

**NOMINATION OF JOHN B. CONNALLY, OF TEXAS, TO
BE SECRETARY OF THE TREASURY**

HEARINGS
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-SECOND CONGRESS
FIRST SESSION

JANUARY 28 AND FEBRUARY 2, 1971



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(III)

BEST AVAILABLE COPY

NOMINATION OF JOHN B. CONNALLY TO BE SECRETARY OF THE TREASURY

THURSDAY, JANUARY 28, 1971

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Talmadge, Hartke, Harris, Byrd, Jr. of Virginia, Bennett, Curtis, Jordan of Idaho, Fannin, and Hansen.

The CHAIRMAN. This hearing will come to order.

This morning, we are privileged to have before us the Honorable John B. Connally who has been nominated by the President to be Secretary of the Treasury. The committee will inquire into his qualifications for that important Cabinet post.

Mr. Connally has submitted a biographical sketch and a statement to the committee. Without objection, they will be made a part of the record of this hearing.

We should also include in the hearing record, section 242 of title V of the United States Code, outlining the duties of the Secretary of the Treasury and section 243 relating to the restrictions placed upon the Secretary of the Treasury.

(The material referred to follows:)

PRESS RELEASE FROM COMMITTEE ON FINANCE, U.S. SENATE, JANUARY 26, 1971

FINANCE COMMITTEE HEARING SET ON CONNALLY NOMINATION

The Honorable Russell B. Long (D., La.), Chairman of the Committee on Finance, announced today that the Committee would hold a one-day hearing on the nomination of Honorable John B. Connally of Texas to be Secretary of the Treasury. The hearing will be held on Thursday, January 28, 1971, in Room 2221 New Senate Office Building at 10:00 a.m. The Chairman further announced that the Connally nomination had been formally submitted to the Senate on Monday, January 25.

STATEMENT OF HON. JOHN B. CONNALLY, NOMINEE, TO THE FINANCE COMMITTEE

I have resigned from all the corporate boards or offices I have held as has been the general practice of nominees for this position. I might say that I have even resigned from the boards of charitable institutions and activities that I had participated in. The biographical sketch made available to each member of the committee sets out those directorships. I will, of course, resign from the law firm of Vinson, Elkins, Searls, and Connally upon my confirmation.

A financial statement has been prepared for the committee, and it shows the financial interests I will retain. As my financial statement shows, I have agreed upon a final, complete and fixed financial settlement with such law firm upon such resignation. Of course, my name shall be removed from the firm name.

I have reviewed personally the statutes and executive orders pertaining to conflicts of interest, and have sought the advice of counsel as to whether any of my financial holdings violate either the letter or the intent of the statutes. I do not believe my holdings violate the law. My counsel have informed me that none do. Aside from the conflict of interest question, I do not own a controlling interest in any business enterprise except my ranch business.

Biographical Sketch of John Bowden Connally

Lawyer, former Governor of Texas; b. Floresville, Texas, Feb. 27, 1917; s. John Bowden and Lela (Wright) C.; LL.B. University of Texas, 1941; LL.D. Southwestern University, 1963 (hon.), Howard Payne College, 1963 (hon.), Texas Christian University, 1965 (hon.), Texas Technological College, 1965 (hon.), St. Mary's University of San Antonio, 1967 (hon.), Austin College, 1969 (hon.), University of Dallas (hon.); D. Litt. University of St. Thomas, 1969 (hon.); Recipient University of Texas Ex-Students Assn. distinguished alumnus award, 1961; Recipient of the Golden Deeds Award, Ft. Worth Exchange Club; Fraternity, Delta Theta Phi; m. Idanell Brill, Dec. 21, 1940; children: John B., III, mid-law student University of Texas; Sharon Connally Ammann, Ramstein, Germany; and Mark M., Fr. student University of Texas.

Secretary to Congressman Lyndon B. Johnson, 1939-Feb. 41; active duty in the Navy 1941-45, served in both the Atlantic and Pacific theatres, awarded the Bronze Star Medal and the Legion of Merit with Combat V, 9 battle stars, discharged as Lt. Cmdr.; Atty. and Pres. and Gen. Mgr. of Radio Station KVET, Austin, Texas, 1949; Admin. Asst. to Senator Lyndon B. Johnson, 1949; mem. firm Powell, Wirtz & Rauhut, Austin, 1949-52; Atty. for Sid W. Richardson and Perry R. Bass, Ft. Worth, Texas, 1952-61; (Active in the management of varied business enterprises including radio and television properties, radio network, real estate, drug stores, oil and gas properties, carbon black manufacturing, mutual fund management companies, ranching interests, mining interest, oil tool development companies and various others; served as Dir. of the New York Central R.R.); 1961 appointed by Pres. John F. Kennedy as Sec. of the Navy, resigned Dec. 1961 to seek the office of Governor of Texas; 1962

elected Gov. of Texas, assuming office Jan. 1963; reelected Gov. for second term in 1964 receiving a plurality of more than 500,000 votes in the primary, the first candidate for Gov. ever to receive more than a million votes in a primary election in Texas; received 73 percent of the votes in the Nov. general election; reelected for a third term in 1966 receiving more than 72 percent of the vote in the Nov. election.

Elected Chairman of the Caucus of Democratic Governors at the National Governors' Conference in Cleveland, Ohio, in June, 1964; elected Chairman of the Southern Governors' Conference, 1964-65; elected Chairman of the Interstate Oil Compact Commission in 1965; Served as Vice Chairman 1956 Texas delegation to the Democratic National Convention in Chicago; served as Vice Chairman of the Texas delegation to the Democratic National Convention in Los Angeles, 1960; served as Chairman of the Texas delegation to the Democratic National Convention in Atlantic City and Chicago, 1964 and 1968, respectively.

Upon retiring as Governor of Texas in January 1969, became a Senior Partner in the law firm of Vinson, Elkins, Searls & Connally, Houston, Texas; Dir. First City National Bank of Houston; Trustee, United States Trust Co., N.Y., N.Y.; Dir. Texas Instruments, Inc., Dallas; Dir. Halliburton Co., Duncan, Okla.; Dir. General Portland Cement Co., Dallas; Dir. Gibraltar Savings Association, Houston; Dir. Mid-Texas Communications Systems, Inc., Killeen, Tex.; Dir. Houston Chamber of Commerce, member of the Exec. Comm.; Dir. Houston Livestock Show & Rodeo; Dir. Ft. Worth Fat Stock Show & Exposition; Dir. Houston Medical Foundation; Dir. Texas Research League; Dir. South Texas Chamber of Commerce, member Exec. Comm.; Dir. Texas Heart Institute; Dir. Houston Symphony Society; Commissioner General of HemisFair, 1968 (San Antonio World's Fair); Founder of the Academy of Texas, 1968.

Member of the President's Advisory Council on Executive Organization, 1969-70; appointed by Pres. Nixon as a member of the Foreign Intelligence Advisory Board, 1970; member Houston Bar Association, Texas Bar Association and American Bar Association.

[From the United States Code, Title 5.—Executive Departments—Officers—Employees]

§ 242. General duties of Secretary of Treasury.

The Secretary of the Treasury shall, from time to time, digest and prepare plans for the improvement and management of the revenue, and for the support of the public credit; shall superintend the collection of the revenue; shall, from time to time, prescribe the forms of keeping and rendering all public accounts and making returns; shall grant, under the limitations herein established or to be provided, all warrants for moneys to be issued from the Treasury in pursuance of appropriations by law; shall make report and give information to either branch of the legislature in person or in writing, as may be required, respecting all matters referred to him by the Senate or House of Representatives, or which shall appertain to his office; and generally shall perform all such services relative to the finances as he shall be directed to perform. (R.S. § 248.)

§ 243. Restrictions upon Secretary of Treasury.

No person appointed to the office of Secretary of the Treasury, or Treasurer shall directly or indirectly be concerned or interested in carrying on the business of trade or commerce, or be owner in whole or in part of any sea vessel, or purchase by himself, or another in trust for him, any public lands or other public property, or be concerned in the purchase or disposal of any public securities of any State, or of the United States, or take or apply to his own use any emolument or gain for negotiating or transacting any business in the Treasury Department, other than what shall be allowed by law; and every person who offends against any of the prohibitions of this section shall be deemed guilty of a high misdemeanor and forfeit to the United States the penalty of three thousand dollars, and shall upon conviction be removed from office, and forever thereafter be incapable of holding any office under the United States; and if any other person than a public prosecutor shall give information of any such offense, upon which a prosecution and conviction shall be had, one-half the aforesaid penalty of three thousand dollars, when recovered, shall be for the use of the person giving such information. (R.S. § 243; 1940 Reorg. Plan No. III, § 1 (a), (1), (4), eff. June 30, 1940, 5 FR. 2107, 54 Stat. 1231.)

The CHAIRMAN. Before we recognize you for a statement, Mr. Secretary, let me say that the committee has received a communication from Senator Proxmire, vice chairman of the Joint Economic Committee, transmitting a number of questions to which he desires answers. I will pass these along to you, Mr. Connally, with the request that you promptly furnish your answers to the committee for inclusion in the printed hearing of your testimony. I shall pass these along to you, Governor.¹

In the statement you will make to the committee, I hope you will state whether you have any financial or other holdings which would indicate a conflict of interest between your role as a private citizen and your position as the principal financial adviser to the President.

The Chair now recognizes the distinguished senior Senator from Texas, the Honorable John G. Tower. Senator Tower will introduce Governor Connally; and when the Governor has concluded his statement, Senators will be recognized to present whatever questions they have regarding various aspects of the nomination. We will be under the 10-minute rule. Then if we have time, we can go around again.

Senator Tower, you may proceed.

STATEMENT OF HON. JOHN G. TOWER, A U.S. SENATOR FROM THE STATE OF TEXAS

Senator Tower. Thank you, Mr. Chairman. I appreciate the opportunity to be here today to present the Honorable Governor Connally to this distinguished committee. I have a written statement that I shall not detain the committee with by reading, but if I may, I would like to submit this for the record.

The CHAIRMAN. You may.

(The statement referred to follows:)

STATEMENT OF HON. JOHN TOWER, A U.S. SENATOR FROM THE STATE OF TEXAS

Mr. Chairman, I welcome this opportunity to introduce to the distinguished members of the Finance Committee the Secretary-Designee of the Treasury Department, John Bowden Connally of Texas. I have known Mr. Connally for some years in his various public and private capacities in Texas and in Washington. I take special pride today in recommending this fellow Texan to this committee to become Secretary of the Treasury.

John Connally was born in Floresville, Texas, in 1917. He received a law degree from the University of Texas in 1941 and thereafter entered a four-and-a-half-year tour of duty with the Navy in the carrier service in both the Atlantic and Pacific Theaters, earning the Legion of Merit and Bronze Star decorations. He is a man who understands first-hand the rigors of conflict and international turmoil. As Treasury Secretary for the world's largest economy, his sense of the human costs of international conflict, which is frequently the result of insensitive economic policies, should stand our country and the international cause of peace in good stead.

After serving in various public and private legal and administrative capacities for 15 years after the war, Mr. Connally's talents brought him an appointment as Secretary of the Navy in 1961 and he again served his country with distinction.

He was elected to his first 2-year term as Governor of Texas in 1962 and was re-elected by the people of Texas for two more consecutive terms. As Governor, Mr. Connally was known as an advocate of fiscal responsibility in governmental operations. He presided over a solidly developing state economy.

¹ The questions, with answers supplied, appear as app. A, page 67ff.

In addition, he was an articulate and active leader of his fellow governors in the effort to solve the problems of the states without complete reliance upon the Federal Government.

Most recently, Mr. Connally has served President Nixon through his work on the Ash Commission which has recommended specific improvements for the Federal bureaucracy. It was this effort which ultimately convinced the President that John Connally should be contributing his full time and energy to the benefit of the American people through Cabinet service.

The pressing problems of our times, particularly the need for a solution to the critical financial problems of our states and cities, call for the talents of a Treasury Secretary who has a thorough knowledge of government operations at all levels. We have such a man in John Connally. I am confident that his performance as Secretary of the Treasury would be exemplary and I heartily recommend his nomination to your favorable consideration.

Senator Tower. I think Governor Connally's qualifications are well known. He has been active in business and politics in our State for all his adult life. He is a man of impeccable reputation. He has served three times as Governor of the State of Texas, has served as Secretary of the Navy.

I might note that I have spent a decade of my life engaged in pitched battles with Governor Connally and his organization for what I consider to be good reasons. Today I appear here as his advocate for even more compelling reasons. I have always had a very high personal regard for Governor Connally. I have always liked him and enjoyed his company. He was very cooperative with me when he was Governor of Texas. We worked together for the welfare of our State.

I think the President made a very wise decision in determining to appoint Governor Connally to this tremendously important post. The grave and complex problems that confront the American people today, I think, call for a considerable measure of bipartisanship in attempting to seek the resolution of these problems. I believe that as a Democrat, Governor Connally will bring to the Cabinet a political balance that I think will better enable this administration to deal particularly with the economic problems that confront the American people. He is a man of great integrity, a man who is honest, and a man of conviction as well as one of superior ability. I am pleased to present to the committee and to recommend favorable action on his nomination, Governor Connally.

STATEMENT OF JOHN B. CONNALLY, NOMINEE, TO BE SECRETARY OF THE TREASURY

Mr. Connally. Mr. Chairman, distinguished members of the committee: May I first express to Senator Tower my deepest gratitude for the kind words which he has just uttered. May I also say that although we come from different parties, during the time that I was privileged to serve the people of the State of Texas as its chief executive, I not only had courtesy, I had cooperation, kindness, and help from Senator Tower in dealing with the problems of our State. I am grateful for that cooperation and that help, as well as for his kind words this morning.

Mr. Chairman, I shall, of course, endeavor to answer the questions submitted by Senator Proxmire as soon as possible.¹

¹ See app. A, p. 69ff.

Mr. Chairman, I have no illusions about the responsibility President Nixon has asked me to assume. It will be a tough and complex job. It is of great importance. In free world industrial nations, finance ministries continue to play a crucial role in the economic and financial policies of their countries.

Mr. Chairman, I have known you and other members of this distinguished committee for many years.

I want at this moment to express my profoundest respect for you and for your committee. I look forward with considerable eagerness to working with you and with the other committees of the Congress on legislative matters, and to keeping you informed as to this Nation's economic and financial policies as well as the administrative activities of the Treasury Department. I also know that your close surveillance of Treasury activities in past years has gained for you a close familiarity with the programs, policies, and problems of the Department. I shall, therefore, be brief in this opening statement.

Let me say first, that I have resigned from all private positions, including the partnership in my law firm, effective upon the date of my confirmation by the Senate, and I have submitted a financial statement to the committee. With the General Counsel of the Treasury Department, I have carefully reviewed the statutes and Executive orders pertaining to conflicts of interest and I am convinced that my personal financial situation presents no such conflicts. The General Counsel of the Treasury concurs in this view.

Second, I am convinced that this Nation can and must meet its multiple economic goals. Provided we have the patience not to try to do too much too fast, we can have high employment with reasonable price stability. We can achieve a stable international financial position, with a strong dollar, without compromising our important domestic objectives. We can have a maximum of free trade in the world without damaging the appropriate interests of U.S. workers and businesses. And, with appropriate legislation, we shall be able to manage our huge public debt flexibly and efficiently, and in such manner as to further our basic economic goals.

Achievement of these goals will not be easy, but achieve them we can and must. And I especially want to emphasize the role of the Treasury Department, and the Secretary of the Treasury in particular, in leading the efforts to maintain the integrity of the Nation's currency. The control of inflation and protection of the currency is vitally important for its own sake.

But the fact is, that we have little chance in dealing with any of our pressing national problems—whether it be national security, poverty, the environment, the cities, or problems of rural America—without operating from the base of a strong, healthy, growing economy. And to me, this means an economy with a strong and stable currency.

Mr. Chairman, members of the committee, let me end as I began. I have no illusions about the job the President has asked me to take—it is tough, complex, and important. I approach it, I assure you, with the deepest humility, and I pledge whatever talent, ability, and energies I have to doing it well, for the benefit of all the people of the Nation.

Thank you very much.

The CHAIRMAN. Mr. Connally, I am not really worried about any economic conflict you may have, but I would be a little more concerned in analyzing a potential political conflict. I was one who went out and campaigned for the Kennedy-Johnson ticket. I worked very hard, for one reason, because Lyndon Johnson was on the ticket and wanted me to do that. I think you did the same thing.

Mr. CONNALLY. Yes; I did.

The CHAIRMAN. I think if you and I had stayed home, President Nixon might have been in the Presidency 8 years sooner. How do you explain being here under the present circumstances?

Mr. CONNALLY. Mr. Chairman, I plead guilty to all the things you just said. I did campaign in 1960, for the Kennedy-Johnson ticket. I did campaign against the President in 1968, despite many of the stories to the contrary. I suppose there are basically two reasons why I am here. The President's motivation he will have to answer and explain. He convinced me after many hours of conversation that I could contribute something to his administration and thus to the welfare of this country and the stability of this country. And, I suppose, I was vain enough to believe it and silly enough to try it. That is why I am here; it is just that simple.

The CHAIRMAN. Mr. Connally, your views generally are more in line with mine, I would think, than any Secretary who served in that capacity, with the possible exception of Henry Fowler. I guess one reason is that I am not a banker and most of these other Secretaries have been bankers. I look at it more as a fellow who has been in public life. I think it might be more appropriate for a Republican President to have a Democratic Secretary than for a Democratic President to have a Republican Secretary, which seems to be par for the course.

Now, we have had Secretaries in the past who, for the most part, seemed to feel that they could stabilize our economy and promote the public welfare by keeping money very tight and interest rates high, to the extent that they have virtually crucified working people who had to buy homes and other people who had to borrow money for one reason or another. Do you believe that we can reach full employment or stabilize the economy by those two methods, or do you think that other things will be necessary?

Mr. CONNALLY. Mr. Chairman, I do not believe we can reach full employment by employing those two methods. The President and I have discussed this at considerable length. He understands full well, that I am not a tight money, high interest man. I think we have to have a fairly liberal policy with respect to the availability of money; and unquestionably, at this particular time, low interest, is essential to the restoration of vitality to this economy.

The CHAIRMAN. I noted from your net worth statement that you have been a successful man. You, I believe, started out as an NYA administrator in your first job. Is that correct or not?

Mr. CONNALLY. No, sir, I was an NYA employee, not an administrator, I am sorry to say. I was an employee at 17 cents an hour.

The CHAIRMAN. I take it you took the job because you needed it.

Mr. CONNALLY. Yes, sir; I took it because I needed it.

The CHAIRMAN. You have been a very successful man and you show, you have a substantial financial standing—by Louisiana standards, at

any rate. I note that you have found it necessary, according to your lights, to incur a very heavy tax liability in order to liquidate quite a few of your holdings that you thought might offer some basis of criticism if you had those holdings while you were Secretary of the Treasury. I think the liability you incurred was almost a million dollars. Do you really think the job is worth all that much to you?

Mr. CONNALLY. That potential liability would be incurred only if I liquidated all of my holdings, which will not be the case. However, my loss in annual income will be large.

Senator, I suppose you cannot put any price on public service. I suppose different men are motivated by different things. Unquestionably, it was not to my financial interest to take this job. There is no question, I shall suffer a very substantial financial sacrifice, by Flore-ville standards, in taking it, I assure you.

Nevertheless, I did it simply because I have a very deep-seated conviction that every man owes much of himself and much of his life to the service of his country in whatever capacity he is best qualified to give it. I took it; I have no regrets about the financial sacrifices. It has been a little difficult for me in disposing of some of the things.

And, Senator, knowing your background and your geographical situs, adjacent to my own, I know that you have a slight interest in affairs concerning mineral developments in the United States, I guess more commonly called oil and gas interests. Some newspaper accounts have alluded to my vast wealth from oil and gas. I think it might be interesting to the committee and to everyone else who has any interest at all in my affairs to know that I had those interests appraised prior to coming here. I had them appraised by competent reservoir engineers, and I sold them. The total value of those mineral interests, the total value of my oil and gas holdings reached the magnificent sum of \$7,240. I did not give them away, I did not put them in trust, my wife does not have any, my children do not have any. That was the total value of my oil and gas holdings.

I just thought that might be of interest to you, Mr. Chairman. That does not necessarily reflect any views of mine that the mineral field is a bad field for investment; I just have not had much in that area.

The CHAIRMAN. Well, it does sort of surprise me, Governor, because most people in my part of the country, and my impression was that most of them in Texas, who had made a lot of money did it in oil. They might say they made it farming, raising sugar cane or rice, or something, but if they did, it is because somebody found oil under that cane or ricefield.

I was somewhat surprised to find that you do not have any more oil and gas interests than you did at the time the President asked you to take the job. Is that more because you are aware of what I am aware of, that the oil industry has become so depressed that there is not much room left in it for the little man?

Mr. CONNALLY. I do not think there is any question, Senator, but that the little man is rapidly disappearing from the scene as far as exploration and development and production of oil and gas in this country. There is no question about that.

The CHAIRMAN. Thank you.
Senator Anderson?

Senator ANDERSON. I have nothing right now.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Thank you, Mr. Chairman.

As a Republican, I am very happy to welcome Governor Connally to the Nixon administration and to the hot seat, the economic hot seat, in the Nixon administration. I am hopeful that he can add a new dimension to the office of Secretary of the Treasury. I was very proud, as a longtime friend, of the work that Secretary Kennedy has done, but I have learned in life that there are patterns, and sometimes a man fills the need of a pattern and times change and you need another man with a different point of view. I am happy to welcome Governor Connally, realizing that he does not have the technical background as an economist that David Kennedy had.

As I told the Governor in the anteroom before we came in, I am going to ask him two unpleasant questions in a pleasant way. I think these should be cleared up, Governor, for the record.

The Evening Star of January 26,¹ reported a burgeoning stock fraud case, apparently involving several political leaders in the State of Texas, brought by the SEC. The article mentions your name, and I am quoting from it:

"Another major Texas political figure, John Connally, formerly Governor and President Nixon's nominee to be Secretary of the Treasury, is involved in the case because his Houston law firm, Vinson, Elkins, Searls, & Connally, has represented the Jesuit Fathers since 1959."

I would very much appreciate any information you can give this committee about that problem and your relationship to it.

Mr. CONNALLY. Senator, I know basically nothing about it other than what has appeared in the public news media, with this exception: As I was walking out of my office to catch the elevator to come to Washington last week to prepare for this hearing and, hopefully, my subsequent job, one of my partners met me in the hall and stopped me for a moment to say, I think I ought to tell you something that has just occurred.

He said we have what appears to be a very difficult situation that is going to break here in a few hours in Texas. He said it involves some of the political leaders of the State. He said we represent one of those who will be named in the allegation.

I said well, what are the circumstances? He said for a number of years we have infrequently and intermittently represented the Jesuit Fathers, who run a school in Houston. He said we have a bad situation with respect to the Sharpstown State Bank, and I do not know where it is going to lead. He said I have just gotten into it. I never heard of it until a few days ago, he said. Although we represent them, when I got into it, petitions were drawn.

