance Committee as the new Treasury Secretary designate.

I consider this introduction to be one of the highest points of my Senate career. There is no Senator, there is no man that I have more respect for and admiration for than Senator Lloyd Bentsen.

I consider him the best Senator in the Senate and one of my most valued friends.

Just off the Senate floor in the Senate reception room, hang the portraits of five Senators. These Senators were selected by the Special Committee chaired, by Senator John F. Kennedy who was asked to select the five outstanding Senators in our Nation's history.

All five of these giants of the Senate, Daniel Webster, Henry Clay, Robert La Follette, Robert Taft, and John Calhoun, served on the Finance Committee. Three chaired the committee. The other two served as ranking minority members.

And undoubtedly, one of the primary reasons that these men earned the respect of their colleagues was that they helped to manage one of the most important tasks of government, namely, raising revenue for government services.

And while I was recently admiring these portraits, it occurred to me to paraphrase a well-known quote from the 1980 Presidential campaign that, "Though I did not know Daniel Webster, I am confident that Lloyd Bentsen is a Daniel Webster."

And though I can make no guarantees, I would not be surprised to see another portrait eventually added to this group, a portrait of another chairman of the Senate Finance Committee, Lloyd Bentsen.

Of course, Senator Bentsen needs no introduction. He has been a member of the Senate Finance Committee since 1971, its chairman since 1987. And during his tenure as chairman, he guided numerous critical pieces of legislation through the committee and guided the committee's work through the Senate.

He has skillfully and successfully worked to win passage of such important legislation as the 1988 Trade Act, the 1990 Budget Agreement, and numerous important tax and reconciliation bills.

He guided the United States-Canada Free Trade Agreement through the Senate. And in Texas, he is known as the father of the North American Free Trade Agreement.

His work has won the near unanimous praise of his colleagues on and off the committee on both sides of the aisle.

While he has been a leader in crafting the Nation's tax, trade, and health care policy, he has also been a tireless defender of the interests of his own State of Texas.

He has fought for Texas in the appropriation process and in the highway bill the Senate passed last year.

I have sometimes disagreed with Senator Bentsen, but I have always highly respected him. There is no greater Senator in the Senate.

When confirmed, Senator Bentsen will become the 10th member of the Finance Committee to serve as Treasury Secretary. And he will face a more enormous task than any of his predecessors.

He will be the leader in the new administration's efforts to craft a sound economic policy to keep America growing and to invest in America's economy for the long term.

Senator Bentsen will have primary responsibility for crafting sound and fair tax legislation and controlling the Federal budget deficit.

And certainly, his great expertise in trade and health-care affairs will be valuable to the new administration.

His remarkable skills as a legislator will be called upon time and time again to guide critical economic legislation through the Congress.

We can all take some consolation from the fact that though Senator Bentsen will soon be leaving the Senate, we will be seeing a great deal of him in the coming days.

I will miss Lloyd greatly. This Senate will miss Lloyd. I am certain that the people of Texas will miss Lloyd.

I have the utmost confidence in you, Mr. Chairman, as the new Chairman of the Senate Finance Committee.

Senator Moynihan has already had a remarkable career as Ambassador to India, Assistant Secretary of Labor, Assistant to President Nixon, and a distinguished Senator from New York since 1977. He will be a fine chairman in a grand tradition.

And I am certain that Bob Krueger who I served with in the House will be a fine replacement for Senator Bentsen in the Senate. The people of Texas will be well served.

But as I am sure that both Senator Moynihan and soon to be Senator Krueger will readily concede, Lloyd's shoes are simply too large to be filled.

At least the people of Texas and the Senate can take some solace from the fact that their loss is the Nation's gain.

Senator Bentsen will dauntlessly become one of the finest Treasury Secretaries the Nation has ever had.

And I might add, Mr. Chairman, on a personal note, as I was thinking about this introduction this morning, it occurred to me that Senator Bentsen very much reminds me of an equally respected Senator from my home State of Montana. That is Senator Mike Mansfield.

Senator Mansfield and Senator Bentsen, I think, are equally respected in this body and they are dearly revered by their people back home in their States. They both are highly intelligent. They are dead honest. Their word is their bond. They tend to be men of few words. They are leaders in the true sense of the term.

Whereas Mike Mansfield encouraged me personally to run for the Senate, Lloyd Bentsen has encouraged me to be a better Senator.

I can think of no higher honor than to introduce him to this committee.

Senator MOYNIHAN. Senator Baucus, we cannot think of a more graceful and persuasive introduction.

And now, perhaps for the last time, may I invite the junior Senator from Texas to address the committee.

STATEMENT OF HON. PHIL GRAMM, A U.S. SENATOR FROM TEXAS

Senator GRAMM. Mr. Chairman, thank you for allowing me to be here.

I guess people could say that you and I more than any other members of the Senate have a vested interest in this confirmation. [Laughter.]

You, because it makes you Chairman of the Finance Committee. Me, because now when somebody wants to write something tacky about me in the newspaper, they can no longer refer to me as the junior Senator from Texas.

So Senator Bentsen, you are guaranteed two votes to begin with. [Laughter.]

Mr. Chairman, I am very happy to be here to introduce to the committee that he has led and served on for many years our dear friend and colleague, Senator Lloyd Bentsen.

Lloyd Bentsen has had a storybook record of public service: a young man who grew up in the Rio Grande Valley of Texas, who went off in his early twenties to World War II, distinguished himself with an outstanding record of military service and courage, came home and was elected county judge, served in Congress, went out into the private sector and made his fortune, and then came back and ran for the U.S. Senate, and has served with a distinction that few in this era have achieved.

Lloyd Bentsen's appointment by our President-elect, I think, is a wise decision. I think it is going to serve President-elect Clinton well because in choosing Lloyd Bentsen, he has selected someone who has wisdom as well as knowledge, someone who has our respect and has our confidence.

Let me also say, Mr. Chairman, that I have had an opportunity to serve with Lloyd Bentsen as a Senator from Texas. We are in different parties and we have on occasion disagreed on what we both thought were important issues, but no one can have a colleague from his State in the other party that could have been more considerate, fairer, or more generous than Lloyd Bentsen.

I count it as a great privilege that I had an opportunity to serve with Senator Bentsen. I am proud to call him my senior Senator and my colleague. And I am happy to commend him to this committee. I intend to vigorously support his nomination.

I am not only confident that he will be confirmed, but I am confident that it will be a unanimous vote. And I think the country will be the principal beneficiary of that.

Thank you for the opportunity to be here.

Senator MOYNIHAN. Thank you, Senator Gramm, for your gracious introduction.

Senators, I know you have other matters. Senator Baucus would want to join us here. And we just thank you now.

And before we hear from our distinguished chairman, perhaps, he would like to introduce his wife, B.A., who is here and who was here in good time waiting for him.

Mrs. Bentsen, the committee welcomes you as always. If at any time, he thinks he is not wrong, just tell him. [Laughter.]

Mr. Chairman, good morning, sir. If you have a statement, we will put it in the record. And if you would proceed exactly as you wish.

STATEMENT OF HON. LLOYD BENTSEN, DESIGNEE FOR SECRETARY OF THE TREASURY

Senator BENTSEN. Thank you, Mr. Chairman.

I was listening with great pleasure to those introductions. And as I was thinking of the exaggeration and the generosity, I could not help but remember that story of the old gentleman who received just such generous introductions. And he stood up and he said, "Be not surprised, it is but I." [Laughter.]

Well, it is an honor to be before this distinguished committee and with you. I do not think any chairman ever convened a finer or more dedicated group than I have seen in the Finance Committee.

The years that I have been on the Finance Committee have been amongst the most rewarding years I have had in public service. And I am one of those who feels very strongly about commitments to public service.

And I think my 6 years as chairman of this committee has been the most stimulating and challenging in that public service career. That challenge continues for all of us.

And its personal features, it is the kind of challenge that you and I have faced time and time again, to balance spending and revenues, to make the tax system more fair and more equitable, to advance the U.S. trade interests and open up markets to our products, to expand job training and the creation of jobs, and to encourage savings and also savings in the public sector, and to stimulate public and private investment.

I would hope that for that outcome to be meaningful, one of the things that we are going to have to get control of, and that is health care costs. At the same time, we are trying to make it universal and everyone having access to it.

Achieving those kinds of ends many times will put us in positions of casting votes that are not politically popular and for an administration to offer things that are going to be tough and again not politically popular.

But I think we have to remember one overriding thing, and that is President-elect Clinton's commitment. His first priority is to put our economy on course so that every American has the prospect of a life-enriching job, every American has a chance at that American dream.

The President-elect is now determining which specific measures that can do just that. And he will be working with the Congress to enact them.

And as they come forth, his need and America's need is going to be for knowledgeable counsel from the members of this committee and the Congress and bipartisan cooperation in achieving those ends.

Time and time again, I have worked with this committee, with both Democrats and Republicans to achieve those kinds of bipartisan ends. And if confirmed as Secretary of the Treasury, I will continue in that mold.

You and I and our colleagues in the Congress and the Federal Reserve will be called to set ideas before ideology, principles before politics, and to give the new President our best counsel and our cooperation in achieving those ends.

As Secretary of the Treasury, I will look forward to working with him, with the members of this committee and the Congress to see that the people of the United States sustain the promise of America.

Thank you, Mr. Chairman.

[The prepared statement of Senator Bentsen appears in the appendix.]

Senator MOYNIHAN. Thank you, Mr. Chairman.

Now, I would ask our guests to note that we have some serious questions to ask and some statements to make.

I will take the liberty of asking the first question. It is in general form, but I know that you, sir, will be serious about it as we are.

Senator Baucus aptly noted that of those five Senators that were chosen in the 1950's to represent them, the most distinguished of our predecessors, each had been a member of this committee.

Nine previous members of this committee served as Secretary of the Treasury, a line of succession that begins with Alexander Hamilton.

He is the officer of the government responsible for its finances and their integrity.

And one of the problems in recent years has been that the estimates that have come out of the Executive Branch about revenue outlays and revenues have ceased to have the authority they once did. And the term "rosy scenario" appeared in our press.

The New York Times yesterday had a striking graphic showing the difference between the budget deficit as estimated and what actually happened over the last 12 years. And it reflected the reality gap.

One of the problems, I think, we have had dealing with the question of the deficit is that almost invariably we are told officially there will be none. And, of course, it turns out to be.

There have been 29 directors of the budget—more recently, directors of the Office of Management and Budget—since the office was established by Warren G. Harding in 1921, beginning with General Dawes who became Vice President later.

It happens that I have known 18 of the 29. And going back to James Webb who, as Senator Bentsen knows, was budget director under President Truman and Paul Appleby who was his deputy. And to continue the succession, I have known everyone since Murray Stance under President Eisenhower.

And there was a time when it would be unthinkable for a director of the budget to offer an estimate of revenues or outlays that did not seem accurate to him or her. And no one would dare suggest it to a Murray Stance or a Kermit Jordan or a George Schultz.

And if a President asked it, he would have their resignation on his desk the next morning. George Schultz would not do that. That is all.

And I ask you, sir, because, as you know, the Office of the Bureau of the Budget was begun by President Harding in the Treasury Department. And under President Roosevelt, it was moved to the Executive Office, but it remains a Treasury function.

Mary McGory yesterday called for truth in budgeting.

Can I ask you just to comment on whether you think it has become a problem that our National estimates seem so consistently off, as if to raise the question of whether their integrity has been compromised?

Senator BENTSEN. Mr. Chairman, I would say that the budget estimates in the past have generally been overly optimistic. And I believe that things are going to get better, faster than they have, but I would also say in their defense that it is tougher and tougher to make the estimates because you are dealing in enormous sums, \$1.5 trillion. And you have a variance of \$50 or \$60 billion in relationship to that is a relatively small sum.

But when it comes to trying to take care of an increasing deficit and making the painful choices, it complicates that objective and makes it very difficult.

Let me state that the chairman designee for OMB, Leon Panetta, I think you have a man of candor, an honest person, one who is going to tell it like it is, even when some of those choices and recommendations are going to be quite painful.

He has that kind of a reputation with Democrats and Republicans. I think that it would be to the very best of his ability with those things we have available to us now in trying to estimate what is going to happen to the economy over a period of a year.

Senator MOYNIHAN. That is a very reassuring statement, Mr. Chairman. And I know that these would be your standards. And I know you have shared the general concern of recent years. We hope that we will see, if nothing else, that that improves.

Senator Packwood.

OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON

Senator PACKWOOD. Mr. Chairman, I first ask that the statement of Orrin Hatch be placed in the record.

Senator MOYNIHAN. Without objection.

[The prepared statement of Senator Hatch appears in the appendix.]

Senator PACKWOOD. Senator Bentsen, the big three auto makers have been meeting with the President-elect on several issues but one in particular, that I find troubling.

If the press reports are accurate, it is on the tariff on minivans and whether it should be increased. They say it should be increased from 2.5 to 25 percent.

It is an issue that you are well familiar with. We have had it in this committee. We have voted on it on the floor. And by a close vote, we voted not to increase it in the Senate last year.

Now, it is my understanding that the auto makers are going to ask Customs, therefore, i.e. you, to reclassify it administratively

which you would have the legal power to do. What would you do faced with that request?

Senator BENTSEN. Well, let me state, Senator Packwood, that I stated before that I have concerns about the decision made by Treasury.

And I read the statement of President-elect Clinton that, as I recall, he made in Detroit that he felt that if the attention had been to the domestic economy more than possibly foreign policy that that decision might have been different, but I have not seen a commitment by the President-elect on that one!

And no decision to my knowledge has been made on it. So it will be reviewed, but I do not think I am in a position to say what a decision would be until we have done so.

Senator PACKWOOD. I do not think you are in a position to say what it would be in terms of Treasury's reclassification as opposed to us voting. And I prefer that we vote.

What would be your recommendation to the President on reclassification?

Senator BENTSEN. Do you mean as to reclassifying it?

Senator PACKWOOD. Yes.

Senator BENTSEN. I think that is the same answer. I think that that is one that has to be investigated, but I do not think at this point that I have the full information on which to make such a recommendation either way.

Senator PACKWOOD. We have gone back and forth. I do not mean you and I, but the President-elect and the country on whether or not there should be a middle-income tax cut. And if the deficit is bigger, perhaps we should not do the middle-income tax cut.

And then, I noticed in the Washington Post today: "The American economy will not perform well, creating jobs and lifting incomes, as long as most of the country's investment resources are diverted to financing that enormous deficit. A substantial tax increase is necessary."

Do you agree with that statement?

Senator BENTSEN. Let me state that there is no question that middle-income families have taken a hit more than any other group, particularly those with children, that I have certainly supported in two tax bills before that kind of a tax cut in the system.

I would also state that since we did those bills, we have seen a very substantial revision in the estimates as to what the deficit will be. And we see it up from all the way from \$40 to \$60 billion, depending on whose estimates you want to take in that regard.

And that is going to make it far more difficult to achieve that kind of tax cut. I think that is one of the options that is still being weighed.

There is no question that this President-elect has a strong commitment to cut that deficit and do it in a major way. So the options are going to be tougher than they were before we received those new numbers.