He said, as a matter of fact, it appeared that there were some who believed that the Jesuit Fathers were even involved in what was alleged as a conspiracy. But, he said, I got into it, worked over the weekend, and cooperated fully with the investigators—the attorneys for the SEC. We have taken the depositions, the Jesuit Fathers have been

¹ The article appears on p. 77ff.

extremely cooperative with the Government, and they are not named as a defendant. They are merely named in the proceedings in the allegations that have been filed relating to others.

He said, "I knew nothing about it, I had never heard about it until a few days ago."

This, Senator, was my first knowledge of the matter, as I was walking out of the office to catch the elevator to come to Washington. I did not know we represented the Jesuit Fathers. The attorneys in our firm who do represent them on intermittent occasions knew nothing whatever about the dealings that are now of such great concern—the dealings with the Sharpstown State Bank and the National Bankers Life Insurance Co.

Parenthetically, may I say I never made a loan at Sharpstown State Bank or any of the other banks involved; I have never owned stock in National Bankers Life Insurance. I knew absolutely nothing about this from any source, or for any reason, prior to the conversation I just mentioned that my partner had with me.

Senator BENNETT. I know many people in the country, used to non-Texas sized law firms, would wonder how the firm could represent a client without the partners knowing about it. How large is your law firm?

Mr. CONNALLY. Senator, it is not unusual, it seems to me, if you know the circumstances. I have, obviously, only been with the firm 2 years, since I retired from the Governor's office. We have approximately 155 lawyers. We do a very extensive corporate civil practice. There are many things that go on in that firm that I do not know about until some problem arises in connection with it. Even then, sometimes, I do not know about it. As many clients as we have, I could not name the clients of that firm if my life depended on it.

It is a big office. It enjoys a very high reputation, not because of any contribution I have made to it. The firm is 50 years old and the reputation it gained was prior to my going there, and I am extremely proud of it.

That is the way things happen, simply because you cannot keep up with everything.

Senator BENNETT. Would it be fair to say that if you had not been nominated for this high post, you might not have run across this particular problem for some time?

Mr. CONNALLY. I am sure I would not. There was no reason. My associate caught me because I was leaving town. He had been working on it for 3 or 4 days and had said nothing to me. He did not realize when I was leaving, but when he heard, he ran and caught me in the hall to talk to me about it.

Senator Tower. Vinson-Elkins is one of the largest and most prestigious law firms in the United States, and their representation of the Jesuit Fathers would represent a very, very minute part of the business that that firm engages in. It would be one of their minor accounts, I would say, knowing the type of business Vinson-Elkins does. It is a firm that has always been very much above reproach and enjoys a high reputation in the legal profession.

Senator BENNETT. I have a photostat of another newspaper article, this one from the Buffalo Courier Express of January 26¹ of this year.

Mr. CONNALLY. The 26th was a bad day, Senator.

Senator BENNETT. I cannot quite understand the headline. It says "Connally Holds Ties of Firm Linked to Dome." Apparently it refers to the fact that you, or your firm, represented a company that was building an imitation, a substitute or a counterpart of the Astrodome in Buffalo. Could you comment on that?

Mr. CONNALLY. I have not read the story, sir. I can tell you all I know about the whole situation.

Our firm has, for some time, represented Judge Roy Hofheinz, builder of the Astrodome, primarily in the field of taxation and tax law. He has his own house counsel so it on an intermittent basis. He comes to us only for special work.

Last——

Senator BENNETT. August.

Mr. CONNALLY. Well, last summer.

Senator BENNETT. The paper says August.

Mr. CONNALLY. Last August his house counsel, Mr. McDonald, called me and said he wanted to come and see me. I said fine. He said I need to come and see you right now. I said fine.

He came and told me that they had for some period of time, approximately a year, been working on the possibility of building a domed stadium in Buffalo at the request of a number of people in the Buffalo area. Judge Hofheinz had, prior to this visit of Mr. McDonald with me, suffered a severe stroke. He was in the hospital in critical condition. Mr. McDonald could not communicate with him.

Mr. McDonald came to me and sat down and said I have to go to Buffalo in connection with this lease to see whether or not we are going to build a domed stadium.

I said I do not know anything about it; I have never heard of it.

He said I can fill you in on the way up.

I said what can I do. He said I do not know. He said I would like to have your judgment. The judge has a very high regard for you and your judgment. He said nobody else in the organization knows anything about it. He said, frankly, I would like you to go as a personal favor to me.

I said I have to be in New York tomorrow at noon. He said just go and spend the night. I agreed. He had communicated with Judge Hofheinz' associate, an automobile dealer in Buffalo. He had arranged a meeting with the members of the county legislature. They are equivalent to our county commissioners. As I recall, there are 20 of them, 11 Democrats and nine Republicans, or the reverse of that. It is fairly evenly split.

As I understand the way they transact business, they have a chief executive, who is equivalent to a county judge. Some months before, the county legislature had authorized the county executive to negotiate a lease with Judge Hofheinz and his associate. They were operating under the name of Dome Stadium of Buffalo or something similar to that.

¹ The article appears on p. 79f.

They had gone through about 90 days of negotiations and, after reaching what they thought was a basic agreement, the lease was submitted to the legislature for ratification, as I was told, at 1 o'clock in the morning. Why that hour, I do not know. But nevertheless, the county legislature considered the matter from about 1 o'clock in the morning to 5 o'clock in the morning, as the story was recounted to me. Obviously, at that time and in that environment, 20 people would find it difficult to work out a very lengthy, a very involved, and a very technical lease on the building of a domed stadium that was going to cost approximately \$60 million.

One of the problems was that they had originally estimated the domed stadium could be built for \$40 million. It was to be almost a duplicate of the domed stadium in Houston. When the bids came in, it was going to cost \$60 million. The question was whether the county legislature was going to authorize the additional amount of money or not.

This went on for hours. We sat there, with many of the members coming and going, trying to find out why they did not want to approve the lease after it had been negotiated for months and after they had instructed the county executive to negotiate a lease. We got no satisfaction at all. We stayed, as I recall, until about 10 or 10:30, and it broke up, accomplishing absolutely nothing.

We went back and Judge Hofheinz' associate and his attorney and I sat down and talked about it. I listened primarily to all the trouble that had been going on for a year. Obviously, I was not familiar with all the details.

The judge's associate and his lawyer finally left. I told Mr. McDonald that I thought he ought to get out and quit worrying about it. I did not think they were going to execute a lease. I did not think they were going to build a domed stadium, the smartest thing he could do was to go home. They had plenty to worry about down there. The judge was sick and no one knew at that time what was going to happen to him.

I said why are you here anyway. You have more than you can say grace over, with an astroworld, real estate development, the Astrodome, the Ringling Brothers Circus, and all the other things.

He said, well, we are here basically because this man is a high type and he has asked us to come up. We are associated with this thing. He is putting up the front money. We have no financial connections in any respect to it.

I said, well, my impression is you are going to have difficulty ever working out a lease that will be one you can live with. I said I do not think it is worth it. My best advice to you is that if and when you get to talk to the judge, just tell him he ought to give it up, get out of it, and forget about it. So this was the advice I gave him.

I left the next morning to go to a meeting of the United States Trust Co. in New York City. I have not heard any more about it since. I have not seen Mr. McDonald. I have never talked to Judge Hofheinz about it before or since. I have not talked to Judge Hofheinz in, I guess 8 or 9 months. I do not know whether the negotiations are still going on or not. I know absolutely nothing more about it.

Senator BENNETT. I think it is well to have that in the record. For your information and amusement, I shall give you these photostats of the two newspaper articles which are the basis of these questions.¹

Mr. CONNALLY. Thank you very much. I appreciate it. I would be interested particularly in the Buffalo matter because I know nothing whatever about it.

Senator BENNETT. There are two newspaper accounts of the Buffalo thing.

I have no further questions, Mr. Chairman.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. Mr. Connally, I congratulate you on the statement you have made.

From time to time, concern has been expressed that in the administration considerable power seems to have gravitated from the Cabinet positions to the White House staff. Now, members of the White House staff are not required to be confirmed by the Senate and are not subject to inquiries by congressional committees or any other elected official. We cannot call a member of the President's staff before a congressional committee and interrogate him on a matter. He would simply plead executive privilege. This is a very dangerous precedent. It would be demeaning to the stature of your office as Secretary of the Treasury to report to a staff member in the White House rather than directly to the President. As Secretary of the Treasury, I hope you will undertake to fulfill your responsibilities in accordance with the duties of your office and not in accordance with the dictates of a White House staff member, and I hope that the flow of power will be down from the President rather than up from the staff.

What is your view of your work and the relation between the position of the Secretary of the Treasury and the President?

Mr. CONNALLY. Senator Talmadge, I am new in this town, at least on this visit, so I have to accept at face value the statement you just made about the flow of power from the Cabinet to the staff of the White House. I have no information that either confirms, or would fail to confirm, that statement.

Let me say that I shall be delighted to cooperate with the members of the present staff of the White House, as I shall with other Cabinet members and other Government officials throughout the Government. But I think, without in any sense appearing to be arrogant, Senator Talmadge, that you can be sure that so long as I am Secretary of the Treasury, I shall be Secretary of the Treasury. I shall exercise the duties and responsibilities and the authorities of that office consonant with the wishes of the President of the United States and the statutes passed by Congress.

Senator TALMADGE. Now, this country has had deficits in its balance of payments for 19 out of the past 21 years. The worst part of this problem is that if we try to do anything about it, foreign countries retaliate by threatening massive conversions of dollars into the little gold that we have left. For example, when the Senate was acting on the Trade Act of 1970, to restrain imports of textiles and shoes, European countries threatened to convert their massive holdings of dollars into gold.

¹ See pp. 79ff.

Will you give some thought as to what we can do to get out of this situation so we will not be subject to the blackmail of countries whose own prosperity is due in large measure to the generosity of the American taxpayer?

Mr. CONNALLY. Senator, again, I cannot address myself to the specific instances which you label as blackmail during the trade agreement discussions in the Congress last year. I would say that under our international agreements in the International Monetary Fund, we do have commitments. The Nation has commitments with respect to the conversion of dollars into gold, and I think we should continue that commitment, and I intend to continue that commitment insofar as I have the authority to do so.

Let me also say, however, that the same agreement by which the United States agrees to convert currency into gold places certain responsibilities upon the other signatories to that agreement, beyond any question.

Part of the problem that we have in our international relations today is, to be sure, that other nations throughout the world live up to their commitments just as we live up to ours. I assure you that in all the negotiations that we have, I shall do the utmost and every one of the staff at the Treasury will do his utmost to be sure that we are not taken advantage of in any of our negotiations, whether they are bilateral or multilateral. We are also going to insist that other nations recognize the problems which we have, as well as their own, and that they be cooperative to the extent that they possibly can, consistent with their own national interest.

Senator TALMADGE. When the so-called welfare reform bill was presented to our committee, Secretary Finch said that he would not support it if it were done out of deficit financing. Even without that program, the deficit for fiscal 1971 on a unified basis would probably be more than \$15 billion, and on a Federal funds basis, it will be about \$25 billion. So you will have to borrow enormous sums to finance the welfare plan. What is your attitude about embarking on a major program of this sort financed through deficit spending?

Mr. CONNALLY. Senator, we are going to have to borrow additional money. May I address myself to that for just one moment?

Senator TALMADGE. Yes.

Mr. CONNALLY. The public debt is now \$392.6 billion. The debt ceiling authorized by the Congress is \$395 billion. I should anticipate that I shall be back before the Congress hoping for a successful conclusion of an increase in the debt limit ceiling prior to mid-March.

Now, with respect to the deficit spending at a time when you inaugurate new domestic programs of welfare or any other program, may I answer it in general terms by simply saying that basically, I think you ought to pay for what you get. This is true of the budget, in my view. I think in that respect, I would be classed as a conservative. That view occasionally has to be tempered.

I think if you want to have programs, if you want to have services, then we should tax to pay for those services, that we ought not to engage in continued deficit spending and expect future generations to pay for either services, or wishes, or wants of ours. That is my view as a general proposition.

Now, there are times when I think there are extenuating circumstances that justify deficit spending. I think now is such a time, beyond any question. When you have high unemployment, tight money, high interest, and the economic situation that has prevailed in recent months; then I think we have every reason to encourage and stimulate the economy even if deficit spending is involved. The budget will be out tomorrow, and I am not sure what the full extent of the deficit will be, but whatever it is, it will not be a new experience for this Nation. Given the slack in the economy, I think it is completely justified.

Now, it is my general impression that the budget, when it is submitted, will be balanced in terms of the full employment budget. This concept, I think, is a viable concept and a correct concept under the circumstances.

I find no great room for argument, Senator, about deficit spending under the economic circumstances that are part of our life today in this country.

Senator TALMADGE. Thank you, Governor.

I have no further questions, Mr. Chairman.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. I shall be very brief, Governor. I welcome you here and congratulate you on your appointment and your statement.

I was particularly impressed with your statement that you would fully perform the duties of the Secretary of the Treasury. I think that is commendable. I think the Nation needs strong leadership in the Office of the Secretary of the Treasury.

I have one question concerning the Internal Revenue Service, the Commissioner of Internal Revenue, and the Service generally. Now, that is in the Treasury Department. I have always viewed it as, in its dealings with individual taxpayers, as a semijudicial operation as well as administrative, and that it should have a high degree of independence from all political arms of the Government in order that it might build a reputation as a just and fair administrative agency to collect the taxes from our citizens. Do you generally concur with that view?

Mr. CONNALLY. Basically I do, Senator, with a possible reservation that I think I should make. It is a part of the Treasury Department.

Senator CURTIS. That is correct.

Mr. CONNALLY. The Commissioner of the Internal Revenue is answerable to the Secretary of the Treasury. I expect him to answer to the Secretary of the Treasury, just like I would any other Commissioner or Assistant Secretary or Under Secretary.

This is not to say that I intend to meddle in his business. He has 60,000 employees, and the problem of collecting the revenue from all the taxpayers in this country. I am surely not going to involve myself in the day-to-day operations of that Department, but I certainly intend to have a hand in any of the policy decisions in the Internal Revenue Service.

Senator CURTIS. I think we are in accord on that.

Mr. CONNALLY. I think we are.

Senator CURTIS. That is the reason I said a high degree of independence, rather than any absolute independence.

Mr. CONNALLY. Yes.

Senator CURTIS. It is a part of the Treasury Department and must operate as such.

Mr. CONNALLY. Yes.

Senator CURTIS. But insofar as possible, in dealing with the individual taxpayers and so on, I think you and I are in accord.

Mr. CONNALLY. I do not think we differ at all, sir.

Senator CURTIS. That is all, Mr. Chairman.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. I want to welcome you to the committee, Mr. Connally, and say that I share the appreciation for the President's picking one good Cabinet officer, even though I have nothing against the rest of them.

The economic plan of the administration has evidently failed, despite the best face they have attempted to put on the situation. The increase in unemployment, even as late as this morning comes forward with almost brutal blows to those people who want to work. Four additional areas of major unemployment have been added to the areas of unemployment lists for a total of 40. The number of smaller communities now reaches 700. The latest in my State is the Michigan City-LaPorte area, just added to the unemployment list.

The wholesale price index rose more sharply today, in its announcement, than in a long time. So the best face the administration can put onto it has been a rather gloomy one.

I do not know whether you have been brought into save the game plan or to save the face of the administration. I just wonder, do you have any inside information that you can give us as to which way the administration intends to run now with the ball? Are they going to punt, pass? What is the plan? What are we going to do about unemployment? How are we going to put people to work?

Mr. CONNALLY. Without attempting to explain all of the past actions and advices which were given with respect to those actions, I think I can say to you that after many hours of conversation with the President, we speak not in terms of a "game plan" but in terms of unemployment, of unfortunate circumstances which put people out of work. He is concerned that we have a monetary system in this country which provides ample funds for the vital functioning of this economy. He is certainly interested in a rate of interest, where people can afford to borrow money and put it into their businesses, buy equipment, and buy homes. We have a prime rate now of 6 percent. This is the rate that the first-rate corporate borrowers pay. The average citizen will pay at least 1.5 percent above that. I personally, very frankly, would like to see the prime rate go even lower. I would like to see available to the average person—the small businessman, the homeowner in this country—long-term money at less than 7 percent. I know this is in accord with the President's views.

No one wants to see people out of work. We recognize, that in an inflationary period such as we have had, restraints have to be imposed. Something had to be done.

Senator HARTKE. I would like you to be specific. You say restraints have to be imposed. Would you advocate wage and price controls?

Mr. CONNALLY. No.

Senator HARTKE. Would you advocate that the President use the power which he has at the present time, which has been given to him by the Congress, to impose those controls at this time?

Mr. CONNALLY. Senator, at this moment, I would not recommend mandatory wage and price controls.

But short of controls I think the President can take action to highlight his concern about excessive wage or price increases. Call it what you wish. Under the Johnson administration it was called jawboning. I do not think there is any question but what the President has made it abundantly clear that he is vitally concerned about what happens with respect to prices and wages. He talked about the oil companies, when they raised the price of gasoline. Administration officials, with the President's approval talked to Bethlehem Steel when it raised the price of steel. He called the building trades counsels, unions, into his office and said, we cannot stand these 15 percent annual increases in wages. You have to stop it; you have to exercise some restraint.

Senator HARTKE. In other words, we are going to see an increased utilization of jawboning?

Mr. CONNALLY. I do not think there is any question about it. I would certainly recommend that. I would certainly advise that in general terms.

Senator HARTKE. Has he given any specifics about how we are going to put these people back to work, the unemployed? I hate to call them unemployed. These people have been unemployed under a game plan that we devised very definitely to slow down the economy. That was the term. It is the first planned recession in the history of the United States. We had never had it before. Now we have it. We have the continued increase in the cost of living; inflation is written in great big words.

If America cannot see it now, the President said, look, I am no longer really going to put emphasis on fighting inflation any more, even in the rhetoric. From here on in, the emphasis is going to be on putting people to work. But how are they going to put them to work?

Mr. CONNALLY. Senator at the risk of being argumentative about it, and I do not intend to be—

Senator HARTKE. I would like you to be argumentative. That is all right with me.

Mr. CONNALLY. He did not have a planned recession program at all.

Senator HARTKE. Mr. McCracken said they had a planned slowing down of the economy.

Mr. CONNALLY. That is correct. That is a different thing. He had a planned slowdown of the economy in order to try to stop the inflation. That is a different thing. He did not say he planned the recession. He planned to stop the rising rate of inflation because this was hurting everybody in the country. It hurts business. It hurts the individual. It hurts people on fixed incomes. It stops economic activity. It hurts our balance of payments. It cannot do anything but destroy us if we let it go on.

Now, I would not have done it exactly that way. But that is beside the point. However he has not given up on the fight against inflation, Senator.

Senator HARTKE. I hope he has not.

What I am asking is, has he told you he plans to do anything differently than he has done in the last 2 years? Let me tell you about the things he has planned to do. Talk about a balanced budget.

He instituted depreciation reforms. I cannot oppose that, because I advocated that in 1965, when Mr. Cohen told me they were putting in that new depreciation schedule. That cost \$2.4 billion. That was on the capital investment side for the business people.

The welfare program, as Senator Talmadge has said, is going to increase; that is an additional \$4 billion.

The pollution control thing is an additional \$4 billion. We have not received any statement on how the tax sharing is going to be broken down. The total of it is supposed to be \$16 billion, but \$6 billion, according to stories, is going to be an additional amount going out.

As I total that out, that means at best, we have an additional \$15 billion before you start counting nickels. You have an additional \$15 billion added on top of your already projected deficit of \$25 billion. Are we talking about a \$40 billion deficit?

Mr. CONNALLY. No, sir.

Senator HARTKE. What are we talking about?

Mr. CONNALLY. You asked about how are things going to be different? Let me answer it this way.

For the past several months, you have had high interest rates. Interest rates have come down tremendously. I think it is going to come down even more. That is vastly different.

Second, for the past several months, we have had tight money. That monetary policy has been relaxed.

Senator HARTKE. Are we going to have an easy money policy then?

Mr. CONNALLY. I hope we are. That will depend, to a large extent, upon how the economy goes and on the Federal Reserve System and Dr. Burns. He is an extremely sound man, an extremely able man, one for whom I have the highest admiration, even personal affection.

Senator HARTKE. I share that.

Mr. CONNALLY. He and I can work together. He is with the independent Federal Reserve System. I cannot tell him what to do. I think the President has difficulty, if he can at all. The Federal Reserve is an independent agency.

If we have an easier monetary policy, this is certainly different. If we have the personal power of the Presidency used against both management and labor to say to them that you have to stop the increases in prices, you have to stop the exorbitant increase in wages—this is vastly different.

The President knows and understands full well that the greatest problem we have with the increase in wages is in the construction trades. He also knows that in the budget which you will see, there is \$14 billion for Federal construction alone. The Federal Government is the largest builder in the United States of America. Now, he knows that you cannot build those buildings, you cannot spend that \$14 billion if you are going to be confronted with this kind of escalation of wage rates in the building trades. So he recognizes that we may have to defer construction if these wages are not brought into line and if labor statesmanship is not exercised.

He recognizes that we might, under certain circumstances, be able to suspend the Davis-Bacon Act. There are a number of things that can be done.

Yes, I think there is a vital difference in the last couple of months in the approach this administration is going to use in order to try to

provide the incentives to increase the economic vitality. He has just taken a step in changing the depreciation schedules, as you mentioned. This will cost us \$2.7 billion—in fiscal 1972. It cost \$800 million in fiscal 1971. It will rise to approximately \$4.1 billion in 1976 and then decline to approximately \$2.8 billion again in 1980.

But this is not any excessive advantage for business. The investment tax credit was suspended by the Congress and this was an attempt to provide a stimulant. It will also help to clarify and simplify the administration of the depreciation schedule, because this was getting to be a real hassle within the Internal Revenue Service.

Senator HARTKE. Let us take the depreciation. The exact amount on depreciation is about the same that was involved in the 7-percent tax cut.

Mr. CONNALLY. Yes; a little less.

Senator HARTKE. Not much; \$100 million less.

Mr. CONNALLY. Yes.

Senator HARTKE. Let me say to you that you will be back. When you come back and ask for the increase in the debt limit, we will talk about it a little bit more.

Mr. CONNALLY. Thank you, Senator.

The CHAIRMAN. Senator Harris is going to have to go to the floor. Would it be all right if I call on him first?

Senator JORDAN. Yes; I shall yield to Senator Harris.

Senator HARRIS. Thank you. I do have to go to the floor at the request of Senator Mansfield, Mr. Chairman. I appreciate very much your consideration.

Governor Connally, back in October you had a good deal of criticism of the economic policies we have been following during this administration. Now, then, I think that it is important that we talk about what we can do about what I think are terribly mistaken policies that have been followed.