And that is one of the things that is being weighed in the balance now in trying to determine it. And that decision has not been made by the President-elect. I think that is one of the options that is still on the table.

Senator PACKWOOD. In 1950, the Federal Government taxed about 14 percent of the gross national product and spent about 16 percent. We had a deficit.

Forty years later, we are taxing about 23 percent. We are spending about 25 percent. We still have a deficit, although taxes have gone up.

How do we guarantee if we have a tax increase for the purpose of reducing the deficit that, indeed, is what it goes for? And I do not just mean when we pass it.

It is easy enough the first time you pass it to say it is for the deficit. Then, the budget problems get hard. And you want to spend money the next year. And you change it. We have not succeeded at it in the past 40 years. How can we guarantee that it will go for deficit reduction?

Senator BENTSEN. Senator, that is up to this administration and to you and your colleagues to guarantee that, to put those things in being and keep them in being.

And as you go along, if you see that you are not accomplishing your objective to make the adjustments, then you try to see that that is done because there is no way that we are going to be able to anticipate all of those things that can have an effect on the previous decisions, but the overall objective must remain to get that deficit down.

Now, you get it down two ways. One of them is by growth. That is a part of it. And without that growth, we will not get that deficit down. And the other is by fiscal restraint in balancing those two things off.

But to assure you that you are going to have it to the dollar or even to the billion in 5 years, you cannot do that, but you have to make those adjustments as you see them happen.

It is going to call for some tough votes. And it is going to call for courageous and tough stands by the President. I believe we are going to get those.

Let me say, Senator, I do not know of a time in my adult lifetime when the responsibilities of the Department of the Treasury have been more important to achieving those objectives.

And in all candor, that is one of the reasons I accepted the invitation of the President-elect to be a candidate for that job where I thought that perhaps I could make a difference.

And that is the reason that you folks are up here because you think you can. And this is a difference that has to be achieved. We have not done it, either the administration or the Congress.

Now, the time is running out. You do not have a lot of wiggle room left. These things are going to have to be faced up to.

Senator PACKWOOD. Do you think that we can face up to the deficit seriously because we are not going to raise taxes enough to eliminate or seriously narrow the deficit without facing up to Medicare and Medicaid and Social Security and other retirement programs and some kind of limitation on them?

Senator BENTSEN. Yes. I think you are going to see that. I think you have to address entitlements along with taxes and along with fiscal restraint. It is going to be a tough package.

Senator PACKWOOD. I am delighted with that answer by, yes, we are going to have to. We have no choice.

Thank you, Mr. Chairman.

Senator MOYNIHAN. Being less delighted with that answer, I even so turn with great pleasure to the Republican leader. [Laughter.]

**OPENING STATEMENT OF HON. ROBERT DOLE, A U.S.
SENATOR FROM KANSAS**

Senator DOLE. Thank you, Mr. Chairman.

I want to congratulate Senator Moynihan on assuming the chairmanship. There are four former chairmen in the room now. We know how difficult it is, and we are willing to cooperate.

And if President-elect Clinton is serious about deficit reduction and if he has the support of his Democratic colleagues in the Congress, I can assure you, Mr. Secretary, he will have the support of many, many Republicans.

I am reminded that in 1985 when we put together a very difficult deficit reduction package, which some later thought that it may have cost us some Senate seats in the following election because we did a lot of things, including entitlements that were not very pleasant, but they were necessary then.

I think, as you have indicated, they may be even more necessary now. The decisions have not gotten any easier since 1985.

I have a very good statement about the nominee, which I will send along with every letter that I write to the Treasury Secretary of the future, and want to include in the record at this point. [Laughter.]

But I wanted to note that no one has served as chairman of this committee has done it without an exceptional staff.

And I want to particularly express my thanks to your staff, Sam Sessions and his tax counterparts, to Marina Weiss and Margaret Malone in the domestic spending area, and to so many others who have been on your staff and have been most helpful and most cooperative to all of us on the committee.

And I am certain that knowing Senator Bentsen as I do that that same cooperation is going to prevail when you become the Treasury Secretary. And it is very important.

I know that some of the press may be disappointed that we are not going to hammer you too hard here today because we are supposed to be somewhat of an assassination squad on this side. That has never been our intent.

We will have questions. And I will have a few questions, but our effort is to make a record, particularly in this case. And I hope you are the first one confirmed since you will receive less pay. I mean, you ought to be confirmed first. [Laughter.]

Senator BENTSEN. Well, it will save on my taxes.

Senator DOLE. It will save on your taxes.

But I certainly join many others in congratulating President-elect Clinton for selecting you as the Treasury Secretary. I think it sends exactly the right signal, not just to Wall Street, but across America because people understand that you are serious about it, that you understand the problem.

And I think we would be hard pressed, as Senator Baucus said, to find anybody with more integrity and with more intelligence and more wisdom and more common sense than the nominee who is

here this morning. You will need all of those skills as we get into some of the difficulties that we face.

I listened yesterday to my friend, Mr. Leon Panetta. I think he is also very serious about deficit reduction. He has a very good relationship with Democrats and Republicans.

And again, I think if we are really serious about it, we are going to do what we should have done maybe sometime ago.

So if it is bipartisan cooperation, as you have mentioned, I think in most cases, we will have it. We are going to have differences probably on the tax side.

We have differences in other areas, but it seems to me that trade is very important. It's going to be a big, big problem and a big responsibility, but you have the necessary skills having worked over the years on trade measures.

In fact, I think it was your strong support for fast track negotiating authority that made it possible for the administration to complete the North American Free Trade Agreement.

Also, many of us come from farm States. I look around this committee at our newest members, Senator Conrad and Senator Wallop. We are pleased to know that you understand the importance of rural America and the importance of agriculture and what it means.

In that vein, I think one thing I would indicate that we are not excited about that is lowering the estate tax exemption from \$600,000 to \$200,000.

I know that it was initiated in the House and never considered seriously here, but I would hope that that would not happen because it is going to affect almost every farmer and many, many hundreds of thousands of small business men and women who, in effect, are middle-class taxpayers.

I have included this issue in my written questions which you can submit for the record later. Mr. Chairman, I would just ask that my statement be made a part of the record.

[The prepared statement of Senator Dole appears in the appendix.]

Senator DOLE. And if I might just ask a couple of questions. Again, it may not be fair to any nominee to say, well, how do you feel on A, B, C, or D because I do not know whether President-elect Clinton has decided on A, B, C, or D?

And I would guess that the way it is going to work in this administration is that the President decides. I assume the people who he has nominated will finally agree with him would be my guess, but that has not always been true, but I assume it will be. [Laughter.]

The so-called millionaire's surtax, has that been decided upon yet?

Senator BENTSEN. Senator, I know of no decision on that. That is obviously one of the options. It is certainly on the table.

Senator DOLE. Or a fourth bracket for those who make more than \$200,000?

Senator BENTSEN. That certainly is an option that is still on the table and was spoken to in President-elect Clinton's campaign for the Presidency.

Senator DOLE. And anything on the gasoline tax? I know it has been discussed, but I do not think there has been any agreement on whether it should be 5 cents or 10 cents or maybe zero.

Senator BENTSEN. You are quite right on that.

Senator DOLE. I think there is a concern that a gasoline tax might hit the very people who have been overburdened, the middle class.

Has there been any final decision yet on the middle-class tax cut?

Senator BENTSEN. No. There has not.

Senator DOLE. What about—

Senator BENTSEN. And I wish I could give you definitive answers on those, but those things are still being reviewed, as you look at the size of that deficit, trying to decide which of those to put into the package.

Senator DOLE. The President-elect talked a lot about increasing taxes on foreign corporations on transfer pricing. Have there been any estimates that you are aware of on how much money that might raise?

Senator BENTSEN. There have been, but there is also a very substantial variance in those estimates as to what might be raised there.

Senator DOLE. Again, I will submit most of these questions for the record.

I will just ask one additional question. There has also been some discussion about estate taxes, by imposing a capital gains tax at death. Again, this is a particular concern to family farmers and small business people.

I remember the debate we had on this general idea years ago when Senator Harry Byrd, Jr. from Virginia was a member of this committee. Has anything been resolved in that area?

Senator BENTSEN. I think it has been resolved in that area. I know that the Senator is well aware of what my stand has been as a member of this committee.

Senator DOLE. Right. I took some heart in just knowing that. [Laughter.]

I think I will just ask that I be able to submit some additional questions in writing, if that is satisfactory with you, Senator.

Senator MOYNIHAN. That will be fine.

[The questions of Senator Dole appear in the appendix.]

Senator MOYNIHAN. If the committee will indulge our arrangements, we would like questions to be submitted by 5:00 o'clock this afternoon in order that there will be a record on January 20.

We will proceed now.

Thank you, Senator Dole.

On our matter as established by Senator Bentsen which is by order of seniority for those who are present at the time that the committee's session began and by the order of arrival thereafter, in which we find that our next questioner is Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Secretary, I really have only one major point and that is that as we consider fourth brackets, millionaire taxes, trade legislation, budget deficit reduction, and so forth that we keep our eye on the ball.

And I think frankly that the real issue in America is long-term growth, that is, I firmly believe that the strength of this country in the 1990's and the next century is going to be determined largely by the degree to which the middle-income class in America is back on its feet, is thriving, prospering, has higher incomes, higher living standards. And that will pretty much depend upon long-term growth.

We all understand the conflicts. I mean, it is budget deficit reduction on the one hand. It is infrastructure expenditure and growth, et cetera on the other, but basically all these items that we have been talking about are tools to accomplish the major goal.

And the major goal economically is, I believe, a very strong, vibrant middle-income America. And that is going to depend upon in a large respect the longer term growth in this country.

And I urge all of us, on both ends of Pennsylvania Avenue; the President, and certainly you in the Treasury Department, as well as us in the Finance Committee and the entire Congress to keep our eye on that ball and to work together to make that happen. I would very much support working with you to help accomplish that.

Senator BENTSEN. Thank you, Senator Baucus.

Let me state that what we are looking at now is a situation where approximately 20 months ago we hit the bottom of the recession. We have been gradually coming out of it.

Normally, in the last two recessions, as we came out of it, we came out of it quite a bit faster. And by this period of time, you would have created about 3.6 million jobs.

That is not the case this time. We have done a little over a half a million additional jobs. What we need very much from middle-income America and from all America is the creation of jobs, good paying jobs.

It means that we have to do the training of the working people of America and provide them with additional training and education to be an internationally competitive work force, to see that we have investment incentives out there to encourage the growth of this economy, along with making headway in saving instead of spending the taxpayer's money insofar as public financing and what is happening to the deficit.

And that is not an easy task to bring about, but that is what this President is committed to. And I think that is what this Congress favors.

Senator BAUCUS. Thank you.

Senator MOYNIHAN. Senator Breaux.

**OPENING STATEMENT OF HON. JOHN BREAUX, A U.S.
SENATOR FROM LOUISIANA**

Senator BREAUX. Thank you, Mr. Chairman.

Mr. Secretary designee, welcome. And welcome, B.A. and the family and a terrific staff that has served you so well.

It is a great day, I think, for the new administration to have you as the new Secretary. I think it is a loss for the Congress, but a gain for the country. And I think that is good.

What I wanted to ask you, Mr. Chairman, is just perhaps a more general question because I know the specifics of an economic recov-

ery plan have not been decided upon, but I think that during the campaign, there was a great deal of talk about jump-starting the economy.

And people suggested during the campaign that perhaps a tax credit for firms that hired new employees or investment tax credits for firms that increased the size of plants and bought new equipment ought to be considered because of the condition of the economy at that time.

I am wondering if you see anything that has changed from the campaign period with regard to the economy that would say that it is not now necessary to take actions to jump-start the economy. Or should we still be looking for a program that would in effect jump-start the economy?

Senator BENTSEN. Well, the decision has not been made insofar as the stimulant and to what degree the stimulant should be.

One of the major tools for that purpose that has been discussed by the President-elect, and that is the investment tax credit on a marginal basis to give you the leverage that you can get in that regard and not be rewarding companies that would have made that investment anyway.

That is not an easy one to decide, but it does give you more bang for the buck. And obviously, that is one of the serious options that is being considered, but the overall degree of stimulant or even that there is a stimulant, that has not been decided.

Senator BREAUX. Let me ask, Mr. Chairman, then from just a general, broad-based, philosophical standpoint, where do you think the new administration is going to come from?

Many liberals would argue that deficit spending and lower interest rates are really the keys to an economic recovery while many conservatives would argue that the market place is the best way to spur economic growth and that the government should pretty much stay out of the way and try to bring more capital available for growth.

I guess as just a general philosophical question, where do we see your administration and the administration of Governor Clinton coming forth with programs?

Are there going to be more focuses on deficit reduction, more emphasis on deficit spending? What after that are we looking for?

Senator BENTSEN. Let me say this, there will continue to be a very major emphasis on deficit reduction, without a question. And what you will also see particularly is long-term investment encouraged.

And it will be trying to encourage the private sector to do most of it, but I would also believe that there will be some government spending in the public sector as a part of it and that dedicated much to the infrastructure.

Senator BREAUX. I am glad you mentioned that. One of things I was reading, was that in the 1980's, the United States' net investment in infrastructure constituted three-tenths of 1 percent of our domestic product, as compared to 5.7 percent for the Japanese. And every other industrialized Nation is investing a great deal more in infrastructure than this country.

What is going to be the goal of the Clinton administration, if you can tell us?

Senator BENTSEN. Well, as you arrive at those numbers, you have to look at what the cities have done and what the counties are doing. Be sure you have those numbers in there.

What you are also seeing on the other side of it with Japan is that they are now passing some \$87 billion in stimulant. And what one would anticipate that would do would assist in moving that economy along to the point that there would be more consumption and that that would help us on the trade deficit which has been an almost impractical thing with Japan.

That would encourage more purchases from us. And that is one that we anticipate and hope for and will be pushing for.

Senator BREAUX. I have one final question. I think somebody mentioned that health and retirement programs constitute about 90 percent of all entitlement spending.

Some have suggested that the Congress should accelerate the 24-month increase in the Social Security retirement age that is scheduled to take place between now and the year 2027.

Some have suggested that Congress does not have the courage to make those changes. And perhaps a Presidential commission should be established to look at that and make recommendations, like we have done in the past.

Do you and the new administration have any thoughts on that specific question? And if so, how can we get to that point, if that, in fact, is an achievable, desired goal?

Senator BENTSEN. Well, I think that the commission that made that recommendation took a very courageous stand on that point. And that was Senator Dole. I know that Senator Moynihan played his role in that. That obviously is a viable option that is being considered and will be considered, but once again, not a determination.

I noticed the report last week on the question of coupling Medicare to that. That was put before the Congress once and was voted down at that time, but certainly, that is one of the considerations.

Senator BREAUX. Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, Senator.

Senator Roth.

**OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S.
SENATOR FROM DELAWARE**

Senator ROTH. Thank you, Mr. Chairman.

It is indeed a great pleasure to welcome you here, Lloyd, both as the new Secretary of the Treasury, but in some ways more importantly as the lead man for economic policy. I join my colleagues in saying that I do not think the President-elect could have picked a better person.

I have to say, however, that I do not envy you. I think you are going to have to be somewhat of a juggler to keep all the balls in the air, to cut the deficit in half, to reduce taxes on the middle class, and at the same time, purportedly increase taxes by \$150 billion, which I understand is part of the first program.

One of the questions I would like to ask you, Mr. Secretary, is what your recommendation would be in regard to taxes?

President Bush, I have to say, is giving the new President a pretty good gift in an economy increasing roughly at 3.4 percent. I do not think anyone could say it is as vigorous as we would like.

But do you feel it makes good economic policy at this time to impose a major new tax increase at this time? As I said, I think it is roughly \$150 billion that was initially proposed over the next 4 years.

Senator BENTSEN. I would say, Senator, I do not know of that \$150 billion number. That I have not heard, but let me say that what we are looking at in the growth of the economy, as I saw the President's budget figure, was that it was going to be, as I recall, 2.9 percent, an estimate of the forthcoming year.

As I look at the blue-chip indicator and as I look at the estimates of DRI, they show a variance from 2.6 to 3.2.

If we accept the President's number, what you are going to see there at 2.9 is a very marginal increase in jobs. And that is very important to us.

What we saw in the last two, what turned out to be false starts in the improvement of the economy, in each instance, it slipped back into a recession. I think the odds are that it will not, but no one has any assurance of that.

So I think that you have to try to strive for 3 percent or better, if you can, in the growth of the GDP.

Senator ROTH. The Treasury Department issued a proposal on December 10 to restructure the tax code in a very progressive way. It would include a new business transfer tax, something like the one I proposed in 1985, but it would reduce other taxes very dramatically, removing more than half of all individuals from the income tax. This would result in taxes on consumption and lower taxes on income and investment.

In general, do you think we should start considering the taxation of things we want to discourage, consumption, for example, and reduce taxes on things that we want to encourage, like work and investment?

Do you think we ought to be thinking in that direction?

Senator BENTSEN. Well, I have had people like Dr. Soylo, a Nobel prize winner, coming in and talking about a consumption tax and others. Those are the questions of regression and how that is to be handled. And that adds to the concern.

I am sure that that is a fair and equitable tax system, but I do believe that that is one of those options that has to be considered. And I understand that in trying to encourage investment and to slow down consumption.

I must say that Secretary Brady gave me a presentation, a package to study on what they proposed the last time. I would assume that Assistant Secretary Goldberg was a participant in developing that one.

I have taken that and put it in my things to read when I can find time once I get through this, but I am sure it will be an interesting proposal. And I want to study it.

Senator ROTH. I have long been a supporter of the passage of an incremental investment tax credit with a generous provision for small businesses so that they receive a flat credit.

I think one of our concerns has to be how much we are investing in new equipment facilities if we are going to become competitive in the global economy. I think we are seriously behind both Japan and Germany in that regard.

I did send a copy of my proposal to the President-elect. I wonder what your thinking is on some kind of approach along these lines.

Senator BENTSEN. Well, I would say that is a very seriously considered option. You have heard the President-elect speak to it, at least on two occasions, or at least that, an incremental tax credit.

And my opinion, if you are going to do one, you get a lot more leverage with that than if you go the full credit for all of the purchases.

You are inevitably going to have some who complain and say that it does not do enough for them. And we will surely hear from them.

But it does affect the marginal investment. And that is why you get that kind of return for the investment.

Senator ROTH. Mr. Secretary, our economy is very closely tied to what goes on internationally; Japan and Western Europe, Germany; their economies are down. As a result, our trade balance is in further disarray. It is impossible in my judgment to separate the domestic economy from the international.

Is there anything we can do to try to get the Japanese and others to take steps that will reinvigorate their economies?

Senator BENTSEN. Well, I think in part the Japanese are doing that with their \$87 billion that they passed through the G-7 last year and is now beginning to be implemented, not all of that is for the public sector, not all of that is public spending. Part of that is additional financing for the private sector, but overall, it should be a substantial stimulant.

I think what else you have to do, the G-7 has fallen somewhat into despair. And you have a situation where you have troubled economies in many of the countries in Europe today and Japan itself.

You are looking at Germany which now has its debts at about 5 percent of its GNP. That is a precedent for Germany. And they are deeply concerned about it.

Part of it is the absorption of East Germany, but they now have 1 percentage-wise. It is very comparable to our own. And they are trying to address it as we are.

I think what you have to do is to have more frequent, informal private meetings with the members of the G-7 in trying to put together a growth policy that will expand the economies of all seven of those countries. And it will not be an easy task, assuming our chief disposition.

That is one of the things that I will be working on and trying to assist on. And I do not think that means a public bullying of any of these countries.

I think you will accomplish a great deal more by private negotiation with them in trying to urge these kinds of objectives because obviously, there will be a variance in the objectives amongst the countries.

Senator ROTH. One of the things I have been hearing you emphasize is the word "growth."

Senator BENTSEN. Yes.

Senator ROTH. Because I think that is critically important both abroad and here at home, it is my own view that the best way to address the deficit is to create economic growth because that is the

only real way I see we have a chance of substantially reducing the deficit.

One last question, Mr. Chairman. As you know, the impact of the recent financial accounting standards bordered on retiree health benefit plans has been devastating to some companies.

Under the tax law, pre-funding for these benefits does not allow a corporate deduction generally. Is this something we ought to try to address? Would you urge that being done?

Senator BENTSEN. Senator, I have not given thought to that approach. I would be happy to.

Senator MOYNIHAN. We will appreciate that, Mr. Secretary.

Senator ROTH. Thank you, Mr. Chairman. I wish you well.

Senator BENTSEN. Thank you.

Senator MOYNIHAN. Thank you, Senator Roth.

And Senator Chafee.

**OPENING STATEMENT OF HON. JOHN H. CHAFEE, A U.S.
SENATOR FROM RHODE ISLAND**

Senator CHAFEE. Thank you, Mr. Chairman.

Senator, I join in congratulating President-elect Clinton for his wise selection. I think his choice is a wonderful one for our Nation. And I am delighted that you accepted it because it bodes well for the next several years for our country.

He could not have chosen better. I echo the sentiments that others have expressed in that accord for you, Mr. Chairman.

Senator BENTSEN. Thank you.

Senator CHAFEE. Second, while you were chairman of this committee, you were very supportive of the repeal of the luxury tax as it applied to boats. [Laughter.]

And just to get a little parochialism in here, I hope that your elevation to this new—I do not consider it an elevation, but rather, a lateral move to this new position. [Laughter.]

And I hope you have not lost any of your enthusiasm both for the repeal of the luxury tax as it applies to boats, and also the retroactive date of January 1, 1992.

Now, I know these hearings generally are philosophical. It is hard to get people pinned down. Nominees must take into consideration the fact that the President-elect has certain views, nonetheless you have expressed yourself in what I thought was a splendid manner on this subject before.

Can I assume that nothing has occurred to cause you to change that wise decision you arrived at? [Laughter.]

Senator BENTSEN. Senator, you made your point. And I will be mindful of it.

Senator CHAFEE. Well, I guess that is about as much as we are going to get today. [Laughter.]

For little things, I will be grateful.

I personally feel, Mr. Chairman, that the greatest single problem facing this Nation economically are the deficits. And I believe that if we can get the deficits down that many other things will fall into place.

As such, people have discussed a great deal the entitlements. And that is a wonderful word that nobody knows quite what it means usually. And nobody goes to the extent of explaining it be-

cause if you explain it, then you get into painful things, like Social Security, Medicare, and so forth.

However, it does strike me that there is something very, very wrong with our Medicare Part B program, where the Federal Government pays 75 percent of doctors' bills and the individual pays 25 percent through monthly premium.

It seems to me that fairness should require that those who are wealthy should pay more than the 25 percent of their doctors bills.

I cannot quite understand why some individual laboring hard in a factory, a jewelry worker perhaps in Providence, RI, should be paying 75 percent of some wealthy retired persons doctors' bills.

Do you have any thoughts on that subject?

Senator BENTSEN. Well, I certainly think that is one of the options that is on the table that has to be considered.

Now, let me further state that what you have in Medicare and Medicaid, you have to address the underlying increasing cost of health care. It is not enough to say that you are going to make some limitations on entitlements.

You have to go beyond that because what we have seen today, the CBO studies, as I recall, show that on Medicare, we are paying the providers approximately 91 percent of their cost. And if you get to Medicaid, it is even less than that.

And you are seeing those costs shifted to the private sector. You are seeing them run over 120 percent that they are taking from that to balance off their losses on Medicare and Medicaid.

And unless we can limit these underlying costs, slow them down, you are going to find people turned away. You are going to find providers that will not take them.

So I think it emphasizes once again that we are not going to accomplish our objectives unless we get a major reform in the health care system with a substantial reduction in the escalation of costs that we are undergoing. That has to be a part of the deal.

Senator CHAFEE. Let me say this, minority leader and former Chairman Senator Dole made a point that I would like to emphasize to you, and that is, he indicated that if the administration with some Democrats came forward with some major steps to reduce the deficit, that the Republicans would be there to support that.

And I very strongly concur with that. I think you will find that the Republicans are eager on this deficit reduction. And, indeed, we have taken, as you know, some very, very difficult votes in the past in connection with deficit reduction.

Senator BENTSEN. Senator, I have shared a number of those with you.

Senator CHAFEE. I know you have.

And I believe very strongly that we have a situation here where the administration would find a lot of receptivity on this side of the aisle for deficit reduction.

Let me ask you one final question. Could you explain to me why it is said that big steps to reduce the deficit might hinder a recovery?

I have difficulty understanding that. Now, obviously, we are not going to solve the deficit problem in 1 year with the deficit currently running—as my statistics show that the estimate for 1993 is a \$327 billion deficit. And last year, it was \$290 billion.

So I do not expect we are going to solve that in 1 year. But, I have difficulty understanding the argument that a substantial deficit reduction effort would hinder the country's recovery. Could you explain that to me?

Senator BENTSEN. Well, I would say, Senator, you can overdo it. It is a question of what you are calling a large one. And if it is overdone, you have put a drag on the economy.

You have increased unemployment in the country. And you have lessened revenue coming in from tax collections from people who are unemployed. You will have an increase in interest rates. And you can put this country back into a serious recession. I believe that.

So it is trying to achieve that balance. That is what you are seeking in that regard. And that is what the vast majority of the economists tell me.

Someone asked me the other day, "Do I still read a lot of books about the economy?" "No. But I sure talked to a lot of the authors." And that is the general consensus that I get from them.

Senator CHAFEE. Well, my time is up.

Let me just say that I respect your views. And obviously, the question is, how much the deficit should be reduced.

I do have trouble understanding why it would force interest rates upward. I would think the opposite would be true, given the tremendous drag on the economy that the Federal deficit has become. I would think reducing the deficit would reduce interest rates.

Senator BENTSEN. Well, one of the problems you could run into if you do it to excess and you have this substantial loss in income coming in, I do not know if you would finally end up reducing the deficit that much.

And you can get a run on the dollar. And then you just try to protect it with higher interest rates here. Those are the kinds of things that can result from it.

Senator CHAFEE. Thank you, Mr. Chairman.

Senator BENTSEN. Thank you.

Senator MOYNIHAN. Senator Grassley.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Rather than complimenting you on being Secretary of the Treasury, I think I would compliment you on public service.

And I think you made a statement several years ago that all of us in public service would like to be associated with. And I would like to remind you of the statement you made because I think it serves us all well to consider it.

In the 1970's you said, quote, Some people can write great books. Some contribute great art. Public service is my bag. I would like to be remembered more for what I have done for people than for how much money I have in the bank. End of quote.

And I think you have lived up to that statement. And I am sure that you are going to live up to it over the rest of your life, for public service.

And so congratulations. And I look forward to working with you.

For my first question, I suppose it might be a little bit dangerous to ask a question based on something that was on 60 Minutes recently. And it was very recently, just last Sunday, but I would like to because it dealt with the issue of sexual and racial harassment in the Bureau of Tobacco, Alcohol and Firearms. And that is in the Treasury Department. And you are going to inherit anything associated with that problem.

And apparently, people have been demoted or jeopardized their jobs for coming forward over the last 10 years. It was reported the director who has been at that job for quite sometime did not seem to have much of a handle on the situation.

I do not know whether you have been advised of it. And if you have not been advised of it, you probably cannot comment, but assuming you have and whether or not they are being handled properly, your judgment or if you do not have a judgment, you might want to tell us how you would proceed on that if the allegations are true.

Senator BENTSEN. I think that is a valid point, if the allegations are true.

Senator GRASSLEY. Yes.

Senator BENTSEN. I watched that show. And if the allegations are true, it is an absolute outrage.

Senator GRASSLEY. Yes.

Senator BENTSEN. And one of the things that I want and feel very strongly about is in the enforcement position, to get someone in there who is experienced, who is tough, who will follow through on that type of thing, to see that the proper action is taken. And that I will do, to try to find out what happened in those deals and the validity of the charges there.

Senator GRASSLEY. On another point, sir, near the end of 1991 when Congress was passing the Foreign Relations Authorization Act for the 1992-1993 year, I got an amendment adopted that mandated a Treasury report of assets held by known terrorists in this country.

And one of the reasons for getting that information quite frankly was in relationship to the ability that the courts have now given people harmed by terrorists to sue for those assets in the courts, but we kind of need to know what is available.

The first report was due last March. And that is almost a year ago. Unfortunately, Treasury has disregarded the law. And it has never issued a report nor has it been very forthright in whether it would release it.

I hope that you as the new Secretary would commit to following a Congressional mandate that you supported and try to get that information out because, I think, it is very important.

Senator BENTSEN. Senator, let me check into that and find out what happened there. I would be happy to check into that.

Senator GRASSLEY. I still have a minute or two left?

Senator MOYNIHAN. Please, Senator Grassley.

Senator GRASSLEY. We have 5 minutes. Is that right?

Senator MOYNIHAN. Yes.

Senator GRASSLEY. Thank you. I would like for you to advise me when the time is up.

I would like to ask about the Arab boycott of Israel, as well as companies doing business in Israel. And since we are active with the G-7 counterparts on a lot of issues, we obviously need a multi-lateral effort to end the boycott.

Is this something that you would pursue with your G-7 counterparts to bring an end to a harmful and wrong practice?

Senator BENTSEN. Senator, I think that boycott is an anarchical policy. I do not think it achieves its objectives for the Arab Nations that are practicing it. And, in turn, I think it costs them. I think it is a serious mistake.

We are the only ones of the G-7 that I know of who have aggressively tried to deter that kind of a policy. And I certainly will pursue that with my colleagues in G-7, to try to see if we can bring that boycott to an end.

Senator GRASSLEY. Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, Senator Grassley.

Senator Boren.

**OPENING STATEMENT OF HON. DAVID L. BOREN, A U.S.
SENATOR FROM OKLAHOMA**

Senator BOREN. Thank you very much, Mr. Chairman.

I was reflecting last night about this nominee and thinking about the people that I have had the privilege of serving with in public life. Since the time I have been in the Senate there have been almost 200 members of the Senate, those in the executive branch, and many in the State government with whom I served before I came here.