I notice in Joseph Alsop's column of January 27, in the Washington Post¹ that there was a statement that reads as follows:

Second, the upshot of the Nixon-Connally meetings was a firm Presidential directive to Connally; as soon as he has been confirmed by the Senate, the new Secretary of the Treasury is to start work with his department's experts on a root and branch revision of the entire system of federal taxation.

The idea is to start with a clean slate and to design brand new federal tax systems. The value added tax, an enormous revenue raiser, will be one of the new systems' centerpiece, but everything else will be changed as well.

Now, you have indicated that you favored the President's deficit budget and you think that is indicated now. Would it not be just the opposite of stimulating consumer demand to increase taxes, particularly that kind of national sales tax, a regressive idea that taxes not on the ability to pay? Would that not be particularly inconsistent with the depreciation allowance change that has given a measure, a rather large measure, of relief to wealthier people?

Mr. CONNALLY. Senator, I do not want to take exception to that newspaper story. Where he got it, I do not know. In the conversations the President and I have had, the President has made it very clear that he wants us to take a look at every new conceivable tax measure that we can look at—not for any instant imposition at all,

¹ The article appears at p. 83f.

but for study. He is extremely concerned about high income taxes at all levels. Particularly he is concerned about the increased costs of property taxes.

Obviously, he is not going to recommend a value added tax in addition to the existing taxes. If and when he ever has a recommendation with respect to this or any other tax program it is going to be in lieu of some existing taxes. He thinks it ought to be simplified. He thinks a tax system can be devised to relieve the burden on the homeowner of the enormous taxes which they now pay. It is with that in mind that we are going to look at it. But that is about the extent of it.

Senator HARRIS. What about your own background as far as income tax and sales tax are concerned in the alternative? Do you favor the idea of a sales tax, which I take it is the same as a value-added tax? It will be passed along to the consumer. Do you think that is a good tax?

Mr. CONNALLY. I have never recommended it. I think any tax program should be a balanced tax program. I think, frankly, there is a place for a sales tax if it is balanced by other types of taxes.

Now, just to say that I am for a sales tax as opposed to any other particular form, I would not do that. But I think it is a part of a balanced tax program.

Senator HARRIS. Do you think, for example, it would be good tax policy to reduce income taxes and increase the sales tax?

Mr. CONNALLY. Not necessarily; no.

Senator HARRIS. Not necessarily?

Mr. CONNALLY. It depends again on the specifics of what you are talking about. It depends on whom it affects.

As you well know we have an extremely complex tax system in this country. I suspect it is going to be extremely complex for a long time. So I cannot give you categorical answers to some of the questions.

Senator HARRIS. If we got to the point where we needed to increase taxes, Governor, and a much tougher minimum income tax was advocated which some of us advocated a couple of years ago, and I do now, raising thereby the income tax that certain wealthier people would pay, would there be anything in your background which would make you oppose that kind of approach rather than a value added tax, even though it could affect oil and gas income and all other types of income?

Mr. CONNALLY. Senator, I am like everybody else, I suppose; I am against all taxes. I do not know of any of them I like. And I am not for imposing any that you absolutely do not have to have. I am in favor of imposing enough to pay for what you spend.

As a basic matter, I believe that taxes ought to be levied on those most able to pay. But I also believe that everybody—almost everybody; I say almost, because obviously the very destitute cannot—ought to pay some tax. I think it is wrong to have a democracy where some people do not contribute something to the preservation of that democracy. What form it takes, I do not know. Again I get back to about the only answer I can give you, a balanced tax program.

I do not think the President has any idea of recommending a value added tax unless he has a good chance of using the revenue to lift some of the burden from the homeowners. It ought to be a matter of

national policy that we encourage people to buy more homes in this Nation. If through high taxes and high interest rates they cannot afford to, it is bad. He feels that way and I feel that way about it.

Senator HARRIS. Is not one of the arguments about revenue sharing that the Federal income tax is more progressive than is generally true in the city and State tax systems, often based primarily on property and sales? If you finance a revenue-sharing program through a regressive Federal sales tax, would you not be removing one of the main arguments for revenue sharing?

Mr. CONNALLY. I think the Federal tax program might be called progressive, but also, the Federal system is preemptive. It preempts more fields of taxation than are available to States, particularly to cities.

Senator HARRIS. Would you not just double up on that, then, since so many depend on sales tax already? Would you not preempt just a little more if you put on a Federal sales tax, too?

Mr. CONNALLY. Yes, this is why I say you do not need fear any imposition of a value added tax unless, and until, it is a part of a sweeping change in the whole tax structure of the Federal Government. I am not prepared to talk about that today, very frankly.

Senator HARRIS. We just want some of your general philosophy.

Mr. CONNALLY. Yes, sir.

Senator HARRIS. What about this, Governor? You have talked about the immense deficit that there is going to be this year, and the Republican deficit is a little different from the Democratic deficit. One is from overspending; that is what we are accused of. This is one from policies which brought about a deliberate slowdown in the economy and a great shortfall in revenue. It is from having less to spend.

Now, Governor, if you have to go into the market and borrow that money and thereby become a much stronger competitor in the money market, would that not be inflationary?

Mr. CONNALLY. Yes, sir.

Senator HARRIS. Unless you have some rather strong wage-price restraints, and is that not likely, we will once again pull money away from social goals such as building houses and so forth, unless the President uses the sort of credit-rationing powers which have been given to him?

Mr. CONNALLY. Yes, sir; it may be inflationary when the Federal Government has to go into the market for money, such as it has had to do. I hope the Congress will look at the ceiling, the 4¼ percent ceiling that you have had on the amount of interest that we can pay on Government bonds since 1918. It ought to be removed.

Since 1965, the Government has not been able to issue a single marketable bond because of the limitation of the 4¼ percent interest which we can pay.

As a consequence, in 1965, the average maturity date of the public debt was 5 years, 9 months. Today it is 3 years and 5 months—almost half of what it was in 1965.

This means we have a constant turnover in financing of the public debt. It is not in the best interests of this country.

The longest maturity we can now provide is 7 years, because of this interest limitation.

So you are exactly right, Senator, we can easily contribute to inflation by constantly going into the money market. We compete with everybody for money. This is part of why the interest on the public debt is so high, because we contribute to it.

It is not a good, sound policy, and the Congress ought to eliminate this 4 $\frac{1}{4}$ percent and let us do some long-range financing of the public debt through the issuing of bonds.

Senator HARRIS. I am notified by the chairman that my time is up.

The CHAIRMAN. If you want to, Senator, go ahead and ask a few more questions, because I know you have to go. I expect your conscience to be your guide.

Senator HARRIS. Did you expect to come back this afternoon?

The CHAIRMAN. We can if it will take that long. But if you can find out what you want to know from Mr. Connally now, I suggest you go ahead, Senator, because I suspect the rest of us will be through in the morning session.

Senator HARRIS. Thank you, Mr. Chairman.

Unless you have some other strong wage-price restraints, do you expect that Dr. Burns is going to move to expand the money supply at the rate of 10 percent? Maybe you can say what the rate should be. Do you think he is going to move to expand the money supply to the degree he should unless there are some wage-price restraints to hold down the inflationary effect of this deficit and of the Government borrowing, and so forth?

Mr. CONNALLY. Senator, I cannot speak for Dr. Burns. I know that he is an extremely able economist; I know he is a very dedicated American. I know he is going to try to administer the monetary system in the best interest of this country. What it should be, I do not know. I would not put a figure on it. It has been in the range of five to six. You suggest 10. I would not know about that.

I have reason to believe that Dr. Burns will perform in a highly acceptable manner to help solve these problems.

Senator HARRIS. Do you think that his suggestion for a wage-price board is one that you could favor in the economic councils of the Government?

Mr. CONNALLY. Well, yes, if we cannot do it any other way. There is a great deal of merit in his suggestion of a wage-price board.

Senator HARRIS. I support it very strongly.

Mr. CONNALLY. I cannot argue with that basic concept. I think it is a matter of degree. How far do you have to go? I start from the other end of the line. I start from the point that I do not want to recommend mandatory wage and price controls, because I think, in this environment you could not enforce it.

I don't think you can impose something on people they are not willing to abide by.

Senator HARRIS. I have not advocated that.

Mr. CONNALLY. I know you have not.

Senator HARRIS. What I have advocated—you might respond to this—is a wage-price board with rather strong wage-price guidelines, to impose wage-price freezes, if necessary, up to 6 months to shock the economy into responding.

But this administration has been fighting inflation in the morning and recession in the afternoon. They are conflicting indicators. It seems to me much more activist economic policies are going to be required.

What I want to know is whether or not you are going to be one of those counseling for the kind of laissez faire attitude we have had here in the last 2 years which have really been wretched and disastrous or whether we are really going to try to get hold of this thing?

Mr. CONNALLY. Senator, I think it is fair to say I am probably an activist in whatever I do. In the area you are talking to. I am going to recommend that we take the necessary steps, to the extent necessary to stabilize prices and, more or less, stabilize wages.

We are on the horns of a dilemma; as you well know. I think we have to stop the escalation of prices and we cannot abide these enormous wage increases of 15 percent a year. Whatever it takes at this point, I think the administration is trying publicly to say to industry, to say to labor, cease and desist; you have to stop this. You are destroying yourselves and the country. If that does not work, I would personally get stronger; I would take the next step.

Senator HARRIS. Governor, do you agree with this statement, that Adam Smith never reckoned with the idea that industries such as steel and some labor unions, despite the fact that volume of sales is going down, raised prices to make up for that loss of sales and, despite an idle work force, some labor unions were able to get inflationary wage increases, and that if the President of the United States doesn't represent us in those kinds of basic decisions, we are totally unrepresented in decisions that basically affect our lives; is that not so?

Mr. CONNALLY. That is basically correct, sir. I have never believed that monetary restraints alone can solve the problem. You do not have a system that is theoretical in character; you have an actual system. Even though there is high unemployment, wages still go up. Even though there is loss of sales, prices still go up. So you do not have a free market in terms of the theoretical economic picture. You have a very different situation, and I think it is going to have to take the persuasion of the President to solve some of these problems.

I think he has embarked on a program that is designed to do precisely that.

Senator HARRIS. I would just like to get your reaction to this last thing relating to our monetary policy. I hope that this notion that the big bankers of the country ought to be allowed again to raise interest rates to these unconscionable levels we have seen in order to save us has been discredited.

Just look at what has happened: We have come full circle now. We have had high interest rates and now they have begun to come down, and all during that period while they were high, we had increasing unemployment and increasing inflation. Today we see another increase in the wholesale price index. I just hope that when these big bankers come into you as Secretary of the Treasury, and say, sort of like Aesop's Rabbit, "Please do not throw us in that briar patch, please do not make us have to charge a lot of higher interest in order to save the country," that you will stand up to them, Governor, on the part of the people.

Mr. CONNALLY. Senator, I think you can be sure of that. I think you know my background fairly well. We do not have any big bank-

ers down in Floresville, Tex. I grew up in a rural atmosphere. What little I have learned about credit, in this world, has been as a borrower; not as a banker.

I guess that probably sums up my views pretty well.

Senator HARRIS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

Governor, as I told you in my office, I am pleased to see your nomination for this high office.

Mr. CONNALLY. Thank you, Senator Jordan.

Senator JORDAN. I want to explore with you some of the problems of inflation and unemployment. The last report I saw from the Bureau of Labor Statistics was that unemployment had reached 6 percent. Standing alone, that is very serious, indeed, and it is all too serious for the man who is out of a job. It is altogether too high.

But is it not true that there are some other factors that have to be taken into account here?

This economy has had to absorb from a million and a quarter to a million and a half new people in the work force every year because this is the increase of people who enter the work force as against those who retire from the work force; is that a fair statement?

Mr. CONNALLY. Yes, sir.

Senator JORDAN. Is it not true, also, that by reason of the increased productivity of labor, 96 or 97 men can do as much work this year as 100 did a year ago?

Mr. CONNALLY. Senator, I would not argue with your figures. I cannot confirm them, for my own knowledge.

Senator JORDAN. We have used the figure of 3.2-percent increase in productivity. Some say it is higher; some say it is lower. But there is a factor there that as wages go up, more money is put into capital investments behind each employee and his productivity increases?

Mr. CONNALLY. Yes, sir.

Senator JORDAN. This is another factor that has to be taken into account.

Mr. CONNALLY. Yes, sir.

Senator JORDAN. Then there is a further factor here. As we unwind from a war economy into a peace economy, half a million fewer men are in uniform this year than a year ago. With those men going out of uniform, perhaps that many more in industry have been displaced.

Now, these are some of the things that are not taken into account when we contemplate the 6 percent unemployment figure. Likewise interest rates, I think, must have topped out about late last spring because since that time, the prime rate has been going down steadily. There are other indicators that we have turned the corner on inflation or are about to achieve some real results. Will you agree with that?

Mr. CONNALLY. Yes, sir; I would certainly hope so.

Senator JORDAN. I shall ask you this, then, Governor: Do you believe that it is possible to have full employment without a shooting war?

Mr. CONNALLY. Yes, sir.

Senator JORDAN. We have not had it in my memory without a shooting war.

Mr. CONNALLY. It depends on what you define as full employment, of course. I would assume you are talking about an unemployment figure of—

Senator JORDAN. Four percent.

Mr. CONNALLY. Say 4 percent.

Yes; I think it is possible to do it. I think it is a goal we have to strive to reach. We have not had it. But I do not think it is impossible to attain.

Senator JORDAN. I would hope we could. It is a dismal future we face if we cannot.

Mr. CONNALLY. Senator, you are so right. It is a very complex and difficult problem.

I cannot always reply in simplistic terms and categorically when some questions are posed to me, simply because there are many, many factors that go to make up the number of unemployed.

And, as we decrease forces in Southeast Asia, we are going to add more people to the work force.

Senator JORDAN. Sure.

Mr. CONNALLY. This is compounded by the fact that our balance of trade although improving, is not good enough, and our balance of payments is not good. It is like a domino theory. Each one affects the other.

So, we have to look at the whole ball of wax. You cannot just take isolated pieces of it.

Senator JORDAN. That is right, as a trade off, one for the other.

Mr. CONNALLY. That is correct. No question about it.

Senator JORDAN. I would ask you just this one final question. Do you think it is possible in this free enterprise economy that we have, to have full employment and zero inflation, and if so, how long will it take to achieve that; and if not, how much inflation is tolerable in order to achieve full employment?

Mr. CONNALLY. Well, Senator, I would be the last to say that we are going to be able to achieve absolutely full employment and zero inflation. I do not think you or I will live long enough to see it.

Our economy is not that static. It is a constantly moving, shifting thing. You are not, in my judgment, going to have full employment and zero inflation, because this presupposes an ideal economic condition, not only in the United States, but in the world. Our exports have traditionally represented 4 percent of our gross national product, our imports 3 percent of our gross national product. Now it is approximately 4.7 and 4, and much more significant to our whole economy.

So we are impacted by what happens in other countries throughout the world. I do not believe you can anticipate the ideal situation, where we are going to have full employment and zero inflation. We may have full employment and we may have a price decline.

We may have 2 percent, 3 percent, inflation with full employment. I would hope we could achieve that in the fairly near future. But to say that I anticipate we are going to do it with zero inflation, I am not that hopeful.

Senator JORDAN. Then the second part of my question, and I agree with you. I think it is an ideal goal but it is quite impossible of achievement.

Mr. CONNALLY. Yes.

Senator JORDAN. What degree of inflation is tolerable under a full employment budget concept?

Mr. CONNALLY. I do not think I would want to put a number on what is tolerable.

Everything is relative. Certainly, I think 2 percent might be tolerable. I think a rate of inflation of 6 percent is not; 7 percent is obviously not.

I would not, at this point, attempt to say where that precise point is.

Senator JORDAN. Thank you, Governor. I like your answers.

Mr. CONNALLY. Thank you, Senator Jordan.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Governor Connally, I certainly welcome you here today. I am proud to see you here. I am very impressed with your statement, but even more impressed with your responses.

Mr. CONNALLY. Thank you, sir.

Senator FANNIN. I remember one response that I received from you that I was not so well satisfied with in your Capitol on the day you had a press conference that announced you were starting out on the campaign for the ticket that you represented. I do not know if you remember that day.

Mr. CONNALLY. Senator, I remember it quite well. I hated to do that while you were a guest at the Capitol, but the press conference had already been set up and the press would not have understood my withdrawing it at that point.

Senator FANNIN. I understood and realized what a capable fighter you were, and over the months following, I realized it to a greater extent, and I certainly commend you, of course, for your actions as far as what you represent. I am pleased to have had the privilege of working with you on committees in the Governors' Conference and know your capabilities.

Mr. CONNALLY. Thank you, sir.

Senator FANNIN. I do realize that if you are going to succeed in your endeavors you are going to make recommendations to the Congress and we are going to have some bold acts of the Congress. I am very concerned about your comments regarding the balance of trade, the balance of payments. We have seen our balance of trade change so much and our exports and imports shift.

I am concerned and I am hopeful that we can have some hearings on what is happening as far as our tariffs are concerned.

I know that you followed the employment picture very diligently while you were Governor of the State of Texas. We are probably employing more people in Arizona now—I know we are—but we still have more unemployment just from the factors you have explained.

I am wondering if you have gone into or are aware to the extent that I think it would be necessary for you to be aware of the trade problems we have, for instance, in your State of Texas, where you have a great electronic industry. Here we are permitting these companies to go abroad, our own companies, to ship back into the United States at a low tariff rate.

But the Japanese, for instance, if we try to get in their country, which we cannot do, but if we do get in there, it is a much higher tariff.

We have these very serious problems. I am wondering if this will be something you will be looking into and making recommendations about?

Mr. CONNALLY. Senator, this is a field in which I am extremely interested. I do not pose to be an expert in this field but I do have some information. I have a very deep and abiding interest in this whole field of our international relations and all of our trade agreements throughout the world.

I think we need to take a look—Congress needs to take a look—at the GATT agreements, for instance, to which we constantly refer. These were agreements negotiated in 1946 and completed in 1947, when the United States had a \$10 billion trade surplus, when we were almost the only country in the world with much gold, when we were about the only viable economic system operating in the free world, when Great Britain was still staggering, Germany was on her knees, Japan was on her knees, as were many of the other countries throughout the world. We were in a spirit of giving and forgiving at that particular period in time.

Now the times have changed. For example, we are trying to negotiate textile agreements with Japan. If we do not, I think that there are going to be some protectionist measures passed by this Congress.

Senator FANNIN. I wholeheartedly agree with you and I have introduced legislation to try to bring this about. As far as countervailing and antidumping duties are concerned, we can work on these problems more forcefully.

Mr. CONNALLY. I am aware of your efforts in this regard, because those two programs are in the Treasury Department, as you well know.

Senator FANNIN. Yes; I know.

We do have these problems in mind. This is one of the most serious problems we face. When we talk about unemployment, when we realize companies are going into Taiwan, Korea, Hong Kong, other places across the water where they do have low-cost labor, it is regrettable that we cannot compete here, but I think we are giving incentives to encourage that.

When we encourage a company to go overseas and we give them tax incentives to do so, tax incentives that we will not give in this country, I think it is rather ludicrous. So I hope you will go into that very fully and I certainly want to assist in every way possible.

Mr. CONNALLY. I certainly shall.

Senator FANNIN. One other philosophical question on tax policy concerns whether tax, a tax system should be used to solve social and economic problems or used as a revenue reserve for solving other problems to be dealt with.

Take, for example, pollution. Should we use a tax code to discourage polluters or, more directly, just set antipollution standards by law without complicating, further complicating our already over-complicated tax code? What are your thoughts with regard to the use of the tax system in this regard?

Mr. CONNALLY. Senator, I again have to give you an answer which, perhaps, may not completely satisfy you, but my philosophy in general is that the tax laws should be passed and administered for the pur-

pose of raising revenue. Now, this does not mean that there cannot be and should not be exceptions, because we make exceptions. They are replete in the history of the tax laws of this country.

I would assume that such would continue to be the case. I think the exceptions that are made should be very, very carefully thought out. They should be made only in cases of matters of first priority of national importance, and they should be very limited in number.

Senator FANNIN. I certainly agree with you. I hope that we can, of course, give the encouragement without turning around the whole tax program.

Mr. CONNALLY. In 1969, you gave encouragement in the form of writeoffs and depreciation for those who will buy antipollution equipment for their plants. The tax laws are replete, really, with incentives which the Congress very wisely passed.

Senator FANNIN. But that is not the basic principle behind them.

Mr. CONNALLY. No, but the basic principle, in my judgment, should be that tax laws should be for the purpose of raising revenue.

Senator FANNIN. I was very pleased to hear you mention the Davis-Bacon Act and what might be done in this regard. If we are asking industry to take action, and what you referred to as bold action, in some of these fields, do you not think that we, as Members of Congress, should be willing to stand up to the labor unions and to the people that are causing the problems, such as the great increase in labor costs, the tremendous increases you referred to in your statement or in your responses? As far as I am concerned, I think the Davis-Bacon Act should be rescinded because I think it has tended to cause increased inflation to a great extent. Do you not think we should be willing to take some of these actions that would be necessary?

For instance, we also have problems as far as the balance of power between the unions and management. Do you not think we should look at this overall picture if we are going to ask industry to do the same?

Mr. CONNALLY. Absolutely, Senator. I do not want to comment on the advisability of repealing the Davis-Bacon Act. But beyond any question, the days when labor was a struggling child of the American economy have long since passed. Labor is a giant in the system of democracy, just as the Nation is a giant among the countries of the world.

Labor, like business now, has to, and in many cases has, exercised a high degree of statesmanship. But to the extent that either industry or labor does not exercise statesmanship, Congress is going to have to have the courage to stand up and say to them, just as the administration is, that you are not playing by the rules, and you are doing violence to the country.

Senator FANNIN. I agree wholeheartedly. Certainly if we are not willing to take that action, it will be necessary to try to bring about a balance between management and labor, but demand of both—I certainly agree it does not just follow on one side. I have tried to get some of the special privileges labor has enjoyed as a result of the actions taken years ago that do not pertain to present problems or programming, and I have not been very successful. But I will continue to try to carry these matters through the Congress.

Thank you.

Mr. CONNALLY. Thank you.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Governor, first, I want to commend you for your willingness to undertake this assignment and for your willingness to make the financial sacrifice, the sacrifice that I know from our personal conversation you are making.

Mr. CONNALLY. Thank you, Senator Byrd.

Senator BYRD. I feel the American people should be aware of the sacrifice that you are making. And I might say that I think Mrs. Connally should be commended, too, because any financial sacrifice that you make, she shares in that sacrifice.

Mr. CONNALLY. She will appreciate that, Senator, very much.

Senator BYRD. Governor, I am particularly interested in two sentences of your statement today, which I would like to read into the record:

I especially want to emphasize the role of the Treasury Department, and the Secretary of the Treasury in particular, in leading the efforts to maintain the integrity of the Nation's currency. The control of inflation and protection of the currency is vitally important for its own sake.

I certainly agree wholeheartedly with that statement.

In order to maintain the integrity of the currency, is it not vitally important that the Government's financial house be put in order?