I was thinking through in my own mind an assessment of those with whom I have served. I would say, Mr. Chairman, and I say it not lightly that if I were to try to determine the five or six people for whom I have the greatest respect in terms of public service, in terms of intellectual ability, judgment, and knowledge, and personal integrity, the name of Lloyd Bentsen certainly is on that list.

I say that not to compliment the nominee publicly, but because I mean it and also because I agree with what he said a moment ago. He said that he took this job because he believes it to be a critical period of time, particularly for the functions that are performed at the Treasury. And that in his own public life, this is a most critical period of time in terms of the impact that decisions made at the Treasury will have on the future course of this country. I believe that is true.

I believe strongly that the economic strength of this country is slowly eroding—though perhaps not too slowly.

If that erosion is allowed to continue for another decade, as it has now continued for almost two decades, this country will simply not be able to play its role in the world.

It will simply not be able to make the internal social decisions that are necessary to preserve the fabric of our society. As a result, within two or three decades, we will no longer find ourselves counted among the great leaders of the world.

As I was telling Senator Bentsen recently that I had just been to China. There I saw with my own eyes what 30 percent real economic growth looks like in a certain region of that country, and what 15 percent real growth looks like in the rest of the country.

I saw a society in which I did not observe a single neglected child in a school room. I saw a society that in many ways is united and optimistic about its future.

Unless they stumble politically, I have no doubt that they are going to be one of the leading nations in the world. We will say the same about others in a very short period of time.

The question is, will we still be one of those leading nations?

The decisions of economic policy which must be made in the next few weeks, the next few months in the course of this administration will have a lot to say about whether or not we are going to hand that kind of heritage over to our children. I really believe that.

We are really good at dealing with crises in this country. We have dealt with the Depression. We have dealt with military attacks. We are not as good at dealing with day by day erosions of our strength.

It takes even more determination, even more wisdom, even more political courage to deal with erosions because you have to explain to the people just how serious they are in terms that they will understand. Then you have to have the confidence to call upon them to make the sacrifices that are necessary.

So I am glad that Lloyd Bentsen is going to be Secretary of the Treasury during this critical period of time.

I want to say that many of the questions that I was going to ask have already been asked. I am glad to hear you say that fundamental reasons for increasing health costs are on the table, that entitlements are on the table.

Looking back over a study published in the Atlantic Monthly a few months ago it is apparent that if you throw in tax expenditures, entitlements, as well as direct payments, families earning less than \$10,000 a year are getting \$5,600 in benefits, whilst families earning over \$100,000 are getting \$9,200 in benefits each year.

There is something wrong. We have all been kidding ourselves when we say we want to do something about the deficit, but that the fundamental costs of health care are off the table and entitlements are off the table, and for goodness sake, the income of the country is off the table.

There is no way anybody, including the government, can begin to deal with the deficit if we allow ourselves to have those kinds of sacred cows that are not under consideration.

You said very clearly that health costs are going to be on the table. They are going to be options. Entitlements are going to be on the table. They are going to be options.

You said retirement age, for example, was something that was going to be looked at. I was glad to hear that answer.

Of course, we cannot expect you to commit yourself or the new President to the details of health cost reductions yet. But at least, as it has often been in the past, it is not ruled out as a matter of consideration.

I think that we also have to look at the kind of tax system we have. I was very glad to hear your comments on that.

Also, Senator Danforth, Senator Domenici, Senator Nunn, myself and others have been looking at how we can better make substitutes or changes, or partial substitutions, in the way we collect

taxes, in case it turns out that we have to have more revenue as well.

So we have looked at consumption taxes and ways to make them less regressive. That is very important if we turn in that direction because, as Senator Baucus has said, we have to be very mindful of what we do to middle and lower income earners. I am glad to hear that that is on the table.

So really my questions have been asked. I would like to make one point and then ask for your thought about it.

Very often as we have sat around this table and worked on tax bills, the thing that I think has concerned me the most is that we have not spent very much time talking about the relationship changes we made in the tax code had to the tax systems in other Nations.

When I was a Governor, I would not have considered changing the sales tax, the gasoline tax, the corporate income tax without thinking about the tax code in Texas, Kansas, Missouri, Arkansas, and so on, because I knew that we were part of an economic unit. We could not make those decisions unilaterally.

There have been various studies made. I am sure some of them were controversial. I saw one study that indicated that a vast number of companies in this country have now fallen in the AMT.

For example, the average company would get back 34 percent of its investment in the first 5 years after making it under our tax code. This contrasts with 87 percent in Germany, 64 percent in Japan, and 95 percent in Korea. This indicates to me that we do not begin to think about how our tax code affects, in particular, the cost of capital investment. This, after all, creates the new jobs you have talked about.

We do not begin to think in terms of our competitive situation and how the way in which you collect taxes affects the competitive situation. We are not going to remain in many of these businesses one of these days. There is no way we can compete.

So I would like to ask you, do you think it is a valid consideration that as we make decisions about tax policy, we also look at how it shifts the relative burden, particularly on savings and investment in ways that impact upon our competitiveness in the world market place, how our tax law interrelates with the tax laws of other countries, and how it impacts upon areas like the cost of labor and capital?

Is that something that you think we should do? Would you, as Secretary of the Treasury, strive to make sure that when we consider options, we also consider what they do to our competitiveness in relation to the tax structure of other countries in the world?

Senator BENTSEN. Oh, do I believe that. I have pushed for that ever since I have been in the Congress. And I feel it very strongly.

Now, when you talked about how it affects other countries and how we interrelate, let me give you an example. And I do not have the exact numbers, but I was talking to the Canadian ambassador to the United States about what they had done on some of their tax systems, the tax they had put on cigarettes, for example.

I think he told me the number was that it would cost about \$6 a pack for cigarettes in Canada as compared to whatever it is here.

I do not smoke. So I do not know the number, but far, far below that.

And then, he was talking about what the tax was on gasoline, substantially above ours. Then, he was talking about what they did in just driving across the border. And I guess maybe 90 percent of the population of Canada is within 100 miles of our border. So they drive across.

And sales are way down in all of those areas of Canada, but sales are up on our side. So you have to see how they relate.

I have been looking at the tax systems of Japan and of Germany, some of our principal competitors in trade, to see how they relate to our own and how it would address the competitiveness of our country if we made any changes.

I certainly agree with that. And that has to be a major consideration as you look at the tax system.

Senator BOREN. I appreciate your answer very much.

I hope as the new administration makes proposals that are included in the presentation notes, a part of the presentation will be an analysis of how any suggestion might impact upon our competitive position internationally.

Just one last quick word. I believe fundamentally that the success of this next administration will be determined by how bold it is prepared to be.

We have talked about a lot of things, and we are good at making speeches in this committee and on the floor. I hope we will have the tenacity to vote on the retirement age adjustment, for example.

I hope it will be remembered that I said that when my vote is cast. Let us see if I measure up. I hope we will have a chance to vote on whether or not people drawing Social Security who make over \$1 million a year, should have half of it exempt from taxation.

I hope we will have a chance to vote on a lot of other proposals like that that will require us to make some very difficult decisions. I believe that if we do not, and that if this administration is not bold enough to ask us to face those kinds of issues, it will fail.

I think our next President will have a second term if he shows courage when making proposals to us.

I hope that will be the hallmark of the administration. I know from knowing you that your voice will be one that will not shrink from making bold proposals.

So I am glad that you are going to be where you will be for the next 4 years.

Senator BENTSEN. Thank you, Senator. I believe this President will make the bold choices and will show that political courage. And I intend to help him in that regard.

Senator BOREN. Thank you.

Senator MOYNIHAN. Thank you, Senator Boren.

If there is no objection, there being no objection, I would like to invite Senator Conrad to ask questions. He will, of course, be voting on this nomination as a member of the committee when it comes to the floor.

Senator Conrad.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you very much, Mr. Chairman.

Senator MOYNIHAN. I remarked earlier, sir, that you assumed a Danish seat. So it is particularly appropriate that you should have a chance to speak.

Senator CONRAD. I thank the chairman and the members of the committee for their courtesy. As all of you know, I will not formally become a member of the committee until Senator Bentsen is confirmed.

I do assume the Danish seat. I was especially pleased that the President-elect called for diversity in the Cabinet. For those of us with Danish ancestry, it was especially important that a Dane was selected.

Thank you.

Senator BENTSEN. I will tell you, Senator, I found that in 1988 that the caucus had plenty of Greeks. I just did not have enough Danes. [Laughter.]

Senator CONRAD. There are not enough of us to make a big difference politically, but I think you will make a big difference to the future of our country as Secretary of the Treasury.

I just want to add my voice to the others. I could not have been more pleased when I learned that you were being chosen by the new President to be Secretary of the Treasury.

I thought that among our colleagues, you are really the one who is most worthy to be President of the United States yourself. And I think that as Secretary of the Treasury, you will be able to help the new President shoulder this responsibility at what is really a critical time.

I have just a couple of questions that I would like to ask. The first is, everybody seems to agree that we need to increase investment both in the public and private sectors if we are going to grow for the future. And everyone also agrees that we have to get about the urgent task of reducing the deficit.

I was wondering if, just in general terms, you could share with us how we should take on those two apparently conflicting goals? What is the strategy that you could share with the American people and this committee on how we do both of those things?

Senator BENTSEN. Well, I would say, Senator, if the President-elect decides to do a stimulant, it will be short term I am sure, other than the long-term things in the way of tax encouragement of investment.

But coupled with that, I am convinced if that is what he does, there will have to be put in place those things that show that we are committed. The laws will be changed to address that for major, major cuts in this deficit.

That remains a priority with this President-elect and a priority with me because what we are doing now is we are robbing the savings of the country.

And if we can cut back on that deficit, that is resulting in savings. And we have to do that both for the public, for the government, and for the private sector.

We look at savings in the country today, private savings, and they are running about a half of that of the West Germans and

about a third of that of the Japanese. That has to be turned around.

Senator CONRAD. Well, thank you for that answer. I think you are exactly right. The challenge that we face is to collect the resources of the country and redirect the resources of the Federal Government so that we invest more and consume less. That presents us with some difficult political choices.

Again, I can think of no one who is better positioned to win the respect of the members here and help persuade us to do what needs to be done than you are.

One other point that I would make and to which I hope that you will pay special attention is what I call the tax gap, the difference between what is owed and what is being paid. The Internal Revenue Service informs me that it is now running about \$100 billion a year.

A study that was done by the California Institute of Technology indicated that if we had had the same level of audits in 1985 that we had in 1978, that for that year alone, we would have collected \$47 billion more in revenue with no tax increase.

Senator BENTSEN. The same level of what did you say, compliance?

Senator CONRAD. The same level of audits.

Senator BENTSEN. Audit.

Senator CONRAD. We have let the audit reviews drop very dramatically in this country.

Senator BENTSEN. I must say, Senator, I think that is a mistake. You are just going to have more compliance if they know that there is a reasonable possibility that they are subject to an audit.

Senator CONRAD. When I was the Tax Commissioner of the State of North Dakota, I implemented what I called a fair share program to go after this. We collected \$14 for every dollar we put into the program.

It appears that at the Federal level, the return could be as high as \$18 for every dollar invested. In addition, I think we should take a special look at what we are losing on the foreign tax front, where we have foreign subsidiaries operating in this country, paying levels of taxation that are lower than what we extract from our American companies, putting our companies at a disadvantage, reducing the revenue that is available to meet the common needs of the country.

I would suggest that we take a look at formula apportionment so that we are not stuck in this unbelievable situation of trying to recreate arms-length transactions between foreign subsidiaries operating in this country and their foreign parents.

Again, Mr. Chairman, thank you for the courtesy and special thanks to the Secretary designate who I think will do us all proud.

Senator BENTSEN. Thank you, sir.

Senator MOYNIHAN. Thank you, Senator.

And I am sure I speak for the whole committee to say that it is very important that we have a former tax commissioner on this committee. And we look forward to learning from you in that regard.

Senator Bradley.

**OPENING STATEMENT OF HON. BILL BRADLEY, A U.S.
SENATOR FROM NEW JERSEY**

Senator BRADLEY. Thank you very much, Mr. Chairman.

I would like to associate myself with all of the adjectives that Senator Boren used in terms of wisdom and intelligence and fairness and compassion.

I believe, as Senator Boren does, that you are an extraordinary public servant. And the country is lucky to have you.

Senator BENTSEN. Thank you very much.

Senator BRADLEY. And in this case, I think you are the right person in the right position at the right time. I look forward to working with you.

In terms of what I believe to be the most important issue confronting the country that we can do something about, I think it has been echoed throughout these hearings today. It is the deficit.

We are not going to be decisive on the issue of education in the country at the Federal level. It is going to take efforts by local school boards and local schools and families. And there are a lot of other players.

But where we can be decisive is on the Federal deficit. Any way you cut it, the issue has been developing a sense of urgency in terms of net private savings.

Nineteen percent of net private savings were used to finance the deficit in the 1970's. It is now 58 percent. And you can give statistic after statistic after statistic to illustrate where we are and why we are in this problem.

The recent GAO report on the budget also is rather sobering because it lays out what we have not calculated in the deficit, such as the \$17 billion that we are going to have to pay for the Pension Benefit Guaranty Corporation, such as the \$30 billion to clean up nuclear waste on military bases and elsewhere, such as the roughly \$60 billion to improve the audit capacity of the Internal Revenue Service and modernize the computer systems of the Social Security System, the IRS, and the Weather Service.

The deficit is the major issue that I believe we are going to confront. We visited about this. I know where you are on the issue.

I would simply urge that we not fool around with a tax cut, that we not fool around with changing the whole tax system from one form of taxation to another form of taxation without doing anything on the deficit.

I would urge that we keep the focus on the deficit. That means focusing on entitlements, including the sacred cows.

When you consider that \$74 billion is spent every year through Social Security and Medicare to senior citizens that make more than \$50,000 a year, it is a fact that we have to face up to.

I hope that we are going to do something on taxes. And I hope that on taxes that we will do something on a consumption tax, whether it is a gasoline tax or an energy tax or a value-added tax or whatever you propose.

I would urge you to be bold in dealing with the Federal deficit and to be bold in the clearest sort of way so that everybody in the country understands what is at stake when you and President-elect Clinton put on each of our desks what I would like to see considered as the vote of our lifetimes.

If that is wisdom, I doubt it. You have heard it before. You have spoken it often.

But I would urge you to be the voice for decisive action on the budget deficit, setting aside what might be viewed as normal politics in dealing with what is clearly the issue we can make the biggest impact on.

If I may shift, as the Treasury Secretary, you are also our international spokesman on the economy. I would like to compliment you on the people that you are selecting for your deputy and for your Under-Secretary for International Affairs.

I think you are assembling a first-rate staff, just as you had a first-rate staff when you were the Chairman of the Finance Committee.

I know you appreciate the extent to which coordination of economic policy in countries around the world is essential to the success of our own economic policy.

The only question that I would ask you is, what are your thoughts about how we could improve coordination of economic policy among our allies in the world?

We are doing one thing. They are doing another. And we tend to work at cross-purposes. You will be in meeting after meeting.

Have you thought about how we could better coordinate our economic policies?

Senator BENTSEN. Yes, I have. And our first meeting in G-7 will be in July in Japan. I hope certainly before that time that I will be contacting the finance ministers of each of these countries and conversing with them, discussing some of these approaches.

What you have is a variance in the problems of each country, but a number of these partners have serious political problems right now, making it difficult to make the tough choices.

I think much of that has to be done in private consultation and not a public posturing of bullying of the countries. I think that is counterproductive because they have their sensitivities, too, and their political problems.

I would like to see the G-7 meetings get back to the original purpose, economic meetings, and not so much of the public relations effort, if we can.

I want to see the United States reassert a leading role in that. And I will be doing my utmost to try to see that that happens.

I thank you very much for your comments about the types of people that we are assembling for this purpose. I think they are excellent.

I must tell you, Senator, that the people I have chosen on the staff, I think, are exemplified by the members of the Finance Committee staff. I have never chosen a person for a political reason.

I think the best politics of all is to get the most highly qualified, competent people you can get. And there you have less mistakes, less embarrassing problems.

I do not try to get anyone in those positions unless I think they know more about that area than I know, where I can learn from them. So that is what I am dedicated to doing.

As I look at our trade imbalances and what we are trying to do there, I guess some people say, "Well, maybe we ought to devalue the dollar."

The dollar should be based on the market forces, on the productivity of the country, on its fiscal responsibility, on its interest rates. And that is one of the reasons that I will be counseling with Alan Greenspan, who is an old friend of mine, and frequently conferring with him.

He will be with me to try to work out policies that are going to have the administration and the Federal Reserve working together for growth and in getting this deficit down. I have already met with him a couple of times. And I am looking forward to his continuance.

But again, insofar as what we do and the correlation with G-7 with Germany and England, we saw what happened to England in the pounding of the pound and the hit they took, but I feel firmly in each instance the market forces reflect the soundness of the country itself.

And that is the way to do it, to get our people better educated, better trained, even higher in their productivity, and responsible fiscal policies to get that deficit down—not an easy task.

Senator BRADLEY. I thank you very much.

It will not be an easy task. And you and I have shared enough platforms in international settings to know that for the last 8 years certainly, maybe the last 10 years, that in every forum when representatives of other Nations commented, the first thing they always said was, "But look at the United States budget deficit."

Senator BENTSEN. That is right.

Senator BRADLEY. So I would share with you and I know it is like preaching to the choir here—you are the conductor and I am in the choir—that the message of significant deficit reduction will do the most to enhance our credibility and maintain the strength of the dollar of any action that we could possibly take.

And the corollary footnote is failure to take action could well be the problem that precipitates a further loss of confidence and a greater difficulty on the part of the United States in working with these other countries and coordinating economic policy.

Senator BENTSEN. I share that. I think the problem of not facing up to this has narrowed our flexibility, has narrowed our options. You let this continue for another 4 years and it will be far more difficult to do those things that have to be done.

Senator BRADLEY. Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, Senator Bradley.

And Senator Rockefeller.

OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. Thank you, Mr. Chairman.

And I certainly want to express my own personal pleasure in seeing you in your post as the new chairman of the committee.

Senator MOYNIHAN. Thank you.

Senator ROCKEFELLER. It is ironic to have one chairman facing another chairman. And I have just been listening here, Senator Bentsen, as everybody has been talking with you and philosophizing with you how comfortable you appear to be and, indeed, almost as though you are Secretary and the ease with which you handle all these matters that come at you.

I think you enjoyed the Finance Committee chairmanship very much. You exercised it very strongly, very well.

I personally am grateful to you for a whole variety of things that helped me in my relatively short career here. And I am mindful of that, but I also, along with the statement which I wish to be included in the record, think that President-elect Clinton chose very, very wisely in you.

Senator MOYNIHAN. Without objection, it will be included.

[The prepared statement of Senator Rockefeller appears in the appendix.]

Senator ROCKEFELLER. I think that he will listen to you a lot. I am not sure that you are as close a friend to him as Nick Brady is to President Bush, but I think your influence over and with President-elect Clinton will be much stronger because, I think, he will recognize the strength that you have, the business background that you have, and the world-wide experience that you have, and the Congressional experience that you have. So I think it is a good pick.

Virtually, on this day a year ago, I was in Prime Minister Miyazawa's office in Japan. My family and I have known him for, I guess, over 30 years.

And there were two things that I said to him. One was that I felt that the liberal Democratic Party of Japan was making a very serious error in so openly and, I felt, blatantly supporting President Bush in his campaign for reelection and that the Democrats were taking note of that.

I told him that I felt that there was a certain young man running for the office from Arkansas who was going to win and that the Japanese were making some mistakes in that regard. I had been saying that. And needless to say, around August or September, they began to listen a little bit more.

The other matter I brought up with him was the matter of what now is Ambassador Endo and Miti Vice-Minister for International Affairs, Hatakeyama, were doing in terms of undermining in Geneva at the GATT rounds dumping subsidy, the rest of it. They are very firm in that they do not want any of these matters reopened.

And I said that a year ago to the Prime Minister. I have said that to every single Japanese public or private person that has come through my office. And it has made absolutely no difference on the subject. They have changed not at all.

The question may have been asked before. If so, I do not apologize. The Bush administration appears to be making a strong attempt to wrap it up. I do not think they will.

I hope very much that and I believe very strongly that you will make sure as these are continued, that there will not be any effort allowed that will undermine U.S. trade laws.

Senator BENTSEN. Let me state first that I would be pleased if they were able to wrap it up. I would like to see it progress, but all of that is conditioned on having a good agreement and one that does not lessen our position, one that sees that these markets are opened up.

That is particularly the case that I have not seen, what we should see insofar as services that we have to do more there, but

also in opening up their markets to our manufactured products and our farm products.

I believe that that extending fast track will be a tough job, if we have to do it. And I do think that you need a deadline to get negotiators to move.

I surely do not want to see just for the purpose of wrapping it up that we make concessions we should not make. And that is true whether we are talking about anti-dumping or other parts of the agreement that have not been resolved.

What President Dunkel had proposed is a step in the right direction, but not far enough.

Senator ROCKEFELLER. Continuing on the Japanese, it amazes me how our two countries, which are so bound in history in good times and bad and certainly very much so now are able to talk past each other and to misinterpret each other into not being in harmony, I think, in the way that we could be.

Interestingly, they are now going through precisely the same kind of difficulties, economic. They are not exactly the same, the same dimension, but their population is aging twice as fast as ours is.

They have a lot of problems coming up in their future that are going to be very difficult for them. And, of course, we have been going through this bottoming out and trying to come out for some time.

It also struck me as interesting that in the structural impediment talks which have been going on for a number of years, that basically both they have been telling the truth about us and that we have been telling the truth about them and neither of us have been hearing each other.

And one of the points that I made to many Japanese about candidate Clinton and now President-elect Clinton is that virtually everything that the Japanese were saying in the SII talks that they felt that we should be doing are, in fact, part of the President-elect's campaign. And that includes deficit reduction. And it includes human resource development, research and development, and all the rest of it.

I remain troubled that they do not see that. And I remain troubled that we do not really have after all these years a particularly good understanding of what the Japanese are going through themselves.

I wrote sometime ago to the President-elect and also to Secretary Christopher about the idea of putting together a working group, not on Brazil, not on Germany, but exclusively on Japan to try to say to us and to them that in this extremely important relationship, in this extremely important bilateral relationship that we are at a new era now, that we have new leadership.

The torch has been passed, as it is said, to a new generation. It is a very serious generation. It is a post-Second World War generation.

In Japan, young leadership is coming up. The LDP is now splitting. And their kind of younger membership is beginning to go off in a different direction. We ought to sort of get into a new beginning and a new understanding with each other.

It is an awkward question to ask because I am really not sure how you would answer, but I believe in the idea of a working group.

I believe in the idea of serious people from the U.S. public and the private sectors sitting down with each other and trying to take on some of these questions, not in an informal manner that take place in many ways during the course of a year, but specifically sponsored by the government, but with private people also, a working of that nature. If you could comment, sir?

Senator BENTSEN. Yes. What has been the most intractable of our trade problems, it seems to me, 1991, I guess it was about a \$41 or \$43 billion deficit.

There will be some increase in that deficit with them. This last year added an increasing trade imbalance with the rest of the world.

I am concerned that once we accomplish that cut in the budget deficit, that it will not be acknowledged by the Japanese. It will be something else then.

We look at the semiconductor agreement and the 20 percent of the market. And it did not approach that. And I do not see any serious attempt to correct it.

I look at the various rounds that we have had, the Tokyo Round and the rest of them. And the problem still persists.

That is an interesting approach to have that kind of a public and private group, I guess, put together. You are talking about public and private addressing it. I have not studied that alternative.

Let me work with you and see what we can do to accomplish that and see if we can get some results out of it because it is a different situation that we have than much of the rest of the world.

Senator ROCKEFELLER. I think, Mr. Chairman, I will ask just one more question. I recognize that I am the last one here.

I think the word "resolve" is the key one there. And that is one of the things that gives me great satisfaction in you, Senator Bentsen.

The word I always use, do use and did use with the Japanese about President-elect Clinton is that he is not a protectionist. The Japanese assume that anybody that is a Democrat has to be a protectionist by definition. He will not be a protectionist.

He believes in free trade, but he will be results oriented, he is now. Not in 1986, but 1994, whatever it is, he will do some other semiconductor or other type of agreement with the Japanese.

He will know at the end of every third month exactly how it is going. And he will know because you will be telling him, along with the U.S. trade representative. You will be results oriented also.

My final question, sir, is on health care. You indicated that the talk here has been entirely of deficit reduction. And I am, like I think most other Democrats, prepared to face the so-called vote of a lifetime that is probably needed and probably needs to be put forward by President-elect Clinton and his Cabinet to in a sense get this country back on its course.

Reducing the deficit is an overwhelming part of that, not only as a lesson to the Nation, but as a statement to the rest of the world and as a confidence builder in ourselves and others' views towards us.

The President-elect did talk a great deal during his campaign also about human resource development, research and development, critical technologies, all kinds of other things. And, of course, he talked non-stop about health care.

The interesting dilemma, I think, is that what he said was that he was going to move away from the idea of play or pay in the payroll tax. And I think that was wise because I think that probably could not get through Congress, the concept of a payroll tax.

And he said that he was going to pay for coverage of those in health care who do not now have coverage whether they are working or not working, only as cost are contained out there in the health care system.

You and I both know that if you decide not to—you go to the doctor and you decide not to have the doctor do something or he decides not to do something. And therefore, you do not have to pay \$150. The \$150 that you do not have to pay him does not go to the U.S. Treasury.

It stays in your pocket and somebody else's pocket. Therefore, it is not money saved and available for covering people who are not insured.

If we are going to reduce our deficit in this country, we also have to stop cost shifting in health care. And that means coverage of people.

So what I fear greatly and have expressed is that if we wait only to use cost containment as a mechanism for covering the uninsured, it will be sometime in 1997 or 1998 before we start getting any part of it done. And we will not get into Medicaid until after the beginning of the next century.

And I think that the President-elect and you with all of your knowledge about health care have a great deal riding, not just politically but substantively, on delivering, so to speak, in this health care system.

Having made that statement, I guess what worries me most specifically is talk that I hear from time to time that the only savings in health care which can, in fact, be scored, as we say in Congress, are the savings that come from Medicare and Medicaid.

There has been some talk that those, indeed, savings could be used for deficit reduction. And if that were to be the case, it would probably be necessary for me to register a very strong protest because that really is the only way presently available, unless the President-elect decides not to go by the payroll tax, but to do some other kind of Federal revenue taxation to allow coverage to take place, cost shifting to stop.

I would just appreciate any words that you would have about the concept of using Medicare and Medicaid savings in this reform effort for deficit reduction as opposed to coverage of the uninsured.

Senator BENTSEN. Well, that is a valid question. In looking at those options and trying to find other means of paying for the expansion and universal coverage, one tends to look at savings in Medicare and Medicaid to help for that purpose, but what you are trying to do is first impress the world that you are getting that deficit down.

What you are trying to do is to see that the bond market understands that, too, that you are seriously committed to that. What

you are trying to do is to get those long-term interest rates down. That would be a great stimulant to the economy.

And the question is the order of priorities as you are trying to accomplish that plus cutting the cost of health care. I do not think that has been finally resolved.

One of it depends on how fast you come on with health care. I think the President-elect wants to present such a piece of legislation this year.

Then, one of the other problems, people will ask, "Haven't you made up your mind yet?" And I know the press is talking about, "Well, we haven't seen an economic program yet."

I think it is a lot more important that we have thought it out, be satisfied with these options which are not easy and the fact that we introduced it in the first week in February or maybe we spoke of it the last week in February and the budget was presented somewhat later.

But I know where you are coming from. It is not the first time I have heard that, but I do not think those decisions have been made.

Senator ROCKEFELLER. Thank you, Senator. I wish you well, as I wish your wife, B.A., well.

Senator BENTSEN. Thank you.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, Senator Rockefeller. I would just like to thank you particularly for what seemed to me a brilliant observation between the Japanese and the United States.

We have been telling them what is the truth about their arrangements. And they have been telling us the truth about ours. And neither has been hearing the other. The French call it a dialogue of the deaf.

And perhaps I could just make a brief statement in this regard on the question of the deficit. We have heard some very strong views here.

And I say to you, Mr. Chairman, that I have some very strong views on the subject. It is just that they are somewhat moderated by the strong views other have, but really which in the end produce little consequences.

I remarked earlier that there have been 29 directors of the budget since Charles Dawes in 1921. And that is in 71 years. I have known two-thirds of those budget directors, known them by name. And early in the 1980's, I knew the then director of the Office of Management and Budget.

And in December of 1983, I wrote an article on the subject for the New Republic, a big article, a cover article.

And this is what I said, "The proposition is that the deficits were purposeful, that is to say the deficits for the President's initial budgets. They were thereafter expected to disappear. That they have not and will not be the result of a massive misunderstanding of American government."

Nobody had the slightest idea, as far as I could tell, what I was talking about.

David Stockman later wrote a book. And he said, in effect, "Yes. That is exactly what happened." I do not know if anybody understood what he said.

I said, "They will not disappear." I think it was beyond the reach of our—I would go around here saying, "Look, their intention is to create a crisis." And they have a phrase for it, starve the beast.

And I found I could not get much response. I mean, it was as the youths say, we could not access that file.

Create a crisis. Don't crises come along easy enough? And I found myself at one point saying, "Lenin was not a problem solver. They want a crisis."

And this did not sink in. Nobody got it. I said that the deficits were expected to disappear, that they have not and will not is the result of a massive misunderstanding of American government, which is how, in fact, we behave.

If you remember, Mr. Stockman created tutorial for President Reagan. And he would every afternoon get about 10 Federal programs. And he would say, "This is what it does. This is what it cost. Now, should we eliminate this? Should we keep it at about what it is? Should we cut it a little?"

And about half got, "Leave it as it is." And about a half got, "Cut it a little." In the meantime, that deficit that was meant to starve the beast and so forth, did not happen.