Mr. CONNALLY. Yes, sir: I think it is. I do not think there is any question about it. That is why the President speaks now of his budget for the next year being balanced on a full employment basis, because there is no question but what we have to first prove to our own countrymen that the Federal Government does believe in fiscal stability. If we expect them to put their house in order, we have to put ours in order.

Senator BYRD. I would like to comment just a little later on that expansionary concept of budget making. But first, let me ask you this: The budget that was submitted a year ago projected an actual surplus of \$1.3 billion for fiscal 1971. To my knowledge, there have been no substantial changes in this estimate. It now appears that there will be a deficit on a unified budget basis for fiscal 1971, of somewhere around \$15 billion, and a deficit on the old administrative budget basis of something over \$20 billion.

Now, Governor, our committee is responsible for taking action in the field of taxes and debt management. It seems to me it is difficult to make intelligent decisions when Treasury estimates are off by such a fantastic amount.

Will you, as Secretary of the Treasury, provide the taxwriting committees of the Congress current, up-to-date figures on the economy and the state of the budget on a regular basis?

Mr. CONNALLY. Yes, Senator, we would be delighted to supply this committee with any information that we have in this regard.

Senator BYRD. And I assume, too, that on the major matters which your Department will have any legislation on will come before this committee, and you and your Under Secretaries will be available to testify?

Mr. CONNALLY. Yes, sir.

Senator BYRD. The reason I bring that up is that in some of the other Departments of the Government, the committee on occasion has very

rarely seen the Department head. I think it is rather important that the facts be obtained from the individual who is primarily responsible.

Now, Governor, in your judgment, is deficit spending a major cause of inflation?

Mr. CONNALLY. It depends on conditions. I think deficit spending in good times, in a period of full employment, is a very strong contributing factor. Deficit spending in a slack economy, or however you want to describe it, is not particularly inflationary.

I think this is the basic foundation of the argument behind the full employment budget. Obviously, if you have a boom on your hands, if you have full employment, deficit spending, in my judgment, is difficult to justify, no question about it.

Now, on the contrary, when you have a situation such as we have today of unemployment rising and general slack economic conditions, then I frankly will take a different approach. I think there is some justification for deficit spending on the part of the Federal Government.

Senator BYRD. You, as Secretary of the Treasury and as one who must lead in the efforts to maintain the integrity of the currency, are not concerned at the prospect of a \$20 to \$25 billion deficit?

Mr. CONNALLY. No, sir; I did not say that. I am very concerned, Senator.

Let me say this, Senator: As a matter of general principle, I do not believe in deficit spending. But there are times in the affairs of this Nation, in my judgment, where it is justified. In slack times such as this, when you have high unemployment, when you have slack economic conditions, then I think you can, with great justification, advocate deficit spending.

This is not to say that I am not concerned about it, because I am. The dollar is the monetary currency of the world and we have to keep it stable and we have to provide not only for our own economic stability, but we have to say to the world that we know how to manage our affairs and that we are not going to indiscriminately engage in deficit spending. No question about it. I am going to be continually concerned about it.

Senator BYRD. Yes, but the justification has been made almost annually now, not for several years, but for 20 years, for one reason or another, as to why the budget cannot come somewhere near in balance. It has only been balanced, as I recall, only four or five times in 30 years.

Now, to get to this expansionary budget concept that you mentioned—

Mr. CONNALLY. I am sorry I mentioned that, Senator. If my mentioning it brought it to your mind, I am sorry I mentioned it.

Senator BYRD. To get to that, several years ago, in order to make it appear that the Government was in better shape than it really was, we went to the unified budget. That temporarily gave an impression to the public that we had a surplus when, in fact, we did not have a surplus. The only way we had a surplus was to take the trust funds which could be used only for specific purposes and apply that against the general fund operations, the deficit that occurred there.

That, in some cases, led to a fictitious surplus.

Now, even that is not working, so we are trying what I consider another gimmick, the gimmick being to say, well, now, we are going

to spend as much money as we envisioned we would take in if we had full employment. If that is not financial gimmickry, and you had nothing to do with it, so it is no criticism of you—

Mr. CONNALLY. No, sir; I am not the originator of the concept.

Senator BYRD. I admit that it has not been too often that my views on Government finances have been the prevailing view in Washington, but it seems to me that sooner or later this Government has to get Government spending under control. It has to put its financial house in order. It is not in any better shape today, in my judgment, and I think it might be fair to say we are in worse shape today than we were 2 years ago, if we are going to have a deficit of \$25 billion or \$20 billion. I will be conservative and say \$20 billion—for fiscal 1971. And we are bound to follow that up with another big deficit in fiscal 1972.

So my judgment is, if you are Secretary of the Treasury 2 years from today, and I hope you will be, if you are, my guess is you or your associates will come in here with a request for a tremendous tax increase. I do not see how you are going to finance all these new programs.

Take the welfare program that Senator Talmadge brought up. The cost of welfare was estimated in the current fiscal year at \$6.7 billion. If this new program is put into effect, for fiscal 1972, which is next year, the upcoming year, it will be \$11.8 billion.

As I see it, we are in a very precarious position financially, our Government is. The interest on the national debt is \$20 billion. I mention all this because it seems to me it fits in with your very excellent statement that as Secretary of the Treasury, you have a particular responsibility to maintain the integrity of the Nation's currency.

I just do not believe we can maintain the integrity of our currency if we are going to consistently—and it has been consistent over 30 years—consistently run heavy Government deficits because of one excuse or another. We have a different excuse this year than we have had in previous years.

But, nevertheless, the facts are the same and we have run these tremendous deficits. Now, a great deal has been mentioned in your exchange with Senator Harris, for example, about the need for business to exercise restraint in its pricing policies. I certainly agree. And the need for the wage earner to exercise restraint in his request for wage increases.

But what I do not quite understand is how we can expect business to exercise restraint, expect the wage earner and the union members to exercise restraint when the Government is showing no restraint.

My question is, Do you feel that the Government should show greater restraint than it is showing in its expenditures?

Mr. CONNALLY. Senator, I think the Government has to, by example, try to lead the Nation to stability in its economic life. I think the Federal Government has to exercise restraint. The demands of people basically are insatiable. It is ultimately the responsibility of Congress to determine what programs will be enacted and what programs will be funded. The administration and Congress have a duty and responsibility to exercise restraint in fiscal matters to set an example for industry as well as labor.

Senator BYRD. I certainly agree with that. My feeling is that the Federal Government has not exercised that restraint.

Mr. CONNALLY. There is, if I may, Senator, one further thought.

Senator BYRD. Please.

Mr. CONNALLY. I think there is a basic difference. I do not in any sense retract what I have already said. But I think there is also inherent in the responsibility of the Congress a duty to, insofar as it can, to manage or attempt to manage the economy. This same duty is not imposed upon industry or labor. So I think perhaps Government has a little more latitude in its actions.

But certainly it does not go to the point of fiscal irresponsibility.

Senator BYRD. I thank you, Governor.

Thank you, Mr. Chairman.

Senator BENNETT. Before the Senator yields the floor, would he yield for a comment?

Senator BYRD. I am glad to.

Senator BENNETT. You have been talking about the conditions over 30 years. Would you like to add 10 more and make it 40 years?

Senator BYRD. No. Are you speaking of the future?

Senator BENNETT. No; the past.

Senator BYRD. Oh, the past.

Senator BENNETT. We have had deficits for 40 years, not 30. We have sneaked up another decade.

Senator BYRD. The Senator is correct. My arithmetic is very poor. I thank him for the correction.

The CHAIRMAN. Senator Hansen?

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

Governor Connally, let me join the other members of the committee in welcoming you here today. I am sure that a lot of people in this country were very pleased with the President's announcement that he was asking you to join the Cabinet. I can understand the consternation that resulted in some partisan groups as well as I can understand the great excitement and joy that that announcement was greeted with by others.

I have been an admirer of yours for a long time. I think you did a tremendous job as a former Cabinet officer, and as a former Governor of the great State of Texas.

As you may recall, I have agreed with you far more times than I have disagreed.

Mr. CONNALLY. And I with you, Senator.

Senator HANSEN. You have covered a number of areas that I think are of great interest to all of us. I would just like to ask if I understand you correctly.

I get the impression that in speaking of this full employment budget, there is a distinction that should be drawn in your mind in a situation that was characterized, say, as the last few years of the previous administration, when we were trying, as some people said, to pursue a policy of having both guns and butter when unemployment was at a low figure. Do I understand that in that situation, a budget deficit, in your judgment, may be far more inflationary in the reaction that it would have on the economy than would be the case today when we do not have a balanced budget and will not, as has been projected, but at the same time, neither do we have full employment?

Mr. CONNALLY. You understood correctly, Senator. That was my analysis and explanation of the reason for this and of the full employment budget, that if you have a big deficit in times of a boom or full employment, when the whole economy is running at full tilt, you have a much graver situation than if you have a similar deficit in a downturn or in a slack period when you have high unemployment. You understood me correctly.

Senator HANSEN. I would just like to compliment you on that observation. I think I agree, precisely with what you say as regards your basic philosophy about paying for what you spend. I recognize that as we try to run a great country, we cannot always do things just as we would hope they might be done.

There has been a lot of discussion about revenue sharing, tax sharing. There will be more, as I am certain all of us know and appreciate. It is my understanding that the President's proposals embody two basic suggestions. One is that there be a general sharing of revenue and another a special revenue sharing idea.

The first would contemplate that, as you have so aptly put it, not only is the capability of the Federal Government at collecting taxes very good, but in many instances, it is rather preemptive. It leaves very little left over for the States and local units of government to go for in the way of raising necessary revenues.

I understand further that the President has in mind not only sharing the general revenues, but giving the States and local governments greater authority in trying to identify the most pressing problems and enabling them to put the money where the problems are.

Mr. CONNALLY. That is correct.

Senator HANSEN. As a former Governor and a very distinguished Governor, does this make good sense to you?

Mr. CONNALLY. Absolutely. Absolutely, without any question.

Senator HANSEN. Just one further question. I am delighted for a number of reasons, not the least of which is the fact that you represent a State that has great mineral resources.

Despite the criticisms which have been leveled at the Interstate Oil Compact Commission and the Texas Railroad Commission, I think that those people interested enough to look beneath some of the more obvious facts will be impressed that we have been able to meet some rather difficult and potentially chaotic situations in this country simply because of the good judgment that brought about these two bodies of law, the one which created the Texas Railroad Commission and the second, the Interstate Oil Compact Commission, which, as I understand, were designed to eliminate physical waste and to see that the correlative rights of people were protected so as to discourage the wasteful production of oil and gas, as was once the case, as you very well know, in the State of Texas.

Now, I have in my hand a story taken from the New York Times dated January 25,¹ in which I find under a picture these words: "Shah Warns West of an Oil Shut-off."

I would like to ask you if you think it makes good sense for this country to place an ever-increasing dependency upon foreign sources of energy supplies as contrasted with the motivating idea back of the

¹ The article appears on p. S4ff.

mandatory oil import program which, as I understand, was intended primarily to assure the type of domestic production which would, in the main, take care of our domestic needs?

Mr. CONNALLY. Senator, I think it would be a very great mistake for the United States to place greater and greater reliance upon foreign sources of energy if we can possibly avoid it. Since World War II we have seen a number of instances where this service can be disrupted. We are in a situation now where you have a closing of the Suez Canal, you have a disruption of the Taps pipeline, you have a basic rupture of supply of fuel which results in a basic shortage of tankers. Consequently, the price goes up immediately.

You have a consortium now of nations in OPEC that are saying, we want more and more and more for our share. This inevitably is going to mean that this Nation is in a precarious position so far as energy is concerned.

If there is one problem that I think is understated, underestimated, least understood, it is the fact that, in my judgment, right today we have an energy crisis of major proportions in the Nation and it is going to become worse.

Now, admittedly, we have found substantial reserves of oil in Alaska. We have found some in the North Sea. But those reserves are not available to us today. They will not be for some time. It will be years. And even with them, we are just going to stay even. There is a gas shortage in the United States right today.

There is a resurgence of coal, as there inevitably has to be, because the fossil fuels, it now appears, are not going to be able to supply the energy needs of this country in the future.

So, I really think, that far from being more restrictive on mineral development in this country, we ought to be looking to find every way in the world we can to make this Nation more self-sufficient so far as basic energy is concerned.

Senator HANSEN. Governor, more than a year ago, there were quite a number of writers, observers of Government, Congressmen, who were saying that the American consumer is paying an exorbitantly high price for gasoline, fuel, and energy, that if we were to place greater dependency upon foreign sources of supply, we could save as much as \$5 billion a year. I have seen very few of them today who face up to the fact that the conditions which you have just described are in effect. I want to ask you do you not think that the reaction of the group of nations comprising OPEC might very well have anticipated that whenever you have to have something that I own, I just might get the mean idea that I could get a little more out of it. Is there validity to that concept on the part of these countries?

Mr. CONNALLY. There is no question about that, Senator. And I do not hold it against them. It just so happens that this is and will continue to be the most industrialized nation on the face of the earth. It just so happens that about 97 or 96 percent of all the energy comes from inanimate sources. Fossil fuel provides the vast amount of the energy today. It just so happens that 75 percent of all of the reserves of fossil fuels are found in the Arab nations and they know it as well as we know it. They know they have what we want.

Libya, sitting in the Sahara Desert, cannot use 4 million barrels of crude oil a day. They are going to sell it in the world market and they

are going to get every dime out of it that they can get. And I do not blame them. If we expect them to be children in terms of giving away their basic natural resources, we ought to be examined for the simples.

We ask too much of countries. We ought to recognize that we are going to have to deal at arm's length with these people who have these great reserves and they are going to make us pay through the nose just as soon as they think they can.

The only leverage that we have on them today, it seems to me, is that we have the markets.

Senator HANSEN. And we also have a very considerable domestic production—

Mr. CONNALLY. That is right.

Senator HANSEN. So as not to have to go to any one of them and say we have to have your oil.

Mr. CONNALLY. Fortunately, today we are still in a bargaining position. We can say we don't have to have it.

Senator HANSEN. There has been a good deal of criticism today about the Interstate Oil Compact Commission by those who contend that this is a mechanism simply and expressly designed to boost the price of oil and gas. I would like to ask you as a Governor who has had considerable experience in watching the operation of the Texas Railroad Commission, is it not a fact that there is good engineering, petroleum engineering technology, embodied in the concept that if a field can be studied, if its geology and reserves can be understood and if a schedule for the development and production of those oils and gases can be worked out in strict conformity with known engineering principles, that the total amount of recoverable oil will be increased by that very operation?

Mr. CONNALLY. Senator, you are precisely correct. The technology in the production of oil has grown apace with the technology in other fields. It is not as well known as the technological advances in space and other areas that have captured the headlines, but the truth of the matter is that great strides have been made in the recovery of oil in the last 20 or 30 years.

Every producing sand is basically different. Every formation is different. The porosity and the permeability of each are different. The producing characteristics are different. Some reserves have casing head gas, others are water driven. Some are gas cap driven. It depends on the force that produces the oil in the first place.

So that all of the characteristics are vastly different. Many of the same people who today criticize the operations of the Texas Railroad Commission or the Interstate Oil Compact Commission are the very same people who decry the spoilage and the waste of our forests and so forth. Well, the Interstate Compact Commission and the Texas Railroad Commission grew out of a situation of panic and sheer chaos in east Texas in 1933, when the Governor of the State called out the National Guard. Oil was being sold in violation of the laws of the State and the Federal Government. It was being sold for 10 cents a barrel. Chaos existed. This was obviously a waste of great natural resources.

Senator HANSEN. Wasn't it stored oftentimes just in open, earth contained pits which were subject to rains and flooding and running down gullies and rivers and all of that?

Mr. CONNALLY. No question about that.

Senator HANSEN. I am very much interested in what you say. I just want to ask you one further question. There are those today who say the solution to this energy crisis to which you have alluded is simply to order eliminating all restraints of offshore wells and run them wide open. As a person who has had considerable opportunity to observe the oil industry, in your judgment, would this serve the best long-range interests of the country. Should we go ahead and produce all of these wells in full throttle, with no concern to the petroleum engineering studies that normally have—

Mr. CONNALLY. No; absolutely not. If you open the choke on the well, and let it produce at its maximum, its flowing capacity, or its pumping capacity the well tends to channel. There will be avenues in the rocks and the sand where the oil will be cut-off from ultimate production by water. There is channeling, or what is known as channeling, in the reservoir if you overproduce a reservoir. So it is a highly technical field.

Senator HANSEN. So you can leave a lot of oil in the ground if you—

Mr. CONNALLY. Yes, sir. There is a maximum efficiency rate of production that petroleum engineers can tell you on almost every well in the United States. Producing in excess of that maximum efficiency rate of recovery is sheer folly, both for any independent operator or any major oil company.

While we are on that subject, lest I be indicted with being overly sympathetic to the oil industry, I said in the beginning, I have no substantial interest in oil and gas, never have had. My interest is because I happen to believe that it represents the basic energy source of this Nation. I hold no brief for oil men, independents or majors. It does not make any difference to me whether they are individuals or corporations.

I think everybody tends to say in a rather emotional vein that they all get rich. I assure you Bernard Baruch was correct when he said more money was spent and put into the ground than ever came out of it. The truth of the matter is because of the nature of mineral development, occasionally, you will make a millionaire. You will do it with uranium. You will do it with oil. Once in a great while, one will stick his head up and he becomes a target. But you never know the number who put their dough into these dry holes—they never like to brag about that, because that they think it reflects on their judgment. But I assure you there are a great many who do. And I want to encourage them to do it, because we have to find this oil.

Now, if you look at the major oil companies, sure, some of them are big. But look at the rate of return. Just compare them to all manufacturing in the United States. It is not that big a bonanza. They rate about halfway up the line. If you took all the corporations in the country and computed the rate of return on any basis you want to, on an equity basis, capital invested, you will see that the rate of return of all of these companies is about average of the United States in all manufacturing corporations.

Senator HANSEN. Mr. Chairman, let me say that I have no further questions for our distinguished witness here this morning. I would like to observe, however, that I am not as partisan as some people may

suspect me of being. I think that the Governor will recall that I supported every resolution addressed to our President, that came out of the Governors' Conferences which I attended for 4 years, and these were Democratic years.

Mr. CONNALLY. That is right.

Senator HANSEN. I believe that most persons who are elected to the high office of the Presidency of the United States have exhibited almost unfailingly a greater concern for the country than they have for their political party.

Mr. CONNALLY. That is right.

Senator HANSEN. I am persuaded that in the selection of the distinguished Governor of Texas, President Nixon has likewise reaffirmed a feeling that a great many people in this country have had that he, too, is concerned first and foremost in doing those things which will help assure for this country a better way of life, to a higher plateau which we hope, and which I believe, we can reach. And I am convinced that the person whom I suspect will shortly be confirmed as Secretary of the Interior will make a very notable—

Mr. CONNALLY. Would you make that Treasury, Senator?

Senator HANSEN. What did I say?

Mr. CONNALLY. Interior. I hope he is also confirmed. I hope you are talking about me.

Senator HANSEN. I am indeed talking about you Governor Connally. I apologize. I happen to be one of four persons who has had the responsibility in the last 2 days, along with Senator Fannin and Senator Jordan of Idaho, and Senator Anderson of New Mexico, in sitting in on both of these hearings. I did say that quite inadvertently. I do apologize. I meant what I think my statement implied. I am delighted with your nomination and I look forward to working so persuasive about the matter that my brother gave the fellow several with you.

Thank you, Mr. Chairman.

Mr. CONNALLY. Thank you, Senator.

The CHAIRMAN. Senator Anderson.

Senator ANDERSON. Thank you, Mr. Chairman.

This is a very short question. The Treasury yesterday had some notes. Whenever it needs some money, it goes out on the market and buys money. It purchased some notes to mature later at 6¼ percent interest. Would you officially look into keeping the interest rate down?

Mr. CONNALLY. Yes, sir. We have been trying to keep interest rates down, but we also have to go to the public constantly for cash, as you know. This is why I am delighted to see these interest rates coming down so it will not cost the Government so much to finance its operations and refinance its debt.

Senator ANDERSON. In addition to that, there is a question of spreading out the obligation to last for a good many years—not 2, or 4, or 5 years, but 10, or 15, or 20 years.

I think it has been a fine job the President has done in bringing this down.

Mr. CONNALLY. Thank you, Senator.

The CHAIRMAN. May I say that I was not going to bring up anything about oil and gas with you, Governor, because while I am positive I would be enthusiastically in support of anything you would

say about the matter, it might bring forth some opposition from other quarters. You are not administering that program, but at the same time, it might be well to discuss it a little further, since you brought it up.

Your interest in oil and gas and your very thorough knowledge of that is really derived from the fact that you were Governor of the State of Texas; is it not?

Mr. CONNALLY. That is correct.

The CHAIRMAN. I know that in Louisiana, most of our State revenues—I would not say most—maybe 40 percent of our State revenues are derived either directly or indirectly from the production, processing, or sale, or leasing of oil and gas and the development of our oil and gas in that State. How would that compare in Texas?

Mr. CONNALLY. Senator, I have forgotten the precise figure, but ours is not that high. But it is a very substantial portion. As I recall, it is in the lower thirties. I have frankly forgotten the figure.

As Governor of Texas I had to learn something about the oil industry. I learned something about manufacturing, and I learned something about agriculture. I tried to learn anything I could about things that affected that State.

As Secretary of the Treasury, I do not represent Texas any more than I represent any of the other 49 States, and my actions will be governed accordingly.

The CHAIRMAN. Well, Governor, you made reference to something that is an element of human nature that a great many people overlook. The fellows who drill dry holes are oftentimes one-time investors.

Mr. CONNALLY. That is right.

The CHAIRMAN. My good friend George Smathers did not understand very much about the depletion allowance, so one day I was sitting beside him and suggested—a friend had a lease in Louisiana and I thought it ought to be drilled. I was going to put some money into it and suggested that George, if he were interested, might also want to make an investment. So he scrounged up a few thousand dollars to put into it.

A short while thereafter, he said, "What's happened to my money?"

I said, "Well, it is gone. That was a dry hole. We got nothing for it."

He said, "Is that all I get, just a word from you that that is a dry hole?"

I said, "Well, you do get something more than that. You get some understanding now of what that depletion allowance is all about."

My brother went out to visit in the West sometime back and he ran into a fellow who had some ore which he said was gold. He was so persuasive about the matter that my brother gave the fellow several thousand dollars to invest in gold. It wound up being kind of a skin game and he did not get 5 cents back for his money. He never wants to talk about it. I cannot get him even to discuss the subject when I bring it up. He does not want to discuss it any further.

That is what a lot of people overlook when they see someone like the late Sid Richardson, who made a lot of money in the business.

Mr. CONNALLY. He went broke twice before he did it, Senator. He was broke twice and he had to live with his sister because he did not have money to pay room rent.

The CHAIRMAN. People tend to overlook that when they point to some fellow who made a lot of money in the oil business.