I go back over this because one of the things that has happened because we do not remember this as the inspiration of a very small number of young people is that we begin to see it as somehow a result of structural inadequacies of our government.

And we talk about line B and things like this as if the Congress cannot control itself. The deficit in 1980 was about \$800 billion. That is about right. I mean, after two centuries, that is not a very big sum.

This was a deliberate crisis. I say, nobody could understand that. And if you cannot understand it, you are apt to make huge mistakes. And that bothers me, but it does not bother me more than it should.

But the one thing I would like to know, and that is, I hope we do not get into the mistake of thinking that it is the Social Security system, called an entitlement, that has brought us to this condition. It is not.

On Sunday, I am not sorry to report in that sense, Luther Jewlik died Sunday, age 100, born in Kyoto, a son of a Congregationalist minister, a Republican.

He was a member of the President's Committee on Executive Management, the Brownwell Committee in 1935, which created our modern government. He was a professor at Columbia University for many, many years.

And I have often quoted him on his visit he had with Franklin D. Roosevelt in 1940. Washington was a small place then. And a professor could stop by and see the President.

He had been looking at the Social Security system and the way the money was now coming in, about to be paid out. The first retirement benefits were paid in 1940.

And he had seen all those clerks with pen and ink writing in 15 cents a week, 40 cents a week, things like, he said, "Mr. President, this is basically a pay-as-you-go system. The economics of writing all that down does not make much sense. Why don't we just take the money and pay it out?"

And you can sort of see Franklin Roosevelt doing this. I should say that Quinton wrote this down afterwards. He said, "Now, Luther, I am sure you are right about the economics, but those Social Security accounts were never put in there as a matter of economics. I wanted every man and woman to have their name on an account and their number on an account so that no damn politician could take their Social Security away from them."

And I talked to Dr. Jewlik in the spring. He was just fine up there. And he was recalling that conversation.

My point simply is this, that the Social Security retirement benefits are in surplus. The next fiscal year, they will add to the total. It will be about a \$66 billion surplus. They are not adding to the deficit at all.

And if we were to start calling them entitlements and saying we have to cap them and so forth, we will end up without having them just because of the wild radicalism of the early 1980's in the OMB and the White House.

We will put in jeopardy the great social achievement of the Democratic Party in the 20th century.

We are beginning to talk of Social Security retirement benefits as something you are given and not as contributory, earned retirement benefits. And we think you get much more out of it than you put in.

You have done that in the past. In the beginning of any social insurance system, you do, but as of today, persons retiring, having paid the maximum over the years will get back less than the present value of what they put in.

I am going to hold some hearings and get these numbers out. I do not think anybody will believe them, but I would hate to see that just because we had a couple of young radicals in the White House trying to create a crisis in the early 1980's and just because nobody could understand what they did and could not believe them when they said, "Let me tell you what we did. It is awful," that we should put in jeopardy something this important.

That was not a question, sir, but I just wanted to say it. You do not have to comment on it.

Senator BAUCUS.

Senator BAUCUS. No questions, Mr. Chairman.

Senator MOYNIHAN. Senators all. [No response.]

I have one last thing to say which is that Senator Mitchell asks that I send you his very warmest regard and greatest congratulations. He looks forward as the majority leader to working with you, sir, as do we all.

It has been an honor to have you before this committee. It is an honor which we will look forward to again early in the new year. Thank you very much, sir.

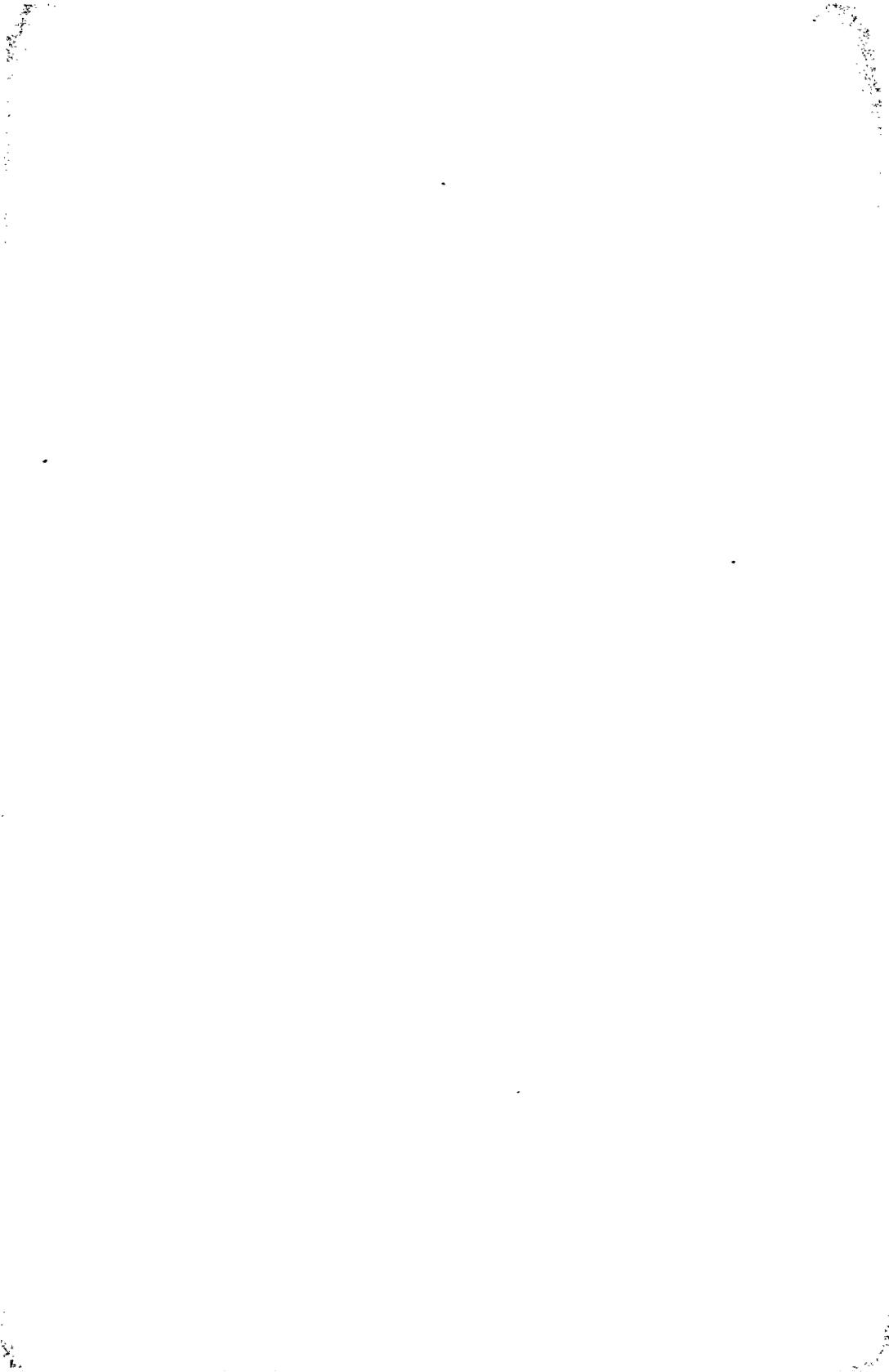
[The prepared statement of Senator Mitchell appears in the appendix.]

Senator BENTSEN. Mr. Chairman, let me thank you for the graciousness of the committee, with the questions asked. And let me wish for you a long and very successful tenure as chairman.

Senator MOYNIHAN. You are very kind to say that, sir.

And with that, we thank our reporters and thank you B.A.

[Whereupon, the hearing was concluded at 12:44 p.m.]



APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF SENATOR LLOYD BENTSEN

Mr. Acting Chairman, my fellow members of the Finance Committee: So this is how it looks from the other side.

After all the hearings you and I have held and all the testimony we've heard together, I know what I'm supposed to do down here; I just don't know how to make it interesting.

I want to start by thanking you for the opportunity to share these few minutes. It has been my honor to be associated with this distinguished committee and with each of you. No chairman ever convened a finer and more committed group. The 21 years I've been a Finance Committee member are the most rewarding among my 28 years of public service, and my six years as chairman have been the most stimulating and challenging.

The challenge continues for us all. In its personal features, it's a challenge you and I know because we've faced it many times: to balance spending and revenues, to heighten equity in the tax code, to advance U.S. trade interests, to expand job training, to rekindle household savings, to stimulate public-private investment. And we know that for the outcome to be meaningful, we must curb the cost of quality health care while making it available to every American.

Achieving these ends might require decisions that prove unpopular. But we must remember the overriding goal—President-elect Clinton's first priority: to put our economy on course so every American has the prospect of a life-enriching job and a personal chance at the American dream. The President-elect is now deciding which specific measures can do that and how he will work with Congress to enact them. As they come forth, his need—America's need—for knowledgeable counsel and bipartisan cooperation will be tremendous.

You and I and our colleagues in Congress and the Federal Reserve will be called to set ideas before ideology and principles before politics to give Bill Clinton our best counsel and our fullest cooperation. As Secretary of the Treasury, I would welcome working with him and with members of Congress to serve the people of the United States and to sustain the promise of America.

Thank you.

BIOGRAPHICAL INFORMATION

U.S. SENATOR LLOYD BENTSEN, DEMOCRAT, TEXAS

BIRTH

Lloyd Bentsen was born February 11, 1921, in Mission, Texas.

EDUCATION

Bentsen received a law degree from the University of Texas School of Law in 1942.

MILITARY SERVICE

With World War II underway, Bentsen enlisted in the U.S. Army. He rose to the rank of Major as a B-24 pilot and Squadron Commander in Europe. Bentsen was awarded the Distinguished Flying Cross and the Air Medal with three oak leaf clusters. He was promoted to Colonel in the Air Force Reserve before completing his military service.

PUBLIC OFFICE

After the war, Bentsen returned home to his native Rio Grande Valley. He served the people of his home area from 1947-55, first as County Judge of Hidalgo County and then as a Member of Congress. In 1954, after three successive terms in Congress, he decided to pursue a career in business and declined to seek reelection.

BUSINESS CAREER

Lloyd Bentsen was a successful businessman in Houston for 16 years. By 1970 he had become President of Lincoln Consolidated, a financial holding institution. Following his successful campaign for the U.S. Senate that year, he resigned all management positions and directorships.

SENATE ACTIVITIES

Senator Bentsen is Chairman of the Senate Finance Committee and the Joint Committee on Taxation. He is also a member of the Senate Commerce, Science and Transportation Committee and the Joint Economic Committee.

POLITICAL ACTIVITY

In 1988, Senator Bentsen was the Democratic Party nominee for Vice President of the United States.

FAMILY

Mrs. Bentsen, known as B.A., is the former Beryl Ann Longino of Lufkin, Texas.



United States
Office of Government Ethics
 1201 New York Avenue, NW., Suite 500
 Washington, DC 20005-3917

JAN 7 1993

The Honorable Daniel P. Moynihan
 Committee on Finance
 United States Senate
 Washington, DC 20510-6200

Dear Senator Moynihan:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Senator Lloyd M. Bentsen, Jr. President-elect Clinton has announced his intent to nominate Senator Bentsen for the position of Secretary of the Treasury.

We have reviewed the report and have also obtained advice from the Department of the Treasury concerning any possible conflict in light of its functions and the nominee's proposed duties. Also enclosed is a letter from the ethics official of the agency, dated January 6, 1993, which discusses Senator Bentsen's ethics agreements with respect to a blind trust arrangement, a recusal and certain other matters.

Based thereon, we believe that Senator Bentsen is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,


 Stephen D. Potts
 Director

RESPONSES OF SENATOR BENTSEN TO QUESTIONS SUBMITTED BY SENATOR RIEGLE

Question No. 1. Auto and light trucks have a 5 year depreciation schedule, even though studies indicate the useful life of a business vehicle is 3 years. Further, no more than \$12,060 may be taken in depreciation over a 5 year period. Lowering the depreciation schedule to 3 years and raising the cap to \$18,000 would:

- Reduce the cost of the business vehicle by 5.5 to 8.5 percent;
- Increase annual sales by 230,000 to 350,000 units;
- Increase employment among auto manufacturers and suppliers by 52,000.

Would you support reducing the vehicle depreciation schedule to 3 years from 5 years? Would you support increasing the depreciation cap from \$12,060 to \$18,000?

Answer. I am aware of the Treasury study from a couple of years back regarding the economic lives of business cars and light trucks. At this point, Senator, no decision has been made regarding either of the items you mention. But I will certainly look into these if I am confirmed as Treasury Secretary.

Question No. 2. If confirmed as Treasury Secretary will you implement Exon-Florio in a manner that will ensure we do not lose control of firms that are developing key technologies essential for our industrial leadership?

Answer. Although most foreign investment benefits the U.S. economy by creating or saving jobs, increasing production, and helping our trade balance, in some instances foreign investment can have a much less beneficial impact. Those cases warrant review by the Federal Government, the reason Congress passed the Exon-Florio law in 1988 and amended it last year. Exon-Florio makes clear that in certain circumstances American companies should not be open for purchase by foreign firms, and that we need to pay particular concern when the prospective purchasers are government-owned or controlled.

Given the intense global competition we face today, especially in high-technology industries, we have to be concerned about the impact foreign takeovers can have on U.S. leadership in the development and production of the critical technologies needed for industrial leadership. As Secretary of the Treasury, I will take a keen interest in these matters, and will work to ensure that the Exon-Florio law is implemented faithfully, consistent with Congress' intent. I also will want to see that those countries whose companies are active in takeovers here at the same time permit greater opportunities for foreign investment and ownership in their own home markets.

Question No. 3. Are you concerned that American financial firms are denied opportunities to compete in many countries whose own financial firms are free to compete here? Would you favor enactment of the Fair Trade in Financial Services Act, which would move the U.S. to a policy of reciprocal national treatment in this area?

Answer. I am extremely concerned that certain foreign countries take advantage of our open financial markets yet do not give U.S. financial firms a fair opportunity to compete in theirs. The touchstone of our policy, including in international negotiations on financial services, is that we must demand reciprocity. I will be pleased to take a close look at the Fair Trade legislation and work with its supporters on an appropriate policy.

Question No. 4. At the beginning of the Bush Administration, the Treasury Department began a project to develop recommendations for improving U.S.'s long-term investment system. The project was never really completed. As Secretary of the Treasury, would you direct that such a study be continued and completed so that we can determine the best ways to improve the climate for long-term investment in the United States—including increased investment in manufacturing?

Answer. One of my goals as Treasury Secretary is adopting measures which would spur businesses to adopt a long-term view. We cannot be international competitive unless businesses are willing to make major investments that may not pay off immediately. That is true for the government also, as President-elect Clinton has recognized by pledging to increase government investment in our people and infrastructure. I have held hearings on this point, as Chairman of the Senate Finance Committee, and I will continue to devote myself to this issue as Secretary of the Treasury.

Question No. 5. If confirmed as Treasury Secretary will you examine the Iraqi asset freeze issue and assure that American companies are not being wrongfully denied money due to them that is available from frozen Iraqi assets?

Answer. While I am aware of this issue and its impact on many American companies, I have not had an opportunity to study it carefully. I assure you that I will examine this matter when I am confirmed.

Question No. 6. Some commentators believe the alternative minimum tax (AMT) has had the unintended effect of creating a disincentive for manufacturing companies to invest in new plant and equipment.

Do you believe the AMT should be modified to create greater incentives for manufacturing companies? If so, was the ACE adjustment included in H.R. 11 sufficient or should broader action be taken?

President-elect Clinton has suggested an investment tax credit (ITC) would be part of his economic plan. Do you believe an ITC should be available to corporate taxpayers subject to the AMT?

Answer. As you know, I have supported reform of the corporate minimum tax rules in certain respects. I included in both of the major tax bills in the Finance Committee this year a provision repealing the so-called "adjusted current earnings" adjustment for depreciation in the corporate minimum tax, a provision designed to provide greater incentives for minimum taxpayers to invest in plant and equipment. As you also know, President Bush vetoed both those tax bills. We now have a new Administration and President-elect Clinton has made it clear that he is committed to enacting measures to rejuvenate the economy and encourage capital investment, such as a targeted investment tax credit. While those proposals are being formu-

lated, one of the issues to consider is the effect of the minimum tax. No decisions have yet been made on the specific measures the new Administration will propose.

RESPONSES OF SENATOR BENTSEN TO QUESTIONS SUBMITTED BY SENATOR DOLE

Question No. 1. Does the Administration support an investment credit? Could you share your current thinking on that subject with us?

Answer. President-elect Clinton has expressed his support for an investment tax credit on a number of occasions, and I am supportive as well. This is obviously a very seriously considered option. One type of investment tax credit that is on the table is an incremental investment tax credit that applies to the marginal investment made by a firm. The idea is to try to reward investment that would not have occurred without the credit and not to reward investment that would have occurred in any event. It's not an easy credit to design, but it potentially gives you a greater incentive effect for a given amount of revenue loss.

Question No. 2. We've heard that the President-elect intends to raise revenue by stepping up enforcement against foreign corporations on transfer pricing. What is your current understanding of what this initiative will involve? Will you need legislation? Will the revenue raised be considered a revenue offset for provisions which lose revenue under the Budget Act? Are you concerned about retaliation by foreign governments against American companies doing business abroad? Would it be acceptable to the new Administration if foreign governments adopted the same rules you are proposing? Again, after you are confirmed, I would appreciate receiving for the record the Treasury's revenue estimate of revenues you expect from the proposals we have just discussed.

Answer. There is reason to be concerned that foreign corporations operating in the United States may not be paying the same taxes as their U.S.-owned counterparts. As a percentage of gross receipts or assets, foreign-owned corporations report significantly lower net income than U.S.-owned firms. The issue does not, however, have some simple cut and dried solution. It requires careful study. No decision has yet been made about how to proceed. The question involves striking an appropriate balance between ensuring that foreign corporations pay their proper share of U.S. tax, and not discouraging foreign investment in the U.S.—which can create jobs—or provoking retaliation against U.S. firms operating abroad—which can harm U.S. competitiveness. Every country has a stake in these issues and must balance these considerations.

Question No. 3. Does the Administration support expanded IRAs or Individual Development Accounts as they are called in the President-elect's campaign literature? Do you think these accounts should be restricted to low-income taxpayers? What income threshold do you currently believe would be appropriate?

Answer. As you know, I have long been concerned about the decline in America's rate of personal savings. We save far less than our major competitors. The Germans save twice as much as we do, the Japanese three times more. We need more savings to provide the capital to fuel long-term growth in the economy. We need to get the savings rate up. The President-elect has proposed a demonstration project on Individual Development Accounts that would create a mechanism to encourage low-income families to save for education and other purposes. This is a variation of the IRA. As you know, I have been a long-time supporter of IRAs. I think proposals of this nature can make a difference in getting our nation's savings rate up. But, as with all proposals of this nature, we need to evaluate them in the context of the Federal budget deficit. If we are going to deal with this country's savings gap we have to deal with it from both sides of the equation—by promoting increased private savings and by reducing the Federal budget deficit. These are among items that the President-elect is currently considering. The details of any specific proposals have not yet been determined.

Question No. 4. Do you favor making the low-income housing tax credit permanent?

Answer. I believe the low-income housing tax credit is a valuable tool which helps in the establishment of affordable housing for low-income individuals and families. I certainly believe the low-income housing tax credit should be made permanent. However, there are many decisions that must be made and we are limited by revenue constraints. I cannot give you a definitive answer at this time.

Question No. 5. In what ways would you extend or expand the Earned Income Tax Credit?

Answer. President-elect Clinton has stated throughout the campaign that it is his intention to expand the Earned Income Tax Credit. He said, "To ensure that no one with a family who works full time has to raise children in poverty, we will increase the Earned Income Tax Credit to make up the difference between a family's earn-

ings and the poverty level. The credit will also be expanded for part-time workers, giving them a greater incentive to work." I certainly support and agree with those statements, again, keeping in mind the deficit situation and revenue constraints.

Question No. 6. Are there other tax initiatives relating to low-income Americans under consideration?

Answer. We are considering enterprise zones, Individual Development Accounts and a number of other initiatives which would be beneficial to low-income Americans.

Question No. 7. What about a permanent R&D credit?

Answer. As you know, Senator, I have always been a strong supporter of the R&D credit, and President-elect has stated his strong support for the R&D credit. This is definitely something we would like to see extended permanently. As you also know, however, a permanent extension carries significant revenue consequences.

Question No. 8. Do you also favor enterprise zones?

Answer. Yes. But I believe they should contain powerful incentives for the residents and businesses located in the zones. An enterprise proposal with watered down tax incentives is much less likely to succeed, in my view. At the same time, the revenue cost will be an issue here as elsewhere.

Question No. 9. How would the 50 percent tax exclusion for risk for risk-takers who invest in new business work? Are there income or investment limits?

Answer. We are still working on the economic growth proposal, and we do not have details about the exclusion or income or investment limits.

Question No. 10. We've also heard that President-elect Clinton is considering raising estate taxes, perhaps by imposing a capital gains tax at death. This is particular concern to many who own family farms. What is your current understanding of the likelihood that the new administration will propose such a change. If so, how would it work? Would it be in addition to or a substitute for the estate tax?

Answer. There are numerous practical, administrative and political problems with such a proposal. We have made no definitive decisions. I would assume this would be in addition to the estate tax, but no decision has been made in that regard. I would say that if this type of proposal were enacted, we would have to provide some exemptions to protect small businesses. I am not suggesting that this option will be included in a final package.

Question No. 11. We understand that the President-elect has considered increasing taxes for Americans who make more than \$200,000 a year but the details have been a little vague. I'd like to explore what your current thinking on this is. First, do you favor a so-called "millionaire's", surtax, and if so, how would it work?

Second, do you favor a fourth bracket for those who make more than \$200,000 a year?

At what rate? Wouldn't much of the burden of this increase fall on small businesses and entrepreneurs? Won't that hamper the ability of entrepreneurs to start new businesses and create jobs? Would the starting point be \$200,000 of taxable income for a married couple?

Third, do you anticipate increases in the alternative minimum tax for individuals? At what rate?

Answer. Once again, the decisions on the details of the proposal have not been made at this point. These are certainly options that are on the table and under consideration. I know that the President-elect will want the final package to be as consistent as possible with what he said during the campaign.

Question No. 12. CEA Chairman-Designate, Laura D'Andrea Tyson has suggested that there is no relationship between a nation's tax burden and its economic performance. Would you comment on this statement and its relevance to the incoming Administration's view of tax policy?

Answer. I am not familiar with this suggestion, so I cannot comment on it. I can say that I firmly believe in keeping taxes as low as feasible and distributing the tax burden in a fair manner.

Question No. 13. Should the tax code be used to favor certain activities or forms of investment or should it be as "neutral" as possible?

Answer. As a general rule, neutrality is preferable to avoid the misallocation of resources. However, it is certainly true that some forms of investment appear to produce better returns than others, which could justify different tax treatment for certain activities or assets.

Question No. 14. Do you believe that Treasury's Office of Tax Analysis should produce revenue estimates that incorporate "macrofeed-back" effects (that includes potential economic effects of a proposed tax policy change)?

Answer. I have heard that suggestion before, but I do have some concerns. First, revenue estimates are inherently uncertain. Adding more factors to consider in developing the estimate could increase that uncertainty. Secondly, revenue estimates

depend on numerous economic assumptions. These assumptions must be beyond reproach in order to produce credible, honest estimates. My concern is that incorporating "macrofeed-back" effects, which are difficult to gauge, could lead to unreliable estimates. I do not want to adopt any changes to the estimating process which will jeopardize our commitment to honest budget numbers. However, I will be happy to look into this matter once I am confirmed.

Question No. 15. Should the spending discipline in the Budget Enforcement Act be extended into the future?

Answer. At this point, I do not know what the Administration's position will be on that issue.

Question No. 16. Could you share your current thinking on consumption tax with us?

Answer. I am a firm believer in exploring ways to change the tax Code to encourage more savings and investment, including the idea of consumption taxes. However, any switch to consumption taxes must be coupled with other changes to ensure that taxes would not have a regressive effect and be fair to all taxpayers.

Question No. 17. Give your concern with the need to encourage saving and investment, how do you explain the incoming Administration's support for IRAs and higher marginal tax rates on saving and investment?

Answer. My views reflect both a strong belief in savings incentives and a conviction that the tax Code must be fair. These two goals are achievable by progressive taxation of income coupled with incentives to encourage savings, such as IRAs.

Question No. 18. Do you see consumption taxes replacing current taxes such as the payroll tax or simply as an additional tax?

Answer. No decisions have been made as to whether and to what extent consumption taxes should be included in the budget.

Question No. 19. If we were to adopt a consumption tax would you favor a broad-base tax like a VAT, or a more narrowly targeted tax such as increased taxes on gasoline or cigarettes?

Answer. It is simply premature for me to discuss any such recommendation, particularly in the abstract. Let me say this: First, from an economic standpoint, it appears that a VAT or more limited consumption taxes would encourage savings, which in turn will lead to greater investments and higher productive growth. However, that does not end the analysis. There are other countervailing factors that would have to be weighed in deciding whether to increase consumption taxes. And that evaluation would have to be done in the context of the entire economic package, which of course has not yet been fully developed.

RESPONSE OF SENATOR BENTSEN TO A QUESTION SUBMITTED BY SENATOR ROTH

Question. President-elect Clinton promised to eliminate 100,000 unnecessary positions in the bureaucracy, cut administrative waste, and cut wasteful government spending programs. His economic plan, *Putting People First*, proposed to "eliminate taxpayer subsidies for narrow special interest, reform defense procurement and foreign aid, and slash boondoggle projects." Do you agree with President-elect Clinton that these reforms are needed, and if so, what specifically would you do within your Department to eliminate waste?

Answer. I absolutely agree with President-elect Clinton that the government should be managed more efficiently, and that means eliminating unnecessary programs and employees. If confirmed, I will conduct a thorough examination of the Treasury Department and its 150,000 employees with a view towards saving money, slashing bureaucracy, and getting the citizens better results.

RESPONSES OF SENATOR BENTSEN TO QUESTIONS SUBMITTED BY SENATOR CHAFEE

Question No. 1. If President-elect Clinton decides to pursue a short-term economic stimulus package early this year, followed by longer-term proposals to reduce the deficit, what linkage should exist between the two to assure the American public that the new Administration will address the deficit?

Answer. You evidence your commitment by submitting a budget to Congress that lays out both additional investment proposals to get the economy moving again and the specific ways to cut the deficit within the five-year budget window. I expect the Clinton Administration will submit such a budget shortly after taking office.

Question No. 2. I wonder if you might outline how you and the Clinton Administration will view the Enterprise for the Americas Initiative. Also, how do you and the new Administration view the prospect of a hemisphere-wide trading partnership?

Answer. Latin America must remain a top priority for the United States. We have an important economic stake there. Including Mexico, Latin America has a popu-

lation of over 450 million and a GDP of more than \$860 billion. Their world trade is estimated at \$236 billion, and more than half is with the United States.

I look forward to working with the President-elect and his team on devising an economic policy for Latin America that will benefit us as much as it benefits our hemispheric neighbors. Trade will be an important component of that policy.

Question No. 3. Energy taxes have been mentioned as a way to finance a variety of uses such as increasing infrastructure spending and reducing the deficit. A broad-based energy tax, an increase in the federal excise tax on gasoline, a carbon tax and an oil import fee have all been mentioned. However, these tax options do not have the same effect on the economy. In fact, some options can have serious adverse effects. Some are inefficient collection mechanisms and place certain regions or entire industries at severe competitive disadvantages without contributing significantly to deficit reduction.

Accordingly, would you agree to study carefully the full range of effects, particularly the collection efficiency and the impact on industries and regions of any proposed energy tax or fee and share those findings with this Committee before reaching a decision on any single proposal?

Answer. To begin with, let me make clear that no decision has been made as to whether there would be any type of energy taxes included in President-elect Clinton's budget package. However, Senator, I agree that the points you raise—economic effects, regional burdens, collection efficiency—are certainly issues that would have to be carefully studied by an Administration or Congress in even considering any of these proposals as options. As to sharing findings, if I am confirmed as Treasury Secretary, I suspect that this would not be the last time I would be asked to sit before the Committee, and I would certainly be forthcoming in sharing information and analysis with the Committee at the appropriate times.

RESPONSES OF SENATOR BENTSEN TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Question No. 1. Have you given any thought to allowing other U.S. companies to receive payments owed from Iraqi frozen assets?

Answer. While I am aware of this issue and its impact on many American companies, I have not had an opportunity to study it carefully. I assure you that I will examine this matter when I am confirmed.

Question No. 2. As a Senator, you voted for the opt-out measure on interstate branching when we debated the banking reform bill in the fall of 1991. While this specific provision was dropped in conference, the issue is still open for consideration. How do you intend to proceed on this issue as Secretary of the Treasury?

Answer. This issue, as well as others of importance to the banking community, will certainly be a high priority for me if I am confirmed as Secretary of the Treasury. I will reexamine this issue when I am confirmed.

RESPONSE OF SENATOR BENTSEN TO A QUESTION SUBMITTED BY SENATOR WALLOP

Question. It was mentioned at the Economic Summit in Little Rock that providing regulatory relief to U.S. banks could free up \$70 billion for lending and economic stimulus. What are your thoughts concerning banking regulations and their relationship to economic recovery? With regard to banking regulations, do you have any plans to help free up additional funds for lending within the first 100 days of President Clinton's term?

Answer. I know that some have said that bank regulatory relief measures could measurably stimulate lending and create economic stimulus. Given the economic priorities of President-elect Clinton, I expect that consideration of such measures will be a high priority.

RESPONSE OF SENATOR BENTSEN TO A QUESTION SUBMITTED BY SENATOR CRAIG

Question. In the international marketplace, infringement of copyrighted designs and materials is common. If the culprits do not import the pirated product into the United States, they can successfully operate outside the reach of U.S. enforcement. This costs American industry millions of dollars in lost sales and, ultimately, lost jobs. As Secretary of the Treasury, will you assist Congress and industries which are injured under the present situation in developing additional remedies and safeguards for the protection of intellectual property rights?