I know that in my own case, before I came here, as an employee of the State, the Governor's counsel in that State, I led the charge to increase that severance tax from what was then about 8 cents a barrel to 24 cents a barrel. We tripled it in one session of the State legislature. It did not make me popular with the oil and gas industry in the State, but we needed the money very badly. I recognize pretty much the same facts that you do. I feel that that industry should be viewed like all the rest. When they are right about something, we ought to support them, and when they are wrong, we ought to oppose them.

I am pleased to see that you do have what I think is a practical understanding of that business.

Senator Hansen mentioned this conservation problem which a lot of folks do not want to recognize as a justification for the interstate oil compact. Is it not true that back in the olden days before we had the proration and the interstate agreements, when some fellow would find oil, he would try to dam off a hollow and get all the oil out before his neighbor could drill? So he would get it all, but in doing so, he would lose the gas pressure that drives the oil up through a tube and wind up recovering only about one barrel in three of what could have been recovered if he had used better conservation measures? Then when a heavy rain would come, water, being heavier than oil, would fill up the gully, lift the oil over the top of the dam and then it would pollute the stream all the way down to the Gulf of Mexico. That is some of the problems we had before we had an interstate oil compact to try to control that. Isn't that about the size of it?

The CONNALLY. Yes, sir.

The CHAIRMAN. I appreciate the fact that you do understand, Governor. I am not going to drag you into that any more. I do want to ask you a few questions about this trade situation. Are you aware of the fact that we have a General Agreement on Tariffs and Trade, whereby our negotiators agreed to an arrangement that would permit those European countries to rebate the taxes that are charged on their producers, their taxes being primarily the so-called—

Mr. CONNALLY. Value added.

The CHAIRMAN. Well, value added, and sales taxes—taxes of that sort. On the other hand, we have a system that relies primarily upon income taxes for our revenues and we are not permitted to rebate the income tax component of what is exported, with the result that it is a "heads they win; tails we lose" proposition. They are in a position to impose border taxes on us and they are in a position to rebate the taxes that were paid in their countries while we can do neither.

Are you aware of that situation?

Mr. CONNALLY. Yes, sir; I am.

The CHAIRMAN. Now, I have a little pamphlet here and I am going to urge that you take a look at it during your leisure. I hope that in due course, you will give us your reaction to it. It points out that perhaps you could justify this Nation's negotiators agreeing to something of this sort when GATT was originally agreed to because at that time in 1947, we were a very wealthy and prosperous Nation with a big surplus and a favorable balance of trade and those countries were

poor and wartorn, trying to rebuild. But to fail to correct that situation when it was nailed down in 1960, was a major blunder in our trade relations.

Now, you might want to think about it some, but if you have an opinion on it, I would be curious to know what your judgment is on that.

Mr. CONNALLY. Well, Mr. Chairman, I basically, first, agree with what you say. Second, I do not think there is any question but what this administration wants to set about to correct it as best it can.

Now, when you set about to change GATT, you are talking about a long, torturous road you have to follow. This is why the administration came before the Congress last year with a proposal for DISC, which will, in effect, permit us to do for our American industry what other countries do for their industry. It would permit us to produce items here using American labor that can compete in foreign markets and not be at a disadvantage under this GATT agreement.

Now, the Congress did not see fit to favorably act on DISC. I hope it is resubmitted to Congress. I hope the Congress will take another look at it. I understand the labor unions opposed it and I have really been at a loss to understand why. The whole concept of it was to provide a system that would encourage and permit the manufacture of items and commodities and equipment in this country that could be exported. It would permit exports to compete more favorably while keeping jobs here at home.

The CHAIRMAN. Let me tell you why I did not vote for it, Mr. Secretary, and I am proud that I did not, frankly. I studied it and decided I should not support it. The reason I did it was because I did not think we ought to model our American tax system after a vicious and unfair provision that never should have been in an international agreement. The agreement should be changed.

In other words, it is my judgment that the agreement, which is the General Agreements on Tariffs and Trade, should be tax neutral, that it should not make any difference what kind of taxation we have in this country or what kind of taxation they have in the other country, that if you are going to subsidize your exports, we ought to get subsidies by the same general standard, not one where they can subsidize and we cannot.

To me, it made just a lot more sense to say, well, fellows, this thing is ridiculous. It was fine when we had a big surplus and could afford to be all that generous, but we cannot continue to do business that way now. We are going broke.

There are all sorts of provisions even in GATT that would permit you to protect your balance of payments by changing your way of doing business. Other countries have taken advantage of it.

I want you to read this little pamphlet. Lyndon Johnson used to catch me when you were his administrative assistant and he was up here and he would say, "Read this," and stick it in my pocket. So I would read it when I had the time.

So you take this pamphlet home with you. This is a problem the way I analyze it and these are the facts the way we analyze them about the GATT.

Mr. CONNALLY. May I say at this point I agree with what you are saying, but how do you get all these nations to change? Now, the recommendation of DISC was a move on our part unilaterally and without question to put us in a more competitive position pending the time when we can get them to agree to change their method of operation. But the principle is extremely sound which you have enunciated. But we are in a position dealing with those countries kind of like a wise man told me when I got upset about something. He heard a remark I made to a fellow and we got out of the room and he said, "Now, let me give you a bit of advice." He was a very wise man. He said, "Just remember this for the rest of your life, that you can tell a fellow to go to hell, but you can't make him go."

Now, that is about the shape that we are in when dealing with some countries in these international agreements. We can tell them we don't like things; we can tell them they are being unfair. But we cannot always make them change.

The CHAIRMAN. There are several things we can do. For example, we can apply the countervailing duty statute to their exports if we wanted to. And, further, we could do what those countries have been doing all the time, say, look, we have a balance-of-payments problem. We can't keep doing business this way. We know we are signatories to this agreement, but we cannot keep it up and we are going to have to change it and ask you to approve this change. If you don't approve it, we are going to do it anyway. That is what they have been doing to us and we have been approving it.

It is like the bartender who came back and asked the proprietor if it was all right to let old Joe Smith out there have a beer on credit. The proprietor said, "Has he had the beer?" The bartender said, "Yes." The proprietor then said, "Then give him the credit."

That is how they have been doing it with us, Mr. Secretary. If they can do it with us, it seems to me turnabout is fair play.

Incidentally, are you of the impression that that General Agreement on Tariffs and Trade is law, binding on this country?

Mr. CONNALLY. Senator, I am well aware that we have acted in response to it, the commitments of it. I am aware that the Congress has not formally adopted it. To that extent, I would say there might be some question about it.

The CHAIRMAN. Well, at best, it is an executive agreement. The previous President conformed to it and I am sure that this President subscribes to it. Every Cabinet officer that I know of has felt that the administration was committed to it and I think that you will take the same view. But sitting on this committee, I am well aware of the fact that we have never ratified it. It is not a binding treaty. It is nothing but an executive agreement. So when you have something that cannot be enforced against you anyway, and you find your situation is getting very bad, it seems to me that you have all the power and all the authority you need to tell the fellows that this sort of unilateral deal where they win and we lose and there is no way we can win under it is going to have to be changed in some respect and to change the rules so it will be fair to us as well as fair to them.

Now, I will ask that you just study this analysis of the General Agreement on Tariffs and Trade, the problems related to it, as our

staff sees it and, frankly, the people on our staff who did this, Bob Best and others, I think know a lot more about foreign trade than I do. I would like you to read this and let us have your reaction in due course, not in connection with this hearing, but when you get around to it.

Mr. CONNALLY. I shall, sir.

The CHAIRMAN. Are there any further questions?

Mr. Secretary, I think you have made a magnificent presentation here. As far as I am concerned, if you were running for the job against some outstanding competitors, I would be voting for you.

The committee will meet Tuesday at 10 a.m. to consider the nomination.

(Whereupon, at 12:25 p.m., the hearing was adjourned.)

NOMINATION OF JOHN B. CONNALLY TO BE SECRETARY OF THE TREASURY

TUESDAY, FEBRUARY 2, 1971

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:15 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Hartke, Harris, Byrd, Jr., of Virginia, Nelson, Bennett, Curtis, Jordan of Idaho, Fannin, Hansen, and Griffin.

The CHAIRMAN. The hearing will come to order.

This morning the committee is meeting in public session at the suggestion of Governor Connally in order to afford the Governor opportunity to discuss the events underlying an article reported in the *New York Times*.

Without objection, the text of that article will be made a part of this hearing.¹

The CHAIRMAN. Before you make your statement, Governor, the junior Senator from Texas is here and he would like to make a statement.

I recognize Senator Bentsen, the junior Senator from Texas.

STATEMENT OF HON. LLOYD M. BENTSEN, A U.S. SENATOR FROM THE STATE OF TEXAS

Senator BENTSEN. Thank you, Mr. Chairman.

I am here to speak for a moment for one of my most distinguished constituents. I am here not just because he is the administration's choice, but because John B. Connally has been the choice of the people of Texas for many years. He is not a noncontroversial man because he has never hesitated to speak his mind and his views nor to take a position on things that he thought were important to the welfare of the people of his State.

Here is a man who left public office after having served as Governor of his State for a number of terms, with all of the polls showing that the people of Texas thoroughly endorsed his leadership. He left at an even higher point of popularity at the end of his term than at the beginning of his term. I am from a State where Democrats not only pair off to fight Republicans, but pair off to fight each

¹ The article appears at p. 86ff.

other, so the approval to which I refer is just about as high a consensus as any man in our State can have.

So it is with a great deal of pleasure that I am here to commend this distinguished citizen to this committee and to the Senate and to the Nation. At a time in his life when he might choose to spend more time with his grandchildren, his children and his family, he has chosen once again to answer the call of his country and service to it, as he has in time of war and in time of peace. I am delighted to be with him today and would like to introduce further remarks into the committee hearings, if I might.

The CHAIRMAN. That will be done if you care to submit them, Senator.

(The statement follows:)

STATEMENT OF HON. LLOYD M. BENTSEN, A U.S. SENATOR FROM THE STATE OF TEXAS

Mr. Chairman, my remarks today concern the President's nominee for Secretary of the Treasury, my distinguished fellow Texan, John B. Connally.

My intent is twofold:

First, to commend the President for his appointment.

And secondly, to discuss the extremely broad qualifications of his nominee for this vital Cabinet position.

I wish to make it clear at the outset that I speak as a Democrat, one who has been repeatedly critical of the economic policies of this Republican Administration.

Yet I do not believe that the economic strengths and weaknesses of this nation are purely a matter of partisan politics.

I do believe that the task of overcoming our present problems must be shared by the Administration and the Congress, and by Democrats as well as Republicans.

The most compelling challenge we face is to put our fiscal house in order, because this is basic to everything we seek to do as a nation.

Without stability, our national priorities are meaningless.

Without a sound dollar, our people are cheated of their earnings and their savings.

Without fiscal responsibility, there is little reason to trust the aims of government and those who formulate its programs.

And I think most of us will agree that a major ingredient of effective government is the confidence of the people. Few would deny that confidence in the economy under this Administration has been in short supply.

To maintain confidence in our system, we need in government men and women of exceptional talent, regardless of their political parties and persuasions.

Such a man is John B. Connally.

I have been interested, fascinated, sometimes baffled and often amused by the numerous interpretive stories on the so-called "real" reason behind the appointment of Governor Connally.

Most of these articles and commentaries dwell upon the political impact—whether the appointment has helped the Republicans and hurt the Democrats, whether it has secured the 26 electoral votes of Texas, whether it has affected this or that power base.

I submit, Mr. President, that the important consideration we have here is not the effect on someone's political fortunes, but the effect on our country.

That effect, I am convinced, is positive.

For in appointing John Connally, President Nixon has placed a uniquely qualified man in the office of Secretary of the Treasury.

He is a man of diverse vocations and avocations: the law, business, finance, agriculture, government.

And in all of these he has excelled.

Because he understands these various facets of our economic life, he will bring balanced judgment to bear on the problems we confront in maintaining our national growth and security.

As a naval officer in World War II and Secretary of the Navy under President Kennedy, he gained valuable understanding of our defense system—its capabilities and its shortcomings.

As a private citizen deeply involved in the business and financial world, he has learned first-hand the relationships between the public and private sectors.

As a lifelong farmer and rancher, he comprehends the importance of agriculture to the national and international economic and trade policies of the United States.

And as an outstanding Governor of an industrial-agricultural state, he became well schooled in the proper relationships between Washington and the state capitals, their interdependence on each other and their common problems.

Certainly no one expects Governor Connally alone to lead us out of the wilderness of economic stagnation.

The responsibility for our economic policies is shared by many people, with the President himself at the top. The ultimate responsibility is the President's, and this means he must surround himself with men he trusts and in whom he has confidence to give him sound advice.

Governor Connally will have no magic solutions, but I for one have no doubt at all that the advice he offers within the high councils of this Administration will be sound advice.

It has been my good fortune to know John Connally for a number of years. I supported him wholeheartedly when he sought public office and he supported me wholeheartedly in my campaign of 1970. We are personal friends. That in itself has special meaning to me, because John Connally understands and respects friendship perhaps more than any man I know.

Governor Connally is a man of strong views, and he is well able to communicate those views, forcefully and clearly.

Accordingly, he has never been a non-controversial man and he certainly has not shunned controversy when his principles and viewpoints were at issue.

Yet he is one of the few public officials in modern times who departed elective office more popular than he entered office. Survey after survey during this past election year showed him to be one of the two or three most respected men in Texas.

And I might note that this admiration spans every economic, cultural and racial group in my state.

How does a man serve as Governor of a large state for six years, facing problem after problem and controversy after controversy, and emerge with three out of four people hailing him as a great Governor?

In John Connally's case, the reasons were those qualities we wish for in every public official and find in some—the qualities of effectiveness, forthrightness, integrity, compassion.

To sum it up, he knows the meaning of leadership. And I assure you that there was never any doubt about that during his three terms as Governor. He followed no one. He led Texas.

Let me point out a few of the ways he demonstrated this leadership.

During his Administration, state support for higher education increased 168 per cent.

When he took office, faculty salaries at state colleges and universities were more than eleven hundred dollars below the national average.

During his Administration the number of faculty members doubled and their average pay rose nearly four hundred dollars above the national average.

Under his leadership, Texas launched an intensified educational program for children of migrant workers. The state began a serious program to curb school drop-outs. It began its first program to educate adult illiterates. It expanded its special education programs for emotionally disturbed children, and for the mentally retarded. It placed new emphasis on vocational education and training.

Under his leadership the Legislature created the first independent agencies in Texas to deal with air and water pollution. Governor Connally initiated a comprehensive Outdoor Recreation Plan and advocated expansion of the state park system from 60,000 acres to 150,000 acres. To accomplish this goal, he obtained public approval of a multi-million-dollar bond program to purchase park lands.

When the Congress enacted the Office of Economic Opportunity, Texas under John Connally's leadership moved quickly to organize the largest Job Corps center in the nation—one that was soon hailed by OEO officials as the best.

In Project Head Start, Texas obtained the largest number of grants and the greatest number of enrollees, conducted the program at the lowest cost per child, and had the highest percentage in the nation of local contribution to the program.

I have told only part of the story, but it will suffice to show the nature of Governor Connally's leadership, and his willingness to face problems and find solutions.

He left office in early 1969 to become a partner in a highly successful Houston law firm and accept directorships of some of our most distinguished corporations.

And a few weeks ago he accepted the challenge presented to him by the President of the United States.

His overriding reason for entering public service again hinges on that one word: challenge.

The simple truth is that John Connally is a man who accepts great challenges, especially when they involve the welfare of this nation.

He, a Democrat, has been challenged to help the President, a Republican, work for the common interests of the American people.

I have every confidence that this unique American leader will perform his new task with insight, wisdom and strength.

In my judgment, he is greatly needed, and will greatly serve.

The CHAIRMAN. Senator Bennett wishes to make a statement before we hear the nominee.

Senator BENNETT. Thank you, Mr. Chairman.

I was very pleased that Governor Connally immediately asked the chairman and the committee for this extra session to air publicly the answer to what I consider to be vague unwarranted charges and innuendoes. This is nothing new for the Governor, I discovered, since he went through some of the same attempts to discredit him by some of the same political opponents in 1961, when he was nominated to be President Kennedy's Secretary of the Navy.

In looking over that hearing record and in studying the floor debate, about the only sin Governor Connally seemed to have committed was the sin of being branded as an "oilman."

Going back to the reason we are here today, I would like to say that I read the article in the New York Times yesterday and I immediately realized that it took the New York Times some six columns of type and two photographs to discuss the Governor's deferred payment or installment payment of a court-set executor's fee because some of these installments happened to fall during the time he was serving as Governor.

After coming to this conclusion, I called Governor Connally to confirm my impression and, after assuring myself that this was the case, I was pleased to report this matter to all newsmen who asked me, mainly because, even though the Governor would explain it to us here today, I did not want those innuendoes to go through another 24-hour cycle without challenging them.

I am not a lawyer, but let's take a look at the passage in question from the Texas constitution: ". . . shall not hold any other office, civil, military, or corporate, nor shall he practice any profession or receive compensation, reward, fee, or the promise thereof for the same, nor receive a salary, reward, or compensation or the promise thereof, from any person or corporation"—and this is the key sentence—"for any service rendered or performed during the time he is Governor or to be thereafter rendered or performed."

Let me say in an aside that I can just hear the wails and moans from the U.S. Senate and the House were we in the Senate to propose such a requirement. The point here, however, is that phrase "any service rendered or performed." The Governor did not perform or render any advice or any outside service for a fee during the time he was Governor, as I understand his statement to me. He was receiving, merely receiving, payment on a debt due him as the coexecutor of the estate of the late Mr. Sid W. Richardson, who died on September 30,

1959, approximately 4 years, Governor, before you became Governor of Texas.

It is perfectly natural and obvious to me that if you have money due you, you should be able to collect it at any time and the fact that you maybe were unfortunate enough to have been elected to a high office during the payment period should not in any way forfeit your right to receive the payments due you, which became due before you were so elected.

Now, that is my understanding, Mr. Chairman, of the issue here. It is a simple one and I am sure the Governor would like to explain it in greater detail if he is questioned.

The CHAIRMAN. I will call upon him, but Senator Nelson wanted to make a statement before we hear from the Governor.

Senator NELSON. Mr. Chairman, I was not a member of the committee when the hearings were held last Thursday morning, not becoming a member until the Senate approval of my appointment on that afternoon. In addition, I was not in the city—I was in Wisconsin—so I could not get here to even hear the testimony. I have hearings waiting for me at the moment, witnesses that I was supposed to start at 10 o'clock, so I am not going to be able to sit through these hearings this morning. I also want to say to the chairman that I have not seen the answers to Senator Proxmire's questions, if they have been answered. Therefore, as far as I am concerned, I would not be in a position to vote if there is an executive session today. If the chairman decides that there will be a vote at a later date so that I would have an opportunity to read the testimony, the questions, and the answers, then I would be in a position to vote.

Thank you.

The CHAIRMAN. Governor, I would think it appropriate, without any further comment, that you proceed to explain your views with regard to the article that appeared in the New York Times and anything that might relate to that.

It is my understanding that while the article did not say it, it sough to infer that there was something improper about your receiving payments from the Richardson Foundation during the time you were Governor of Texas. I would be pleased to hear from you on that subject.

STATEMENT OF JOHN B. CONNALLY, NOMINEE TO BE SECRETARY OF THE TREASURY

Mr. CONNALLY. Mr. Chairman, first let me express my gratitude to you and members of the committee for acceding to my request that this be an open hearing as opposed to an executive session in order that we might discuss this matter in public.

I recognize full well that no charges were made in the article in the New York Times, but nevertheless, the innuendoes, the inferences, were such that I think it is in the best interest of everyone concerned that they be publicly discussed.

Now, prior to getting into the background of it, may I express to the distinguished minority leader on this committee, Senator Bennett, my deep appreciation to him, not only for his perception but for his explanation of what has happened and for his kindness to me.

Particularly, Mr. Chairman, I would like to express my profound gratitude to the junior Senator from Texas, Lloyd M. Bentsen. I am

particularly pleased that he could be here this morning; I am more than pleased that he said what he did.

I am indeed grateful to you, sir.

Mr. Chairman, I suppose a full understanding of this whole matter inevitably starts on the death of Mr. Sid W. Richardson on September 30, 1959. As close as I was to him, I did not know until his will was read that I had been appointed as one of three independent coexecutors of his estate. Since the tax laws require the estate returns to be filed within 15 months after date of death, we labored night and day, 7 days a week, to try to get the estate wound up as soon as we could.

You must remember that much of Mr. Richardson's estate was also deeply involved in partnership operations with Perry R. Bass, who was also his nephew and one of the independent coexecutors. So it was to everyone's interest that the estate, although large by any standards, be terminated as soon as possible.

We set about to do that and we did do that. My information was then—I suspect it is still true—that this is probably the largest estate in the history of the United States ever wound up in so short a period of time.

Let me also say that there was nothing in the will about fees to be paid to the independent coexecutors without bond. In the absence of directions of the will, the Texas law obtains with respect to fees. It provides that the executors are entitled to 5 percent of the moneys received, 5 percent of the moneys disbursed, but it cannot exceed 5 percent of the gross estate. We obviously proceeded on that basis.

The three independent coexecutors were Perry R. Bass, Mr. Richardson's nephew and his partner in nearly all of their businesses. The other was Mr. Howell E. Smith, who was Mr. Richardson's brother-in-law, who had married his sister. I was the third and the only nonfamily member.

On approximately January 1, 1961, I was offered the position of Secretary of the Navy of the United States by incoming President John F. Kennedy. I thought about it for a long time. I am going to say some things to the committee this morning that I have not said before, simply because I think at this point in time it really ought to be said. I had some misgivings about accepting the Navy position at that point in time. I recognized full well what being an independent coexecutor of the Richardson estate meant, what it would mean. I knew that the fees that the independent coexecutors were entitled to were going to be very substantial. I knew that by law I was entitled to a third of them. I never computed it precisely, but, generally speaking, there was no doubt in my mind then or now that if I had merely taken my one-third of the executor's fees attributable to the administration of that estate, I would have been entitled to something in excess of \$1.2 million.

But I had been offered the post of Secretary of the Navy of the United States. Our work was substantially done because we had filed the estate return at the end of December 1960—15 months, approximately, after death.

So in the early part of January 1961, anticipating that I would probably accept the appointment—and I have forgotten on what precise day I did accept it—I agreed to set a maximum on the amount

of fees that I was to receive from the estate and that figure was \$750,000, provided it could be paid over a number of years, obviously for tax purposes, so I would not be too hard hit, and this was entirely permissible under the tax laws. So I gave up approximately \$400,000 to \$500,000 in certain fees, prescribed by law, in order to accept the post of Secretary of the Navy.

I have never spelled this out before, I have never said this before, because I do not think I am entitled to any plaudits or applause for it. I do not regret it. But I do not think I ought to be pilloried for it.

I am delighted that the New York Times is extremely interested in what I say and do, and I am sure this bodes well for the future, because I know I can expect similar coverage on other things that I say and do in my post, and I am looking forward to that with a great deal of anticipation.