Answer. I have long been a supporter of tough laws to protect the intellectual property rights of Americans. Along with that is my firm belief that we should take strong actions against countries that pirate our software, infringe the copyrights on our designs and our books, and steal patented technologies from our pharmaceutical companies. I was a strong supporter of the provisions of the 1988 Trade Act that

strengthened some of our most effective intellectual property laws. I intend to remain a solid supporter of tough intellectual property laws, including improvements where they may be necessary.

PREPARED STATEMENT OF SENATOR BOB DOLE

Thank you, Mr. Chairman.

I used to say that if you shouted "Mr. President" on the Senate floor, 100 Senators would turn around. Well, I think there would be a lot of confusion in this room today if you shouted "Mr. Chairman."

Counting Senator Bentsen, Senator Moynihan, Senator Packwood, and myself, there are four past, present, or future Senate Finance Committee chairmen in this room.

No matter who served as chairman, this committee has been fortunate to be able to rely upon an exceptionally talented staff.

And, Senator Bentsen, as you prepare to leave the chairmanship, I want to express my thanks to your staff. From Sam Sessions and his tax counterparts . . . to Marina Weiss and Margaret Malone in the domestic spending area . . . to so many others . . . they have all been very cooperative, and have consistently produced high quality work.

Quality is a word that can also be applied to this nominee. No doubt about it. Of all the cabinet nominees of President-elect Clinton, the one greeted with the most universal acclaim—something on which Democrats, Republicans, and Ross Perot all agreed—was his nomination of Senator Bentsen as Secretary of the Treasury.

In fact, you would be hard pressed to find a Senator who is more respected for his leadership, his intelligence, his integrity, and his knowledge of economic issues, than Lloyd Bentsen.

And there's no doubt that all of his skills will be needed in his new position as Secretary of the Treasury.

Candidate Clinton made a lot of promises regarding new spending programs, a middle class tax cut, and reducing the deficit.

Reality is now setting in, and I think President-elect Clinton now realizes that he can't fulfill those promises without making some very tough, and very painful decisions.

In fact, in his confirmation hearing yesterday, Congressman Panetta even said that Americans should "be prepared for some sacrifices."

Throughout his career, Lloyd Bentsen has shown a willingness to speak bluntly, to tackle problems head-on, and to make the tough decisions that often call for sacrifice. And that's precisely what America needs.

Another of the most important qualities possessed by this nominee is the fact that he understands that our tough problems can only be solved through bi-partisan cooperation.

And, make no mistake about it, it is only through bi-partisan cooperation that we can get a handle on the deficit which threatens the well-being of future generations.

As Secretary of the Treasury, Senator Bentsen will also play a key role in several other issues on top of America's agenda—one of them being trade.

Senator Bentsen has been fair and bi-partisan in working with both the administration and Republican colleagues in the Senate on a number of complex and comprehensive trade measures.

His strong support of fast track negotiating authority made it possible for the administration to complete a North American Free Trade Agreement and to continue the Uruguay Round of multinational trade talks.

Among the issues Senator Bentsen has addressed is ensuring that American agriculture has a seat at the trade negotiating table—and I look forward to working with him to see that seat maintained and strengthened.

Health care is another issue which candidate Clinton promised to tackle, and, again, he will be fortunate to have Senator Bentsen's expertise at the cabinet table.

While the Secretary of Treasury is not directly responsible for the overall design of a health care reform proposal, his role is, none the less, a critical one.

At the least, he may be asked to help finance any expansion in access.

At the most, he will help to re-examine the role of the tax code in shaping the health care market, and its possible use as an incentive to change the behavior of businesses or of individuals.

Additionally, as the debate over health care reform takes place, I will be counting on you, Senator Bentsen, to maintain your strong commitment to improving access to care in rural America, and to ensuring that government mandates do not wreck

havoc on America's small businessmen and women, many of whom are still struggling to survive.

In closing, let me just say to Senator Bentsen, that I will ask a few questions this morning, but I plan on submitting many other questions sometime in April or May.

My purpose in doing so will be to keep you so busy answering those questions during those two months, that you will be unable to go to Texas and campaign for anyone in the special election.

PREPARED STATEMENT OF SENATOR DAVE DURENBERGER

Thank you Mr. Chairman. I would like to take this opportunity to congratulate my esteemed colleague Senator Lloyd Bentsen on his nomination as Secretary of the Treasury. Senator Bentsen has been a powerful and distinguished member of this chamber since 1970, and his strength and vision here will be greatly missed.

Senator Bentsen has had a significant impact on the economic policies of our country. His role as the Chairman of the Senate Finance Committee since 1986 has placed him in a position whereby he was able to champion a long-term agenda of economic revival. He has championed countless pieces of legislation throughout his career which carefully balanced business and other interests. His proposals for tax reform have aided in the revitalization of our economy, while maintaining his concern for the growing federal deficit.

The distressing crisis of our country's \$4.1 trillion debt must be confronted immediately. The 1990 Budget Agreement, which Senator Bentsen was instrumental in negotiating, implemented, among numerous other provisions, mandatory revenue offsets for congressional spending proposals. This is a vital first step to the controlling of our massive debt. We must continue to abide by the mandates in this agreement.

Control of the spiralling debt is of utmost concern to the people of Minnesota—they are outraged by governmental spending which adds to the burgeoning debt. I am outraged as well. We must control the federal deficit to provide a better economic climate, to improve the competition of U.S. companies and to foster the job growth we need.

I am deeply concerned by the cost of many of the proposals which are to be offered by the new Administration. There are many excellent proposals, some of which I intend to support, but my concern lies in the bottom line—how will the numbers add up? How will we be able to fund the proposed new spending without smothering the middle class with an increase in taxes? We are entering a new era with new leaders and new ideas. Unfortunately, with this new agenda, we also face old problems that must be addressed with urgency, such as the U.S. deficit, the debt other nations have incurred with the U.S., G-7 priorities, and customs enforcement issues. I am confident that with help from knowledgeable, thoughtful professionals such as Senator Bentsen in the new Administration, the Congress can successfully work together with them to control the past problems of our economy and prepare the way for economic revitalization.

I am proud of the work that I have done with Senator Bentsen in the past, we have worked closely on many areas of reform including small employer health insurance reform, catastrophic health care, NAFTA and tax legislation. His wisdom and skill in directing legislation will be greatly missed in this chamber and on this committee in particular. He is a friend and a colleague that I sincerely look forward to working with in a continued constructive relationship as he assumes his new duties as Secretary of the United States Treasury.

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

Mr. Chairman, I am pleased to join you and the other members of the committee in welcoming Senator Bentsen.

Lloyd Bentsen is a man that I respect and trust. He is a man respected and trusted, I dare say, by every member of the Congress and, I believe, by the American people.

This trust is very important because this nation is certainly at a turning point on our most important domestic issue—the federal budget deficit and the strength of our economy. Families in Utah, like those all over this country, are more concerned with this than with any other issue we face, and they have very high expectations for President-elect Clinton and those who have been selected to be part of his team.

Although Senator Bentsen and I don't always see eye to eye on the way to solve every issue, I respect him, and I consider him to be the kind of leader who can help us structure a solution to these difficult budget and economic problems. His expertise in the areas of budget and finance is legend—few know their way around the U.S. and international financial world as well as Lloyd Bentsen.

I particularly appreciate Senator Bentsen's concern for American enterprise of all sizes. He knows that government needs strong employers in order to create employment opportunities for our citizens.

President-elect Clinton has made a wise choice. I have appreciated the association I have had with Senator Bentsen, and I look forward to working with him in his new capacity as Treasury Secretary.

PREPARED STATEMENT OF SENATOR GEORGE J. MITCHELL

I want to give my fullest possible support to the confirmation of Lloyd Bentsen to be the next Secretary of the Treasury. I can think of few individuals who are more qualified to serve our nation in this position.

Since I joined the Senate Finance Committee in 1981, I have worked closely with Senator Bentsen on a variety of economic, tax, health and trade issues of major importance to our nation. But it has been during the last four years, since I became Senate Majority Leader, that I have worked most closely with Lloyd Bentsen. I have gotten to know our Chairman well and from that close contact I have developed a real appreciation for his tremendous economic expertise, legislative abilities, and political skills.

Lloyd and I have been through quite a lot in the last two Congresses as we worked to guide trade, tax and budget bills through the Congress. I am grateful for the crucial assistance that Lloyd provided me during that time. That experience convinces me that Lloyd Bentsen will be an invaluable adviser to President Clinton and an honorable servant to the American people. The Treasury Department is one of the most important agencies in government and its Secretary has the preeminent responsibility, working with the President, to help guide our nation's economy and manage its financial system. Lloyd Bentsen is well suited to those responsibilities.

As the Senate Finance Committee Chairman since 1986, Lloyd Bentsen has shown his Senate colleagues the qualities that people in Texas have seen for many years—a range of experience that is uncommonly broad, an understanding of economics and markets that reflect a businessman's point of view, coupled with compassion for the needs of the less fortunate.

In all endeavors—whether one agrees with Senator Bentsen or not—there is always a recognition of his powerful intellect and his commitment to excellence. He is a strong ally, and worthy adversary—the best that can be said of any public man.

Our collective loss in the Senate of this powerful public figure will only be compensated for by his ascendancy to even more important responsibilities in service to the American people. I wish Lloyd Bentsen well in his new position as Treasury Secretary and I look forward to continuing our close working relationship in the years ahead.

PREPARED STATEMENT OF SENATOR DANIEL PATRICK MOYNIHAN

Last week the Bush Administration published its latest, and final, estimates of the Federal budget deficit. The projections were startling, at least when compared to the Administration's more sanguine, pre-election estimates of last July. The deficit for 1994 is projected to be \$292 billion, and by 1997 will rise to \$305 billion. The 1997 figure would be considerably higher than that, but for some newly devised assumptions made by the Office of Management and Budget for years after 1995. More ominously, under present policies the deficit will begin to grow as a share of GDP in 1997 and thereafter—which makes it fair to say that it will be out of control.

In surveying the last 12 years of fiscal policy, the central fact to grasp is that this deficit was not an accident. It was deliberate. A case I have been making for over 9 years now. In an article in the December 31, 1983 issue of *The New Republic*, I wrote:

"The proposition is that the deficits were purposeful, that is to say, the deficits for the President's [Reagan] initial budgets. They were thereafter expected to disappear. That they have not, and will not, is the result of a massive misunderstanding of American government."

In August and September of 1980, David Stockman sat down to work out the numbers for the supply side tax cut advocated by candidate Reagan. Specifically, as endorsed at the Republican convention, a 30 percent individual tax cut, and a substantial reduction in business taxes by means of accelerating depreciation schedules into three categories of 10, 5 and 3 years. But the "math did not work." As Stockman later wrote:

"[T]here was no \$60 billion budget surplus at the end of the supply-side rainbow Instead, I discovered that to balance the budget we would need huge spending cuts too—more than \$100 billion per year. The fabled revenue feedback of the Laffer curve had thus slid into the grave of fiscal mythology forty days after the supply-side banner had been hoisted up at the GOP convention."

Stockman came to see the revenue shortfall not as a problem, but as an opportunity—to dismantle the welfare state by cutting off its revenue. Starve the beast.

So, too, did the new President. In a television speech sixteen days after his first inaugural, President Reagan told the American people:

"There were always those who told us that taxes couldn't be cut until spending was reduced. Well, you know we can lecture our children about extravagance until we run out of voice and breath. Or we can cut their extravagance by simply reducing their allowance."

Yet the President had not identified a single spending program in the Federal budget that was to be reduced or eliminated—save "waste, fraud and abuse."

We took the "riverboat gamble," in Senate Majority Leader Howard Baker's candid assessment. The largest tax cut in history—exacerbated by a bidding war of competing bills, which got so bad that towards the end Stockman and White House staffer Richard Darman began to have second thoughts. According to Stockman, they even briefly considered sabotaging the effort. As Stockman later recorded:

"I don't know which is worse," Darman said, "winning now and fixing up the budget mess later, or losing now and facing a political mess immediately."

The decision, of course, was to win now and fix later. But later never came. The hidden agenda to starve the beast did not work. The spending cuts never materialized—not from the Reagan Administration and not from the Congress.

The deficit began to grow, fed now by rising interest payments on the accumulated debt. No spending cuts, but no tax increases either. No hard choices.

PREPARED STATEMENT OF SENATOR DAVID PRYOR

A few short weeks ago, I had the honor to witness your nomination announcement to be Secretary of the Treasury in the old statehouse in Little Rock.

I believe it was truly a critical and focal event for the new administration. The whole world was watching. The message was sent, and from all accounts, the message was received with welcome and open arms—that is the ultimate testament to this appointment and to Lloyd Bentsen.

On that day in Little Rock, I remember thinking that it was a stroke of logic and wisdom for Bill Clinton to rely on a person of your stature and experience to direct action on the most important and complex issues facing our country. But since that day, I have had further time to absorb what it will mean to have Lloyd Bentsen as Secretary of the Treasury.

Chairman Lloyd Bentsen was always one we all had confidence in to get things done, and get them done the right way. In my opinion, the new administration will also find that Lloyd Bentsen is the man to go to when things must get done, and get done the right way.

"Break the gridlock, and address the critical issues facing our people"—isn't that the message sent from the voters of our country this past November 3?

Well, I believe Bill Clinton heard that message and it is evident in his nomination of Lloyd Bentsen, who will continue to be a force for positive change in America.

Mr. Chairman, I congratulate you. I am grateful to have served under your leadership on this committee. And I look forward to working with you on the ominous issues that face our country.

PREPARED STATEMENT OF SENATOR ROCKEFELLER

I am delighted that our friend and colleague and recent past chairman of this committee will be the next Secretary of the Treasury. The country will continue to have the benefit of Lloyd Bentsen's superb leadership in a new and critical post, and I commend President-elect Clinton for the wisdom of his choice.

What is so gratifying about this moment is that we can see here, visibly the ship of state turning back on course.

For years we have watched with dismay the growing numbers of children in poverty, the growing number of people without access to health care, the growing burdens on the middle class. We have sought executive leadership to join in a partnership with Congressional leadership to start to solve those problems. Now we will have that leadership.

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For years we have needed executive leadership that will battle for this nation's economic interests in world markets, so that we will return to snipping products abroad instead of jobs. Now we will have that leadership.

I can tell you that in my own state of West Virginia, change has been long awaited because the problems I have described are not abstractions. They are very real in the lives of the American people.

The so-called recession of the early 1980s was a depression in West Virginia. The high dollar decimated our exports in the markets of the world. The padlocked plant gates across the Mountain State left a monument to failed federal policies and wasted human talent right through this longest recession of them all. And what was true in West Virginia became true in many, many other places in this country, as a false prosperity built on debt and financial manipulation faded.

The economic legacy of those years leaves us with a very difficult task ahead. But with able leadership at the helm, the people of my state and of the nation can face that task with optimism. I look forward to working with Lloyd Bentsen as Secretary of the Treasury as this Congress and the new administration work together to turn this nation around.