In my hearings before the Armed Services Committee of the Senate, chaired by the late distinguished Senator Russell, I told the Armed Services Committee, in effect, that my fees could not be increased, would not be increased, and that I would not receive any of the fees due and owing me during the time that I was in Government service.

I used the words "Government service." Obviously, I was then talking about the post of Secretary of the Navy in making that statement. The two words, "Government service," are broader than that. It was said, however, in the context of those hearings, much as I am saying things here today in the context of this hearing. Certainly at that point I never anticipated or thought that I would ever be Governor of Texas.

Nevertheless, I think it is important to realize that as of that time, as of the time that I agreed to accept the \$750,000 as my total fees, I considered those fees vested—they were mine. They had already vested, as a matter of fact, by law. I was entitled to them just as a matter of calculation. No one could take them away from me, no one could make me take less than one-third of the total fees attributable to the administration of the estate. I voluntarily gave them up and relinquished them on the theory that we had substantially settled the entire estate, with the possible exception of a few small things. As I explained to the Armed Services Committee, there were some things that needed to be done during my tenure—there might be some additional fees I might expect to receive—but that I received none. I did not know at that time that I would be returning to Texas as soon as I did, nor that I would be running for Governor.

As a matter of fact, Senator Russell asked me in those hearings, and Senator Byrd, your distinguished father, was there, if I intended to stay for some time and made very clear they did not like fellows running in and out of these Government positions. I told them I had every intention to stay and serve as long as it was the wish of the President, and as long as I felt I was contributing to the Navy and the Defense Department. Nevertheless, at the end of 1961 I returned to Texas to seek the office of Governor.

On January 17, 1962—well, let me digress a moment.

Under the tax laws then prevailing, because most of the assets were closely held by Mr. Richardson in what was familiarly known as family companies or family corporations, they were entitled to elect to pay the tax over a 10-year period, but with the privilege of paying

it off at any time. That election was first made, but in January 17, 1962, we borrowed money from the Chase Manhattan Bank in excess of \$30 million to pay off the last of all of the estate taxes due primarily to the Federal Government. The estate taxes paid to the Federal Government and to the States involved, primarily Louisiana and Texas, as I recall, was in excess of \$42 million. That was paid and the estate wound up, in January 1962.

This was before the campaign for Governor really started, before I had won the primary—before I had won the runoff—before I had won the general election, and a year before I took office as Governor. The moneys I received during my period of time as Governor were, as Senator Bennett explained, some of the moneys due and owing me that were vested long before I announced for Governor, much less being sworn in. I violated no constitutional provision of the Constitution in receiving those amounts and have no apologies to make for collecting a valid debt.

That is about the story, Mr. Chairman.

The CHAIRMAN. Well, now, since this question has come up, Governor, I think I should inform you that there is a followup editorial in the same publication today.² It says: "Mr. Connally will surely be able to explain"—I think that is said somewhat facetiously or sarcastically, not by me but by the New York Times—"why he apparently took pains to deny the fact of his financial relationship"—meaning to the Richardson estate—"when he was Governor."

Let me ask you the direct question: Did you in any way undertake in any way to deny your relationship with the Sid Richardson estate when you were Governor of Texas?

MR. CONNALLY. No; I did not. Everyone knew I was independent co-executor of the Richardson estate. Everybody in Texas knew it. I did not try to deny it.

They are alluding to a paragraph in a story in the Times by Martin Waldron the day before, quoting Ronnie Dugger, indicating that I should confirm or deny what the Texas Observer said. The last thing I would do before this committee or any other responsible body in this Government is, very frankly, to vouch for what appears in the Texas Observer.

The CHAIRMAN. Well, now, Governor, in this same editorial which is in today's publication of that same newspaper, this editorial goes down a paragraph under this heading of "Unanswered Question" and then asks the same question again:

Perhaps the most disturbing aspect of these disclosures is that Mr. Connally, while Governor, evidently tried with considerable success to conceal his financial relationship with the Richardson Foundation.

I will ask you again, did you undertake in any respect while you were Governor of Texas to conceal your financial relationship with the Richardson Foundation?

MR. CONNALLY. I did not.

Senator, my relationship with the Richardson Foundation in effect, for all intents and purposes, terminated when I became Secretary of the Navy. I had been on the board of trustees of the Richardson Foundation, which at that time was not an extremely active foundation and had no substantial moneys in it. The only way the foundation

² The editorial appears on p. 90f.

ever came to owe me money was as a result of the termination of the administration of the estate, at which time we conveyed to it, as residuary legatee under Mr. Richardson's will, all of the remaining assets and liabilities in January 1962 and closed out the estate.

As of that time, the estate owed the other executors as well as me the fees which we are discussing here this morning. So when we transferred, as we were compelled to do under the will, all the residuary assets, after satisfying the specific bequests Mr. Richardson made, obviously, the foundation took the assets as well as the liabilities. They assumed those liabilities. So they consequently owed me the money that I had coming from the estate as executor's fees. I made no attempt to conceal this.

Now, I did not go around, Senator, and brag about it. As I recall, I have not said to anyone prior to this morning, well, yesterday, I did say to one or two who had called me, what the total amount was that I received as fees. I never said to anyone until this morning that I took less, approximately \$450,000 to \$500,000 less, than I would have been entitled to under the law in order to try to serve my country.

Now, some of these things I just do not say. But the answer to the question is, "No." I did not try to conceal my relationship with the Richardson Foundation or the Richardson estate or Mr. Sid W. Richardson. On the contrary, I was proud of it during his lifetime, I am proud of it now, and I shall always be. He was a very distinguished, honorable man who lived an unselfish life and contributed much to every life he touched. I have a deep and abiding affection and even love for him. But I have never and I shall never in any way, directly or indirectly, apologize for that relationship.

The CHAIRMAN. Well, Governor, I think the American Bar Association would uphold your right to decline to discuss your client's business even down to declining to discuss the fee that you charged for representing him, if you want to do that.

Mr. CONNALLY. No question.

The CHAIRMAN. But as I understand it, you did not withhold that information. That is your testimony?

Mr. CONNALLY. That is correct.

The CHAIRMAN. Well, now, I have before me—

Mr. CONNALLY. Senator, when you say withhold, I was under no compunction to give it to anybody. I just did not go around telling the press all they wanted to know about my financial matters. To that extent, I withheld it. I did not publish it in the newspapers.

The CHAIRMAN. Governor, I have not looked into it before, but in fairness, I believe it should be made known that there is here the printed hearings that have been available to anyone since 1961 on the nomination of John B. Connally, Jr., to be Secretary of the Navy. And this matter is discussed in that hearing.³

Mr. CONNALLY. It is discussed at great length, Senator. This is not a new story, for heaven's sake. This was discussed in great length.

That testimony will show that I mentioned the 5 percent—the moneys we would be entitled to as fees, the 5 percent—this was gone into with the Armed Services Committee at that time.

³ See "Hearing before the Committee on Armed Services, U.S. Senate, 87th Cong., 1st sess., on John B. Connally, Jr., Secretary of the Navy-designate, Jan. 18, 1961."

The CHAIRMAN. It seems to me the New York Times would do well for them to disclose, knowing this, why they did not put it in their story. In fairness to you, I would say this matter came up when you were nominated and confirmed as Secretary of the Navy. In fairness, that should have been discussed.

Would you explain to us this matter about your service as the Director of Boys, Inc.?

Mr. CONNALLY. Yes, sir; I sure will, as best I can.

The CHAIRMAN. The statement is made here that in view of the Internal Revenue Service or interview of the Internal Revenue Service, it is here alleged:

This organization was a shell created as a part of a tax avoidance scheme which enabled the Richardson interests to own Del Mar Race Track in California without paying taxes on its revenues.

Mr. CONNALLY. That was an allegation which they made in a lawsuit which they lost in the Federal District Court. I will get back to that, if I may explain Boys, Inc.

I did not conceive the idea of Boys, Inc. Mr. Clint W. Murchison, Sr., did. He also was a great humanitarian, a very distinguished American. I guess I would have classified him as a business genius if I have known one. He had an unbounded curiosity and interest in things.

Let me digress again a moment to talk about something that is not my business, but in fairness to him and to everyone concerned, he reared two sons by himself. Their mother died when they were just infants. He never remarried during the time that he was rearing those two sons and did not do so until they were grown. He had an abiding interest in young boys and in their well-being. He got interested in juvenile delinquency. The story is correct in saying that Mr. J. Edgar Hoover is partially responsible for interesting Mr. Murchison in the problem of juvenile delinquency among young boys.

So he conceived this idea—I suppose it is his—I have always assumed it to be his—of Boys, Inc. I do not remember all of the legal steps. I was not a part of it when it all took place.

As I recall, I went on the board of Boys, Inc., about 1958 or thereabouts. I served as a director without pay, without fee. There were eight or 10 of us—Perry Bass was on there, John Murchison was on there, various ones in the Murchison-Richardson organization. All we did, Mr. Chairman, was take the rents that Boys, Inc., got from a lease which they held on the Del Mar Race Track and give it away to boys clubs, primarily throughout California. That is the extent of our activity.

Now, at the time Boys, Inc., was organized, I believe it was about 1956. They applied to the Internal Revenue Service for an exemption as a charitable, nonprofit corporation. Well, no action was taken. It dragged on and on and on.

Finally, in 1962—and this is no great tribute to the Internal Revenue Service or to the Government—in 1962 the Government finally decided that they were going to deny it. They did deny it. Boys, Inc., at that point paid all the taxes. I cannot vouch for the figures but I think they are substantially right as the figures appear in the New York Times story, probably three-quarters of a million dollars plus interest.

In any event, Boys, Inc., paid the taxes because they had been denied the exemption which they asked for. They went into Federal District Court in Dallas, Tex., sued for a refund of the money, sued to establish their right and status as a tax-exempt charitable corporation. The Federal District Court upheld them. The Government did not appeal the case. The money was refunded, they were issued their exempt status as a tax-free corporation, and have operated as such since that time.

In 1969, the lease on the Del Mar Race Track ran out. That no longer exists.

That is about the extent of that story. I served as a director of a company that was designed, created, and operated to try to provide assistance to boys clubs primarily in California to fight juvenile delinquency and, in the process, we gave away—I do not remember the precise figure, but over \$2 million. That was the extent of my participation in Boys, Inc.

The CHAIRMAN. Governor, sometimes people wonder why some of us are a little hesitant to believe what we read in the newspaper. Why did not the New York Times disclose that, that although the Internal Revenue contended this was a tax avoidance device, they were defeated and the court held it was not?

Why did they not disclose that?

Mr. CONNALLY. Mr. Chairman, you do ask me some questions I cannot answer.

The CHAIRMAN. I will not get you into a discussion of the New York Times, but it would seem to me that a disclosure would suggest, that someone would write in some editorial that even though this was said, the court ruled the other way around.

I think those people probably owe you more of an explanation than you owe them. That is my judgment. Maybe they can think up something else to raise, but you satisfy me, Governor. I would certainly want to know what the other Senators think.

Senator ANDERSON. I do not want to take any great length of time. But Mr. Murchison talked to me at that time and we discussed the possibility of buying a whole chain of racetracks to support the Boys, Inc., efforts all the way through. I know on Mr. Murchison's part, all he wanted to do was to be helpful. I tried to get him to give \$30 million of his fortune to the Smithsonian Institution. I still wish he had done it. I believe he does, too.

But I think it is a very strange question. I am sure that Mr. Murchison really has a sincere desire to help these boys and the organizations he joined in also.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. No questions.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. No questions.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. No questions.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. No questions, Mr. Chairman.

The CHAIRMAN. Senator Harris?

Senator HARRIS. Mr. Chairman, I have a few questions with regard to the Sid Richardson estate matter, which, as you know, Governor, is of particular interest to this committee because the position to which you have been nominated has special jurisdiction over the tax system.

As I understood it, you said that after 15 or 16 months, most of your job as one of the three independent coexecutors had been substantially performed.

Mr. CONNALLY. Yes, sir; most of—the work of all the independent coexecutors had been substantially performed.

Senator HARRIS. What year was that?

Mr. CONNALLY. That was the end of 1960, or the beginning of 1961. He died September 30, 1959. So it was 15 months thereafter.

Senator HARRIS. Then did you perform additional work, as I understood it, after you had been Secretary of the Navy and before you became governor?

Mr. CONNALLY. No, sir; not of any consequence, Senator.

As I recall and as I testified again before the Armed Services Committee in January 1961, I tried to say then that I might be called upon to sign some conveyances or legal documents; but, other than that, that I could anticipate no substantial requirement of my time or efforts whatever, and, as I recall now, none was required. I may have during that period signed a conveyance or two because a document that obviously had to be recorded requires the signature of all three independent coexecutors, but, for the most part, any one of them was free to act.

Senator HARRIS. As I understood, then, from what you have said, there was not any service on your part performed in connection with the bank loan at Chase Manhattan or anywhere else for which you were entitled to compensation?

Mr. CONNALLY. That is right. I performed no other services.

Senator HARRIS. The \$750,000 you received was for services performed prior to the time you had been nominated for Secretary of the Navy?

Mr. CONNALLY. That is correct. That was the fee that I agreed upon for my services as independent coexecutor of the estate.

Senator HARRIS. With whom was that agreement made?

Mr. CONNALLY. That agreement was made by the other executors.

Senator HARRIS. Was it reduced to writing?

Mr. CONNALLY. As I recall, it was, Senator.

Senator HARRIS. Could you furnish the committee a copy of that agreement?

Mr. CONNALLY. I am sure I can if I can find it in all the moves.

(The document referred to follows:)

S. W. RICHARDSON ESTATE,
Fort Worth, Tex., January 14, 1961.

Mr. PERRY R. BASS,
Fort Worth National Bank Building,
Fort Worth, Tex.

DEAR PERRY: This will confirm our general understandings and conversations concerning executors' fees in connection with Mr. Richardson's Estate.

As you and I discussed, and I think this follows our general understandings, I am willing to limit my own portion (which under the law is much greater) of the executors' fees to the sum of \$750,000, upon the condition that my share

of the executors' fees be paid to me when requested by me in writing: provided, however, that my right of withdrawal shall not exceed 15% of the fee per year unless mutually otherwise agreed by us.

I have the recollection that there are some provisions of the Internal Revenue Laws, or maybe the regulations, that permit the proration of such fees over several years time and this provides a legitimate tax saving and avoids hardship.

I have no objection whatsoever to your receiving a greater sum for your services as executor and your obtaining a consistent agreement from Howell Smith to likewise allow you a greater sum, up to the statutory fees allowed by law.

I trust that this letter will fully comply with your request and is entirely in keeping with our discussions, and meets with your full approval.

Sincerely,

JOHN B. CONNALLY.

Senator HARRIS. Would that not be a rather important document that would be preserved in the estate records?

Mr. CONNALLY. Yes; I am sure it can be found, Senator. But you also have to remember on that point, and I will not let that point go unnoticed, again under our Texas laws, independent coexecutors without bond, after they file an appraisal and inventory, are thereafter not required to make any accounting to anyone.

Senator HARRIS. I understand that. When would you say the estate was closed?

Mr. CONNALLY. Basically it closed when we filed the estate tax returns at the end of 1960, as I recall—December 31—however many days that December had—but we finally closed it in January 1962.

Senator HARRIS. Now, Governor, you said when you testified before the Armed Services Committee, as Senator Long indicated a while ago, you said, "I have up until this point during the almost 16 months since the death of Mr. Richardson, I would be entitled under normal circumstances to receive, if and when the estate was in a position to pay, and the executors determined that they would"—which sounds prospective—"I would be entitled to receive some fees for the work that has been performed during the past 16 months."

Now, that is the statement which was made, as you will recall, on January 18, 1961. Was that before or after the agreement was entered into between you and the other coexecutors for the \$750,000?

Mr. CONNALLY. I do not recall.

What was the date of this hearing?

Senator HARRIS. January 18, 1961.

Mr. CONNALLY. I do not recall. It was probably afterward.

Senator HARRIS. It says: "When the estate is in a position to pay it and the executors determine that they would."

In other words—

Mr. CONNALLY. Obviously, we had not distributed any money to the foundations. The estate at that point was trying to determine what is was going to owe. It was trying to satisfy the specific bequests and no determination had been made about just precisely how these fees would be paid.

Senator HARRIS. At what point was the agreement made in regard to the deferred income? I think that is a rather important point here.

Mr. CONNALLY. I think it was made prior to that time in 1961. And this was discussed at that time because this is when I gave up approximately \$400,000 to \$500,000 in fees that I would have been entitled to

on condition that when we finally settled the matter and I was paid my fees at that point, \$750,000, on condition that we work them out and they be payable over a period of years. And as I recall, part of that understanding at that time was that we would draw no interest on that amount of money.

Senator HARRIS. What did the agreement provide as to how that \$750,000 would be paid? I mean what number of years and how much per year?

Mr. CONNALLY. Basically, there was no specific time. It was merely over a period of years. The only thing I do recall was that I believe I could not receive more than 15 percent a year in any 1 year without the approval of all the executors.

Senator HARRIS. What fee did the other executors eventually receive?

Mr. CONNALLY. I do not recall.

Senator HARRIS. Did they give up any of their fees?

Mr. CONNALLY. I do not know, sir.

Senator HARRIS. Is that a matter that could be determined?

Mr. CONNALLY. That is a matter, really, for them to decide, Senator. It is not my business. I really do not know what they did with it.

Senator HARRIS. Governor, do you not think that is of some interest here, since it is related to the tax deferral agreement that you testified about? You testified that there was an element of your giving up a certain portion of your income which was, at that time, vested.

Mr. CONNALLY. Yes, sir; I feel at liberty, Senator, to talk about any of my business. I do not feel a similar liberty to talk about other people's business.

I am sure that whatever problems they have with their taxes, they have reached an agreement, if there was any problem, with the Internal Revenue Service years ago.

Senator HARRIS. Is it your thought, Governor, that they collected \$450,000 each more than you did or about what you did?

Mr. CONNALLY. I do not know. It is my general understanding that Howell Smith either collected the same or less than I did and Perry Bass collected considerably more. How much less and how much more, I do not know.

Senator HARRIS. Well, then, as a matter of fact, you could not really exactly say that \$450,000 or more was vested if the three executors at that time had not already determined what the fee would be and how it would be paid, could you?

As a matter of fact, another executor received less than you did, apparently, from what you said.

Mr. CONNALLY. I am not sure I understand your question.

Senator HARRIS. How could it be vested if no agreement had been made about how much the fee would be?

Mr. CONNALLY. Senator, the fees are determined by law. In the absence of my voluntarily giving it up, all I had to do was sit there and I could have collected it. No power in the world could have taken it away from me. I did not have to enter into any agreement with any of them about anything. I was entitled to one-third of the fees by law of the State.

Senator HARRIS. Oklahoma has about the same law. But there still is an element of discretion in the determination of the executors, as

you yourself indicated in your testimony before the Senate Armed Services Committee, and the executors determined that they would, that they would pay.

Mr. CONNALLY. Well, they had some latitude in when they would pay it, yes.

Senator HARRIS. Now, then, why was the foundation the entity that eventually paid rather than the estate?

Mr. CONNALLY. Because we closed out the estate. It has nothing left when we transferred everything to the foundation in 1962. As I pointed out a moment ago, we transferred all the assets as well as the liabilities, which the foundation assumed when they took the assets.

Senator HARRIS. They were the sole—

Mr. CONNALLY. They were the sole owner of all of it.

Senator HARRIS. Is it not a more normal procedure that the estate itself would pay the cost of administration?

Mr. CONNALLY. Yes, sir, it more normally is, but we did not drag out this estate, Senator. We could have administered it logically and I suppose justifiably for 10 years, generating fees, as you well know, during this whole time. But we did not do that. As soon as we reasonably could, we conveyed it to the foundation.

Senator HARRIS. Did the foundation agree to take up the contract that you had entered into with the estate?

Mr. CONNALLY. Oh, they did not have to agree.

Yes, they certainly did. They had to assume the liabilities with the assets, absolutely.

Senator HARRIS. Was there at that stage some written assumption of the agreement on the deferred income?

Mr. CONNALLY. No, sir, I did not recall that there was. There was no separate treatment of it.

Senator HARRIS. Do you think, back to that question, that there was a written agreement originally—

Mr. CONNALLY. Senator, if there is, I will be glad to supply it.

Senator HARRIS. Do you think there was?

Mr. CONNALLY. Yes, I think there was. If I can find a copy of it, I will certainly give it to you.⁴

Senator HARRIS. I would think that something of that importance you could find. I hope you can.

Was there any tax saving to the estate from having the foundation pay executors' fees rather than the estate paying executors' fees?

Mr. CONNALLY. No. No, in this case, there was not. Again, we get into a fairly deep discussion, I suppose, of tax laws.

Basically, the way the tax on the Richardson estate was calculated was by a mathematical formula. The services takes the amount of bequests, of specific bequests which are made. In this case it ran, oh, in excess of \$12 million of specific bequests that Mr. Richardson made in his will. They take that and where the residue goes to a foundation as provided in his will, they have a mathematical formula by which they calculate the tax.

Of course, he got into the maximum bracket in the estate taxes, if that answers your question.

⁴ See p. 54f.

So if I understand the question, the payment of the executors' fees had no bearing whatsoever on the taxes that the estate owed nor was there any saving to transfer it to the foundation.

Senator HARRIS. Now, as I understand the law and the regulation with regard to the right of a person to stretch out his income over a period of years and thereby have less tax to pay than he would if he received it all in one sum, the requirement of the agreement for that is that there not be a unilateral agreement of the taxpayer but a bilateral agreement, a bona fide, arm's-length bilateral agreement, and that the right to receive the funds not as of that time have vested.

In other words, generally, as I understand it, that means that the work as of that time must not have been performed. I wonder if you want to comment on that—whether or not that is the law. It seems to me it is of some importance here.

Mr. CONNALLY. No, I would not want to comment on it in detail, Senator, except to say that at that particular time, we had what we thought was very excellent tax counsel advice. Since that time, there has been no question raised about it in the intervening years.

Senator HARRIS. Until we take a look at that other document, Mr. Chairman, I do not have any other questions at the time.

The CHAIRMAN. Thank you.

Senator Hansen?

Senator HANSEN. I have no questions, Mr. Chairman.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Governor, the Times article pointed out that under the Texas constitution, a governor is prohibited from receiving any salary—I am beginning to quote the constitution now—"any salary, reward or compensation or the promise thereof from any person or corporation for any service rendered or performed during the time he is Governor."

That was the salient point, as I read the Times article yesterday, of the article and presumably the charge that could be made against you.

Now, I am not a lawyer and I certainly know nothing about the Texas constitution. But it seems to me that the salient words in the part of the constitution which the New York Times quoted are "A Governor shall not receive any salary or compensation for any services rendered or performed during the time he is Governor."

As I understand it, the compensation that you received was for services performed prior to the time you became governor.

Mr. CONNALLY. That is correct.

Senator BYRD. And not during the time you were governor?

Mr. CONNALLY. That is correct.

Senator BYRD. Thank you, Mr. Chairman.

The CHAIRMAN. The Chair wishes to welcome one of our newest members, Senator Griffin.

Glad to have you with us, Senator.

Senator GRIFFIN. Thank you, Senator.

Governor, pursuing the point of Senator Byrd and following the language of the Texas constitution, did you perform any service during the time you were Governor for which you were compensated, outside of your services as Governor?

Mr. CONNALLY. No, sir, not within the meaning of that statute, no, sir.

Senator GRIFFIN. I think Senator Byrd obviously has put his finger right on the crucial point. As I read it, the New York Times article which was carried all over the country was apparently written and headlined with the deliberate purpose of trying to mislead many people. I would be interested in any other facts outside of those that appeared in the New York Times, but on the basis of the facts that appear in the New York Times, this story is a very poor example of professional journalism, in my humble opinion. It seems as though any responsible journalist would have put in the first or second paragraph, at least, that his story referred to compensation paid for services performed prior to your service as Governor. That was the key point. Anybody could see that. But you had to read a long ways into that article and it was awfully difficult to finally come up with that very salient point.

I guess I want to make a little bit of a speech. I think that if there is a problem of ethics here, at least as far as these facts disclose, the problem of ethics lies with professional journalism, particularly as far as one of its members is concerned. It will be very difficult to straighten this out in the minds of many people who were misled by the headline yesterday. There is no question about that.

I am sure that those who wrote the story and those who wrote the headline know that.

Mr. CONNALLY. Yes, sir.

Senator GRIFFIN. I do not know whether there was supposed to be some kind of an implied reference here to the nomination of Mr. Fortas to the Supreme Court, but let me point out for the record that it was alleged with respect to Mr. Fortas that he performed services, legal services, while he was on the Supreme Court and received fees therefor in violation of the law and in violation of the canons of judicial ethics. So the difference here is vast.

I also want to point out, I think, just for the record, that there is a great difference in my mind—and I think it has been stated on the floor of the Senate many times—there is a great difference between the appointment by a President of a member of his Cabinet who is to serve with him for the term of his Presidency as distinguished from the nomination of a member for life to serve a separate and independent branch of the Government, the Supreme Court of the United States.

I do not know, Governor, whether there is any more to this or not, but if this is all there is to it, I think the New York Times owes you an apology.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. Mr. Chairman, I do appreciate your inviting me to pose any questions to the Governor that I might choose to ask him. As I indicated, I have no questions. But I do not intend to let this moment pass without expressing my dismay and disillusionment with the behavior of a very important newspaper in this country.

I think it should not go unnoticed that there was known to a great many people that the Governor made a full disclosure of his relationship with the Richardson estate at the time of his hearings prior to his confirmation as Secretary of the Navy. I cannot believe that a paper as important and staffed as well as is the New York Times could pos-

sibly have been unaware of that fact. Yet it chose not to mention that fact at all, as nearly as I know.

I have read nothing about those hearings unless there is something in the paper that has missed by observation. But insofar as I know, there has been no mention made of the fact that there were hearings on this subject. The paper, rather, I can only assume, intended to convey the impression that the Governor was certainly guilty of unethical conduct, to say the very least, and perhaps even guilty of more serious charges by his connection with the Richardson estate. And that does disturb me.

That disturbs me because I subscribe, as I am sure many Americans do, to the concept that the greatest bulwark of freedom we have in this country is the freedom of the press, the ability of people to challenge politicians. And I do not object one bit to my being challenged, as I have on occasion also, Governor.

I was taken to task by one columnist at one time because I had not told the President of the United States that I happen to have a grazing permit. I happen to be in the cow business. I think practically every Member of the Senate is aware of that fact. I have spoken out numerous times about it. Yet it is awfully easy to convey an impression that can be damaging.

I am not speaking now of my own situation but of yours, because yours is a position of far greater importance, in my judgment and in the judgment of most people of this country, than is mine. And I think it is unfortunate that there will be some, because of the nature of the charges and inuendoes made by this newspaper, who will believe that you are not quite as well qualified for the important and enormous tasks that you now undertake as I, and I am certain most of us who know, know you are.

I just wanted to say that, Mr. Chairman, because there is no way that anyone can force the New York Times or any other paper to print anything. That is up to them.

But it does seem to be a sad commentary upon the state of journalism in this country that there are persons in positions of great responsibility who fail sometimes to measure up to the type of behavior that we have a right to expect of them.

Thank you, Mr. Chairman.

Senator BENNETT. Mr. Chairman, I would like to claim my privilege of welcoming my newest minority member to this committee. As a footnote, I was a chairman of the committee on committees and partially responsible for his presence. He is off to a very good start. We are delighted to have him with us on our side of the aisle.

Senator HARRIS. Mr. Chairman, I wonder if I might, ask a couple of other questions at this time?

The CHAIRMAN. Go ahead.

Senator HARRIS. As I recall, Senator Bennett said in his opening statement the words, "court approved." As I understood it from you, Governor, this was not a fee or a fee arrangement which was either approved by the court or required to be approved by the court; is that correct?

Mr. CONNALLY. That is basically correct.

Senator HARRIS. How was the \$750,000 fee paid and in what year? Is it fully paid now?

Mr. CONNALLY. It is fully paid now. The last payment was made in 1969.

Senator HARRIS. It was paid, then——

Mr. CONNALLY. Over about an 11-year period.

Senator HARRIS. Do you have the amounts or——

Mr. CONNALLY. No, roughly, in the early days, there were not regular amounts. In the last 6 years, at least seven years, it ran \$75,000 a year.

Senator HARRIS. It added up to a total of——

Mr. CONNALLY. \$750,000. The last payment was made in January, I suppose, 1969.

Senator HARRIS. Could you furnish us a schedule of those payments?

Mr. CONNALLY. I would be delighted to.

(The document referred to follows:)

Executor Fees Received by Hon. John B. Connally

Dec. 30, 1959.....	\$25,000
Dec. 29, 1960.....	50,000
Jan. 19, 1961.....	50,000
Dec. 27, 1962.....	50,000
Dec. 31, 1964.....	100,000
Mar. 12, 1965.....	100,000
Apr. 20, 1965.....	75,000
Jan. 3, 1966.....	75,000
Jan. 3, 1967.....	75,000
Jan. 3, 1968.....	75,000
Jan. 2, 1969.....	75,000

Senator BENNETT. Mr. Chairman, I want to thank my friend for correcting my nonlegal language. It was not court approved, apparently, but it was approved by law. So the court need take no action.

Mr. CONNALLY. That is correct, sir.

Senator BENNETT. Thank you.

The CHAIRMAN. Governor, I am beginning to sense that someone somewhere seems to be out to nail you for some reason.

Mr. CONNALLY. Senator, that will not be the first time if that be true.

The CHAIRMAN. Well, now, I do not want to be accused of leaving questions unanswered. We have covered this matter about the Buffalo Stadium that I had no knowledge of when the appointment came down here. We have covered the matter about the Jesuit fathers. I think we have covered the matter that someone inferred that Commissioner Throwers' resignation had something to do with your being here.⁵ We have also covered the fact that you once had \$7,200 interest in oil at the time that you were nominated, which has now been disposed of.

But I think we ought to try as members of this committee to also inquire about anything else that might occur in the mind of one of us here. I am frank to say that unless you insist on it, I am not going to go back and ask for all your tax returns and try to second-guess you on every item of income and every item of expenditures you have had down through the years.

Is that customary, to your knowledge, with regard to confirmation before the Senate on appointments by the President?

⁵ The article referred to appears on p. 91.

Mr. CONNALLY. No, sir, it is certainly not customary. But you are free to do whatever you wish. I certainly have nothing in those returns that I would want to keep from you. I would not ask any more favorable treatment than any other nominee before any other committee of the Senate, nor would I expect to get less.

The CHAIRMAN. May I ask, do you know whether or not, in sending your appointment up here, the President and his advisers screened your tax returns for the recent years to see if in their judgment there might be something amiss?

Mr. CONNALLY. They have, sir, and I have been audited, for your information, to 1969 at my request. The audit is complete. That is the last return that is on file with the Internal Revenue Service. I have not yet filed a return for 1970.

The CHAIRMAN. It is customary when an appointment comes up here that the FBI is asked to investigate and report to the employing authority any derogatory information that might be available.

Have you been reinvestigated since you have been appointed?

Mr. CONNALLY. I assume so.

The CHAIRMAN. If not, perhaps we should ask that that be done also.

Mr. CONNALLY. I am sure I have. I am not privy to these reports. I would like to see them. I am sure they are not available to me.

The CHAIRMAN. There is only one thing I can think of that might be brought up in a followup story that has not been brought up yet. When you were confirmed the previous time as Secretary of the Navy, someone sought to associate you by innuendo or otherwise with an event that occurred during the Senate debate and passage of the Natural Gas Act. I think that you had been active in trying to help pass that bill and there was some criticism of the conduct of some people involved and I believe employed at that time by Mr. Keck.

Would you mind explaining to us anything else that you know about that matter or giving us a brief résumé of what that was all about and how it concerns you, if it does at all?

Mr. CONNALLY. Senator, it does not concern me except very indirectly.

I assume you are talking about the Natural Gas Act, 1956, I believe.

At that time, there was concerted effort to pass a natural gas act, largely the result of, well, efforts then by the producers, the pipelines, in harmony with some of the distributing companies, although there was quite a bit of friction. Every effort was being made to bring the opposing forces together and to see if they could not get some relief from the administration of the Federal Power Commission. This was the basic thrust of the legislation, as I recall, for the reason that it was felt by the producers at that time that the continued restraints imposed by the Federal Power Commission were not in the best interests of this Nation, were not in the best interests of providing adequate reserves for the future of natural gas, were not in the best interests of further exploration, that the pricing policies of the Federal Power Commission then, and basically since then, have required the sale of natural gas at one-third its B.t.u. value compared to crude oil, which is frequently produced from the same hole at the same time.

This was the fear of the industry, I should say, not just the independent producers, but the industry, in 1956, that this policy that prevailed in the administration of the law and the rules and regulations of the Federal Power Commission were in effect doing great harm to this Nation is discouraging exploration and development of gas reserves. That was the thrust of the legislation. I do not recall the specific provisions of it at all.

Mr. Richardson was interested in it. I came in and out of town a number of times during that period, largely as a listening post, really, for him, to see what progress was being made in melding together the interests of the various diverse groups, because traditionally the producers did not get along with the pipelines, the pipelines did not get along with the distributors, the distributors did not get along with the producers.

There was no community of interest. They were all fighting each other constantly. This is why they were never successful in getting any kind of a gas bill passed.

That is about all I know about it, Mr. Chairman.

Now, at that time—let's say—well, it was during this—1956, I suppose, was the year of the so-called Case incident. Senator Case from South Dakota, Senator Francis Case, was involved and it got to be a more or less cause celebre involving a lawyer from Austin, Tex., named Elmer Patman.

I knew Senator Case quite casually. I know Elmer Patman. I know all his family, Mr. Chairman, I know his cousins, everybody else in his immediate family. But I had no part in the incident any more than anybody else who was interested in the oil and gas business at that particular moment in time.

Senator BENNETT. Mr. Chairman, may I read a paragraph from the Record? If you are interested in checking it, it is page 1124 of the Congressional Record, volume 107, part 1. Senator Case is talking:

With respect to several aspects of the pending nomination, which was your nomination to be Secretary of the Navy, which were discussed by the Senator from Oregon, Mr. Morse, and in various press statements or columns, I personally have no great knowledge. I have no personal knowledge that Mr. Connally was in any way connected with the incidents of the spring of 1956, when certain individuals attempted to put some funds into a campaign fund for my benefit on the eve of the vote on the natural gas bill. I had no information at that time that Mr. Connally had any interest in any way, shape, or form in the matter.

I suppose I might have met him at some time, but if he were to walk into the chamber or were present in the gallery, I would not be able to recognize him. As far as I am personally concerned, I had no knowledge that he had any connection with that incident in any way, shape, or form. If he had such through his interest in the proposed natural gas legislation, it is not a matter of knowledge to me.

So Senator Case very clearly made the record straight.

The CHAIRMAN. Thank you very much, Governor.

Are there any further questions to be asked of Governor Connally, gentlemen?

Senator GRIFFIN. Mr. Chairman, just one observation, perhaps, to put the matter into perspective.

Putting aside the case of a Member of Congress who actually practices law and receives fees while he is serving as a Member of Con-

gress—there being no law or prohibition against that—but putting that case aside, I wonder how many Members of Congress have received fees for services they have performed as lawyers before they were elected to Congress.

I do not understand that anybody suggests that there would be anything wrong with that.

The CHAIRMAN. Again, what was suggested here, to be correct—again I think there are a lot of Senators who were lawyers before they came here who thought as a matter of good ethics, they ought to terminate their law practice—not that the law required them to do it—and in doing so, they found it necessary to make a settlement and usually the partners would agree to pay them a certain amount that they received while they were Senators—not for representing someone but something they had earned while they were with the law firm and while they were in private practice prior to coming here.

Senator Anderson?

Senator ANDERSON. I think probably we ought to put in some place where the Texas constitution says about this and I will ask consent to do that.

[Excerpts from the Texas Constitution—Article 4, Section 6]

SECTION 6. HOLDING OTHER OFFICES; PRACTICE OF PROFESSION; OTHER SALARY
REWARD OR COMPENSATION

Sec. 6. During the time he holds the office of Governor, he shall not hold any other office: civil, military or corporate; nor shall he practice any profession, and receive compensation, reward, fee, or the promise thereof for the same; nor receive any salary, reward or compensation or the promise thereof from any person or corporation, for any service rendered or performed during the time he is Governor, or to be thereafter rendered or performed.

INTERPRETATIVE COMMENTARY

This section is much more restrictive than corresponding sections in previous constitutions of the state, for they simply provided that no person holding the office of governor should hold any other office or commission, civil or military.

Here the governor is debarred from holding not only civil or military office, but also corporate, and in addition he is forbidden from practicing any profession for profit, nor may he receive any compensation from any person or corporation for services rendered while governor or to be rendered after his term as governor expires.

Such added restrictions were written into the Constitution of 1876 as a reaction against abuses carried on by the reconstruction governor. Their purpose is to prevent graft and corruption by prohibiting the governor from furthering, through the prestige and power of his office, outside interests.

The reason the governor is prohibited from holding other public office is to prevent multiple office holding, so that offices and places of public trust cannot be accumulated in one person. This is but an extension of the common law rule that a public officer cannot hold two incompatible offices at the same time.

HISTORICAL NOTE

Earlier Constitutions: Const. 1845, art. V, § 22; Const. 1861, art. V, § 22; Const. 1866, art. V, § 22; and Const. 1869, art. IV, § 14.

NOTES OF DECISIONS

1. Civil and military office—In view of distinction between civil and military officers under art. 1, § 24, art. 4, § 7, this section and Vernon's Ann. Civ. St. art. 5800, and arts. 5765, 5801, 5831, 5832, 5834, 5835, 5858, an officer of the National Guard is a military and not a civil officer, and, where a district judge also holds a commission as captain in National Guard, he does not thereby hold two civil offices, and is not within Const. art. 16, § 40, prohibiting persons from

holding more than one civil office. Ex parte Dailey, 93 Cr.R. 68, 246, S.W. 91, 26 A.L.R. 138.

Senator ANDERSON. I would like to give just one anecdote.

Sid Richardson was a very practical man. He had some trouble with a table reservation in a hotel. After trying three or four times, he went out and bought the restaurant. Sid Richardson did what he had to do and it worked out pretty well.

The CHAIRMAN. Thank you very much, gentlemen.

That concludes this morning's hearing.

The committee will now meet in executive session.

(Whereupon, at 11:25, the committee proceeded to executive session.)

APPENDIX A

Letter transmitting questions propounded by Hon. William Proxmire, a U.S. Senator from the State of Wisconsin

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., December 15, 1970.

Hon. RUSSELL B. LONG,
Chairman, Senate Finance Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: The nomination by the President of a Secretary of the Treasury is always an important act. During this period of high unemployment, rising prices, high interest rates, and low growth in the economy, the views of the nominee to that post take on an even greater importance than is normally the case.

Under the Employment Act of 1946, the Joint Economic Committee has a statutory responsibility to examine economic policies on these matters which are so vital to the economy. As the Vice Chairman of that Committee in the 91st Congress and as the Chairman of that Committee when the chairmanship last resided with its Senate members, I believe the views of the nominee are vital to the proper performance of our functions.

I would therefore appreciate it if you, as Chairman of the Finance Committee with jurisdiction over this nomination, would direct the attached questions to the nominee, Governor Connally, and ask that answers to them be supplied for the record.

It is important that the answers to these questions be available to the Senate before the nomination is acted on.

With best wishes.

Sincerely,

WILLIAM PROXMIRE,
U.S. Senator, Vice Chairman, Joint Economic Committee.

Enclosure: Questions for Governor Connally.

QUESTIONS FOR GOVERNOR CONNALLY

Full employment

Q. We are presently experiencing an economic slow-down. Many would call it a recession. What specific fiscal policies would you advocate to get the economy up to its full-employment potential?

Q. What specific level of unemployment do you associate with a "full employment economy"? How soon do you think that level can be achieved?

Q. From time to time the heads of the central banks call upon the United States to take restrictive actions which would result in higher unemployment levels here as a means of reducing or solving our balance of payments problems. Do you favor policies which would increase unemployment as a means of reducing a large balance of payments deficit?

Q. Do you accept the view that a rise in unemployment is an acceptable price to pay for a decrease in the rate of price rises?

Budget policies

Q. The Joint Economic Committee has long advocated the use of the full employment budget concept as an important tool for both economic analysis and policy formation. As Secretary of the Treasury would you be willing to accept the concept and the consequences of the concept? Are you willing, for example, to accept a deficit in the full employment budget during slack periods in the economy? Would you favor a surplus during expansionary periods in an effort to dampen inflationary pressures?

Q. Do you believe it is possible to keep expenditures at the full employment budget level of about \$228 billion for fiscal year 1972 without a significant reduction in Pentagon spending?

If you favor no significant cuts in military spending, what specific programs would you cut to achieve a level of expenditures at \$228 billion?

Incomes policy—Inflation

Q. In your opinion, did the price and wage guidelines employed by the Kennedy and Johnson Administrations contribute significantly to price stability? Was their abandonment a mistake?

Q. Do you favor an incomes policy as a means of fighting the present administered price inflation?

Q. If so, define the specific ingredients of an incomes policy you would favor. What increases would you allow for (a) productivity in specific industries, and (b) for increases in the price level?

Q. Chairman Burns of the Federal Reserve Board has proposed a number of specific actions which could be taken to help stop inflation. These are:

Liberalization of import quotas on oil and other commodities.

More vigorous enforcement of the antitrust laws.

An expansion of Federal training programs to increase the supply of skilled workers where wages are rising with exceptional rapidity.

Creation on a nationwide scale of local productivity councils to seek ways of increasing efficiency.

A more aggressive pace in establishing computerized job banks.

Liberalization of depreciation allowances to stimulate plant modernization.

Suspension of the Davis-Bacon Act (fixing wages on Federal construction projects) to help restore order in the construction trades.

Modification of the minimum wage laws in the interest of improving job opportunities for teen-agers.

Establishment of national building codes to break down barriers to the adoption of modern production techniques in the construction industry.

Compulsory arbitration of labor disputes in industries that vitally involve the public interest.

Establishment of a high-level price and wage review board that, while lacking enforcement power, would have broad authority to investigate, advise, and recommend on price and wage changes.

Would you give your position on each of them?

Q. An increase in the cost of fuels and energy sources has been one of the most significant contributors to inflation. In order to reduce prices and stop inflation, would you be willing to see the removal of oil import quotas? Suspension of the "hot oil" act? Removal of restrictions on output by state boards? Others?

Tax policy

Q. Do you believe that taxpayers (with the same number of dependents) with equal amounts of income should pay equal amounts in taxes without differentiating as to the sources of that income or the expenditures for which it is used? Would you propose reforms in the present tax system to meet that goal?

Q. Would you advocate a reduction in the existing oil and other mineral depletion allowances?

Q. Do you favor the imposition of a "value added" tax?

Q. A previous Treasury analysis identified about \$40 billion of special provisions in the tax laws, such as the oil depletion allowance, that could be regarded as tax expenditures or subsidies. The Joint Economic Committee and others would like to see these provisions and the amounts of revenue associated with them published annually in a usable form by the Treasury. Would you be willing to commit yourself to such a listing and publication?

Foreign economic policies

Q. Many believe the United States has contributed far beyond its fair share to the cost of the defense of Europe, in manpower, equipment and money. Would you support a policy of pressing our European allies to accept a much larger share of the load in money equipment and manpower in order to alleviate some of our own most pressing economic needs?

Q. The Common Market and its members continue to impose highly restrictive trade policies on the entry of our goods into their markets. Would you press vigorously for a reduction in such restrictions in order to insure the freer flow of trade, commerce, and investment between Europe and the United States?

Q. Do you foresee any circumstances in which the United States would even consider devaluation of the dollar?

Government loans

Q. In FY 1971 the outstanding direct and guaranteed Federal government loans increased by approximately \$22 billion. Of this amount, only about \$2 billion is directly accounted for in the budget. Given the significant economic impact of these non-budget credit programs on private credit markets and their use of real resources, what do you believe need to be done to bring them under more direct budgetary control?

Long-term debt limit

Q. Do you think it important at this time to lengthen the average maturity of the Federal debt? Do you advocate the removal of the interest ceiling on long term bonds as a means of accomplishing this?

Housing

Q. During 1966 and 1969-70, the tight money policies of the Federal Reserve Board had a disastrous impact upon housing, small business, state and local governments, and other borrowers. For example, the housing industry which comprises only 3 percent of the gross national product accounted for 70 percent of the cut-back dictated by the Board's tight money policy. Do you have any thoughts on what actions the Treasury can take to alleviate the unfair impact which our economic policies have upon the housing industry?

Q. Last year Congress passed the Emergency Home Financing Act which contained a new program for financing middle income housing. This program would permit the government to subsidize the rate of interest on middle income mortgages down to 7 percent. According to housing experts, it could stimulate an additional 300,000 housing starts a year. Would you be in favor of funding this new program?

Q. There are some who argue that the Federal government should employ the tools of fiscal and monetary policies to restrain the aggregate level of spending without intervening in any specific sector of the economy. There are others who feel that the government needs to take more action to re-allocate resources in the private sector in order to meet the needs of housing, state and local governments, small business and so forth. Are you satisfied that we are doing an adequate job in employing the general tools of fiscal and monetary policy, or do we need to take more selective measures in such areas as housing?

State and local government borrowing

Q. Various proposals have been advanced to make it easier for state and local governments to borrow long term capital funds. These include the establishment of an Urban Development Bank which was recommended by the outgoing Democratic Administration and a proposal advanced by Congressman Patman and myself to provide Federal guarantees and interest subsidies on state and local borrowing. There is evidence that the problem will become more serious in the years ahead since state and local capital requirements are projected to expand at the rate of 10 or 12 percent per year. Do you have any thoughts as to how state and local governments can broaden the municipal bond market to obtain the funds they will need in the years ahead?

Replies of Hon. John B. Connally to Questions Propounded by Hon. William Proxmire, a U.S. Senator from the State of Wisconsin

JOHN B. CONNALLY.

Houston, Tex. (Washington, D.C.), January 29, 1971.

Hon. RUSSELL B. LONG,
*Chairman, Senate Finance Committee,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: My answers to the questions submitted to me by Senator Proxmire are enclosed.

Sincerely yours,

JOHN B. CONNALLY.

FULL EMPLOYMENT

1. *We are presently experiencing an economic slowdown. Many would call it a recession. What specific fiscal policies would you advocate to get the economy up to its full-employment potential?*

Answer. Fiscal policies incorporated in the budget message for fiscal 1972, as well as the recently announced business depreciation changes, are specifically designed to push the economy back to its full-employment potential. With regard to the proposed fiscal '72 budget, you will note that we have planned an expansionary deficit of \$11.6 billion while maintaining Federal expenditures at a level that would be matched by tax collections if the economy were operating at its full-employment level. In other words, we have sufficient stimulus from Federal spending to re-stimulate the economy, but we have learned the lessons of the mid-1960's and have held that Federal stimulus down to an appropriate level.

Further, I feel that the business depreciation changes are a very timely and very important item in our fiscal policy tool-kit. The impact of those changes will certainly be to stimulate business investment which, I think we would all agree, is the real key to continuous economic growth and expansion.

While expansionary, President Nixon's proposed 1972 budget is not profligate. Spending control has been rigorously exercised. The major additions to spending reflect the highest of domestic priorities, such as revenue-sharing, welfare reform, and a new program of health insurance. By holding spending to a level that would be matched by revenues if the economy were operating at full employment, fiscal discipline has been maintained.

2. What specific level of unemployment do you associate with a "full employment"? How soon do you think that level can be achieved?

Answer. It is customary to speak of a four percent level of unemployment as characterizing a full-employment economy. Since that is so well established, I believe we could accept it for the sake of argument. In regard to how soon we may achieve that level of unemployment, I can give you no definite answer pinpointing a specific date sometime down the road.

But I can say that the fiscal policies of this Administration, along with continued monetary ease, are pushing the economy back up the path to strong economic growth. And in the wake of such growth the unemployment level is obviously going to decline. But when it will reach four percent is a matter about which none of us can speak with any accuracy or authority.

3. From time to time, the heads of the central banks call upon the United States to take restrictive actions which would result in higher unemployment levels here as a means of reducing or solving our balance of payments problems. Do you favor policies which would increase unemployment as a means of reducing a large balance of payments deficit?

Answer. I'm not convinced that we're faced with this sort of Hobson's Choice. We have to do a better job in maintaining high employment; we also have to reduce our balance of payments deficit.

But these two are not necessarily contradictory. Cooperation among major industrial nations has increased tremendously since the Second World War. If this increase in cooperation continues, and I'll do everything I can to further it, I think we'll have a good chance of reconciling these goals.

4. Do you accept the view that a rise in unemployment is an acceptable price to pay for a decrease in the rate of price rises?

Answer. I don't think we gain much by posing two sides of a difficult problem and asking people to take one side or the other.

As to unemployment, I won't be happy until every able-bodied person who is sincerely willing and seeking to work—at a job he can handle—can find useful employment. That goal may be a long way off, but it's a good one.

As to rising prices, we shouldn't fool ourselves by thinking that we can buy permanently low unemployment with steadily rising prices. Sooner or later that approach would kick back on us, and we would all be worse off, with probably even more unemployment.

BUDGET POLICIES

1. The Joint Economic Committee has long advocated the use of the full employment budget concept as an important tool for both economic analysis and policy formation. As Secretary of the Treasury would you be willing to accept the concept and the consequences of the concept? Are you willing, for example, to accept a deficit in the full employment budget during slack periods in the economy? Would you favor a surplus during expansionary periods in an effort to dampen inflationary pressures?

Answer. I would agree with the Joint Economic Committee that the use of the full employment budget concept is indeed a useful tool for economic analysis and

policy formation. Consequently, I would be willing to accept its implications. It is obvious that a deficit in the budget is appropriate in times of economic slack just as a surplus is appropriate during great periods of great expansion. In fact, I might point out that the fiscal policies of this Administration have drawn heavily upon the full employment budget concept in the past and will do so in the future, as evidenced by the proposed fiscal '72 budget.

The concept of holding Federal spending in line with full employment revenues is very appealing to me. We need a discipline, and if the discipline of an annually balanced budget cannot be used because of economic considerations, then we need something to substitute for it.

The full employment budget concept therefore helps serve both economic goals and the need for fiscal discipline. It provides for an expansive budget in a slack economy, a restrictive budget in an over-heated economy, and a neutral budget in a balanced economy.

As to the proposed 1972 budget, President Nixon summed up the matter aptly when he said: "The full employment budget idea is the nature of a self-fulfilling prophecy: By operating as if we were at full employment, we will help to bring about that full employment."

2. *Do you believe it is possible to keep expenditures at the full employment budget level of about \$228 billion for fiscal year 1972 without a significant reduction in Pentagon spending? If you favor no significant cuts in military spending, what specific programs would you cut to achieve a level of expenditures at \$228 billion?*

Answer. The President's 1972 budget holds spending to estimated full employment revenues of \$229.2 billion, while providing for a \$1½ billion increase in defense outlays. This increase is not a "real" increase, in that it is less than the amount necessary to offset price increases for military hardware and other Defense Department purchases.

It is also noteworthy that defense outlays as a percentage of total budget outlays continue to decline.

INCOME POLICY—INFLATION

1. *In your opinion, did the price and wage guidelines employed by the Kennedy and Johnson Administrations contribute significantly to price stability? Was their abandonment a mistake?*

Answer. Economists differ on the impact of the guidelines in the years 1962-65, but even those who believe they helped promote wage-price stability believe that the impact was relatively small.

However, there is little disagreement with the view that the guidelines were relied upon for too long following the sharp increase in Federal spending after mid-1965. To the extent this reliance postponed a shift to fiscal and monetary restraint, it contributed to the inflation that began at that time and which by 1968 had permeated the economy.

2. *Do you favor an incomes policy as a means of fighting the present administered price inflation?*

3. *If so, define the specific ingredients of an incomes policy you would favor. What increases would you allow for (a) productivity in specific industries, and (b) for increases in the price level?*

Answer. These two questions are closely related and I shall answer them together.

If by "incomes policy" is meant a full panoply of wage and price controls, then the answer is "No, I do not favor it." But if instead you refer to the full use of the leadership and prestige of the President, along with appropriate Federal actions relative to the supply of individual products and the manner in which labor is supplied for Federal projects, then I do favor an incomes policy.

Excellent examples of this type of action include the President's criticism of the rise in prices in both gasoline and steel. Such criticism has force, since Federal import policies help to protect domestic producers in these areas, and thus limit the supply of gasoline and steel.

On the labor side, I believe that if management and labor in the construction industry do not provide the necessary leadership to stop the upward spiral of costs, then the President has an obligation to review and adjust Federal rules and procedures with respect to its own heavy construction spending. New legislation may be needed.

But when it comes to guidelines, I would be very reluctant to tell Industry A or Labor Union B precisely what its share of the national income should be.

This is too precise and too restrictive for the flexibility we need in our free market economy.

4. *Chairman Burns of the Federal Reserve Board has proposed a number of specific actions which could be taken to help stop inflation. These are:*

- Liberalization of import quotas on oil and other commodities.*
- More vigorous enforcement of the antitrust laws.*
- An expansion of Federal training programs to increase the supply of skilled workers where wages are rising with exceptional rapidity.*
- Creation on a nationwide scale of local productivity councils to seek ways of increasing efficiency.*
- A more aggressive pace in establishing computerized job banks.*
- Liberalization of depreciation allowances to stimulate plant modernization.*
- Suspension of the Davis-Bacon Act (fixing wages on Federal construction projects) to help restore order in the construction trades.*
- Modification of the minimum wage laws in the interest of improving job opportunities for teen-agers.*
- Establishment of national building codes to break down barriers to the adoption of modern production techniques in the construction industry.*
- Compulsory arbitration of labor disputes in industries that vitally involve the public interest.*
- Establishment of a high-level price and wage review board that, while lacking enforcement power, would have broad authority to investigate, advise, and recommend on price and wage changes.*

Would you give your position on each of them?

Answer. Every one of these eleven proposals has some degree of merit and Dr. Burns has provided a great service in suggesting them. I look forward to discussing them at length with both the President and Dr. Burns at the earliest opportunity.

5. *An increase in the cost of fuels and energy sources has been one of the most significant contributors to inflation. In order to reduce prices and stop inflation, would you be willing to see the removal of oil import quotas? Suspension of the "hot oil" act? Removal of restrictions on output by state boards? Others?*

Answer. This is an extremely complex matter. On the one side we have the problem of costs and shortages and, as I stated in my oral testimony, this nation may well be confronted before long with an energy crisis. On the other hand, to build up heavy reliance on foreign energy sources runs grave risks in connection with our national security.

Right at the moment, however, in 1971, we have to give careful thought to the problem that results from restricting imports of fuels—or any other commodity, such as steel—in such manner as to bolster cost and price increases in the United States. I think that the President has made clear that such policies will be re-examined if such restrictions are permitted to support unjustified price increases.

TAX POLICY

1. *Do you believe that taxpayers (with the same number of dependents) with equal amounts of income should pay equal amounts in taxes without differentiating as to the sources of that income or the expenditures for which it is used? Would you propose reforms in the present tax systems to meet that goal?*

Answer. No, I do not, and I would not propose that our tax system be changed to reflect this concept.

Tax equity cannot be viewed solely in terms of gross income received and number of dependents. Let me illustrate this point with a simple example.

Suppose that two men with the same number of dependents each report an increase in income of \$10,000 for a given year. Suppose that the first obtained this additional income through gambling winnings and uses it to raise his standard of living. Suppose that the second, confronted with a major family crisis, is forced to sell his home in order to obtain funds to meet the crisis, and receives the \$10,000 in a capital gain.

If our tax laws are fair, the second individual will enjoy some tax preference benefits in recognition of his situation.

There is a great deal more that can be said on this matter, but I think the illustration is sufficient to demonstrate the difficulties involved.

2. *Would you advocate a reduction in the existing oil and other mineral depletion allowances?*

Answer. The Congress examined these allowances carefully in enacting the 1969 legislation. I do not favor re-opening these legislative matters at this time.

3. *Do you favor the imposition of a "value added" tax?*

Answer. If substituted for other, undesirable types of taxes, the value added tax has much to recommend it. Treasury has studied this tax in depth in recent months. These studies will continue.

There are many aspects of the value added tax that I could mention now but would prefer at this time to withhold comments until our studies are complete.

4. *A previous Treasury analysis identified about \$40 billion of special provisions in the tax laws, such as the oil depletion allowance, that could be regarded as tax expenditures or subsidies. The Joint Economic Committee and others would like to see these provisions and the amounts of revenue associated with them published annually in a usable form by the Treasury. Would you be willing to commit yourself to such a listing and publication?*

Answer. Not without additional study. I would want to make sure myself that the analysis is sound and the figures are meaningful. They may well be, and I have an open mind on the matter, but I want to look at the idea carefully before I commit myself.

FOREIGN ECONOMIC POLICIES

1. *Many believe the United States has contributed far beyond its fair share to the cost of the defense of Europe, in manpower, equipment and money. Would you support a policy of pressing our European allies to accept a much larger share of the load in money, equipment and manpower in order to alleviate some of our own most pressing economic needs?*

Answer. Our European allies should bear a fair share of the burden. Whether they are doing so is something I would not want to comment on now.

2. *The Common Market and its members continue to impose highly restrictive trade policies on the entry of our goods into their markets. Would you press vigorously for a reduction in such restrictions in order to insure the freer flow of trade, commerce and investment between Europe and the United States?*

Answer. I pledge myself unequivocally to push for a reduction in discriminatory trade restrictions against U.S. goods, wherever such discrimination exists.

3. *Do you foresee any circumstances in which the United States would ever consider devaluation of the dollar?*

Answer. I do not foresee any situation in which we would consider devaluation of the dollar. The dollar has, for many years, been the measure against which the values of other currencies have been set. To change it would be disruptive to the system and probably futile as well. The great majority of foreign countries would also adjust their exchange rates so that there would be little net change in currency relationships in any event.

GOVERNMENT LOANS

1. *In FY 1971 the outstanding direct and guaranteed Federal Government loans increased by approximately \$22 billion. Of this amount, only about \$2 billion is directly accounted for in the budget. Given the significant economic impact of these non-budget credit programs on private credit markets and their use of real resources, what do you believe needs to be done to bring them under more direct budgetary control.*

Answer. I have some serious questions about these loans, and I assure you that it has been a matter of concern to the Administration and the Treasury.

As some of you may recall, President Nixon appointed a special task force to survey the field of government credit programs even before he was elected. He has continued to examine the problem.

Last year, for the first time, the main budget table showed the total amount of federally assisted credit outstanding, with the specific purpose of giving these programs greater public prominence.

The President's Budget Message, which was sent to Congress on January 29, contains a statement indicating concern over the inadequate surveillance of credit programs and promises that steps will be taken to see that federal credit programs are scrutinized in terms of priorities in the same manner as budget expenditures.

As a practical matter, the financing of agencies such as FNMA and the FHLB's is accomplished without great difficulty. The Treasury, by law, must approve the

terms of many of the agency transactions. However, there does appear to be a need for institutionalizing the arrangements to prevent the growing proliferation of new independent agencies selling what amount to government securities.

LONG TERM DEBT LIMIT

1. Do you think it important at this time to lengthen the average maturity of the Federal debt? Do you advocate the removal of the interest ceiling on long term bonds as a means of accomplishing this?

Answer. The 4½ percent interest rate ceiling should be completely removed and we shall request the Congress to do so early in this session. This has been the view of every Administration and Treasury Secretary since 1959.

Without going into detail on the matter, I think it's enough to note that the average maturity of the public debt is now down to only 3 years and 5 months—much, much too short for good economics or for good debt management.

HOUSING

1. During 1966 and 1969-70, the tight money policies of the Federal Reserve Board had a disastrous impact upon housing, small business, state and local governments, and other borrowers. For example, the housing industry which comprises only 3 percent of the gross national product accounted for 70 percent of the cut-back dictated by the Board's tight money policy. Do you have any thoughts on what actions the Treasury can take to alleviate the unfair impact which our economic policies have upon the housing industry?

Answer. The only sure-fire approach is to avoid the over-spending, overheating, and inflation that require tight money as a correction. This administration is pledged to that goal.

In the meantime, many specific programs have been put in place, and it is gratifying to note that housing is leading the upturn that most economists expect in 1971.

The Treasury participated fully in the Administration's efforts to mitigate the effects on housing of the tight money condition that prevailed during 1969 and much of 1970. For example, the Treasury approved an unprecedented level of borrowings by the housing agencies—FNMA, Federal Home Loan Banks and Farmers Home Administration—despite the additional burden which these issues posed for an already struggling capital market.

The Treasury took the initiative in seeking voluntary cooperation of institutional investors for the placing of additional funds in mortgages and mortgage-backed securities.

During last year's period of tight credit the Government National Mortgage Association mortgage-backed bond got off the ground, and presumably could be used again to alleviate the impact on housing of tight credit.

2. Last year Congress passed the Emergency Home Financing Act which contained a new program for financing middle income housing. This program would permit the government to subsidize the rate of interest on middle income mortgages down to 7 percent. According to housing experts, it could stimulate an additional 300,000 housing starts a year. Would you be in favor of funding this new program?

Answer. If the Administration has held up this funding, then I am sure that there are good reasons. I am interested, however, and I'll look into it.

3. There are some who argue that the Federal government should employ the tools of fiscal and monetary policies to restrain the aggregate level of spending without intervening in any specific sector of the economy. There are others who feel that the government needs to take more action to re-allocate resources in the private sector in order to meet the needs of housing, state and local governments, small business and so forth. Are you satisfied that we are doing an adequate job in employing the general tools of fiscal and monetary policy, or do we need to take more selective measures in such areas as housing?

Answer. I believe on relying on general measures as much as possible, since that approach helps maximize freedom and minimizes red tape and bureaucracy. But I am also firmly convinced that the public's needs must be met, and if this requires Government action, then let's do it—but let's be careful that we do it efficiently, and that we don't create a program which will outlive its usefulness.

As to housing, it is very important. But as you know, the Federal Government has provided massive support for the industry in the past year. We shall continue to meet our responsibilities in this area.

STATE AND LOCAL GOVERNMENT BORROWING

1. Various proposals have been advanced to make it easier for state and local governments to borrow long term capital funds. These include the establishment of an Urban Development Bank which was recommended by the outgoing Democratic Administration and a proposal advanced by Congressman Patman and myself to provide Federal guarantees and interest subsidies on state and local borrowing. There is evidence that the problem will become more serious in the years ahead since state and local capital requirements are projected to expand at the rate of 10 or 12 percent per year. Do you have any thoughts as to how state and local governments can broaden the municipal bond market to obtain the funds they will need in the years ahead?

Answer. It is a big problem and I have a lot of thoughts on the matter. It is an issue that deserves—and will get—the most careful study.

The President's proposal for revenue sharing should go some distance toward alleviating the critical financial bind in which state and local governments have found themselves in recent years.

As in the case of housing, the most helpful thing that the Federal Government can do to ease the burden of capital financing for state and local governments is to prevent the recurrence of inflationary pressures and the high interest rates which inevitably accompany those pressures. Specifically, when the economy is operating at full employment, the Federal Government at the least should not itself be a borrower in the capital markets, and perhaps should even be providing some funds to those markets through debt repayment.

SENATOR PROXMIRE SUBSEQUENTLY SUBMITTED THE FOLLOWING ADDITIONAL
QUESTIONS

1. To your knowledge did Insurance Securities Incorporated, in which you have significant stock ownership, have any business relationship with any of the businesses named in the SEC suit?

Answer. Not to my knowledge.¹

2. Did you have any business relations connected with the allegations in the SEC suit with any of the businesses named in the suit, or in the news accounts attached?²

Answer. Not to my knowledge.¹

¹ For further information regarding these matters, see exchange between the nominee and Senator Bennett, *supra* p. 9f.

² See Washington Star of January 26, *infra*, p. 77f; three articles from the Houston Chronicle of January 21, *infra*, p. 91ff; and list of companies and individuals named in Dallas SEC suit, *infra* p. 95f.

APPENDIX B

Newspaper Articles Referred to During the Course of the Hearing

[From the Evening Star, Washington, D.C., Jan. 26, 1971]

SEC SUIT NAMES TEXAS POLITICIANS

(By Robert Walters)

A burgeoning stock fraud case—indirectly involving Texas' current governor, a former state attorney general, the chairman of the state Democratic party and several leaders in the state legislature—appears likely to affect the course of Texas politics during the next several years.

The still-growing scandal stems from a formal complaint filed in U.S. District Court in Dallas a week ago by the Securities and Exchange Commission. Named as defendants in the court action are 13 Texas companies and 15 individuals, including onetime State Atty. Gen. Waggoner Carr.

Not named as defendants in the suit but identified in a series of accompanying affidavits as participants in a string of questionable stock transactions, all of them involving the securities of the principal company named in the court action, are a number of prominent state political figures.

Like Carr, the alleged participants all are Democrats. They include:

—Two-term Gov. Preston Smith, widely reported in recent months to have been considering running for a third term next year. Some political observers now say that his chances for reelection have been diminished substantially by the scandal.

—Dr. Elmer C. Baum, chairman of the State Democratic Executive Committee. An intimate personal friend and longtime political ally of Smith, he was appointed by the governor to the State Banking Board on Sept. 11, 1969.

—Rep. Tommy C. Shannon of Fort Worth, currently floor leader of the Texas House, who introduced legislation to benefit several of the defendant companies on Sept. 5, 1969. The bill passed both the state House and Senate on Sept. 9, 1969.

—Rep. G. F. (Gus) Mutscher Jr., speaker of the Texas House, two of his assistants, Rush McGinty and Sonny Schulte, and his father, G. F. (Gus) Mutscher, Sr.

The SEC's court case alleges that since Jan. 1, 1967, the defendants "have been and are now participating in a scheme and conspiracy" to violate federal securities laws by selling more than 2.5 million shares of unregistered stock in three different Texas firms.

The principal figure in the SEC complaint is Frank W. Sharp, a 64-year-old Houston land developer who is board chairman and owner of 53 percent of the outstanding stock of the National Bankers Life Insurance Co. of Dallas, a key company in the alleged conspiracy described by the SEC.

Most of the other firms named in the civil suit are either insurance companies or banks—and Sharp either owns or controls many of them, including Master Control Inc.; Olympic Life Insurance Co.; Nashwood Corp.; South Atlantic Co.; Sharpstown State Bank, of Houston; Dallas Bank & Trust Co.; and City Bank & Trust Co. of Dallas, according to the SEC.

OTHER DEVELOPMENTS

In developments since the initial SEC complaint was filed:

—U.S. District Court Judge Sarah T. Hughes, in Dallas, signed a temporary restraining order which freezes the stock dealings of the companies and individuals named as defendants and bars them from destroying any pertinent records.

—Directors of the Sharpstown State Bank, one of Texas' largest state-chartered banks, closed the institution, stating that it could not meet depositors' demands. At the same time, they posted a notice saying the move was "not an admission . . . that the bank has been a party to any wrongdoing.

—The Texas Insurance Board placed National Bankers Life Insurance Co. and Olympic Life Insurance Co. under conservatorship.

—A state legislator from Houston, Rep. Curtis Graves, asked that House Speaker Mutscher be relieved of his post until the civil proceeding is resolved.

JESUIT FATHERS INVOLVED

The most unusual element of the case is the involvement of the Jesuit Fathers of Houston, Inc., a non-profit religious group organized to construct and operate a Jesuit college preparatory school in Houston.

The SEC complaint says that in November 1967, Sharp transferred 20,000 shares of Sharpstown State Bank stock to the Fathers, "ostensibly as a gift but actually to gain their confidence."

Sharp immediately thereafter persuaded the Fathers to borrow \$3 million from the Sharpstown State Bank and to loan the money back to him to buy stock in his bank, according to the court papers, which also say that the loan "never has been repaid."

Sharp also prevailed upon the Fathers to authorize the issuance of \$3.5 million worth of bonds, with most of the proceeds ostensibly earmarked for construction at their planned school the complaint asserts. The SEC says \$2 million went to pay off the Fathers' loan at the Sharpstown State Bank and another \$1 million was used for motel construction.

As a result of those and other transactions, "the Fathers have a present apparent indebtedness of \$6 million" to various banks and institutions and to Sharp, according to the SEC complaint.

CHARGES AGAINST GROUP

The court action alleges that Sharp and his co-defendants manipulated the market price of the stock of National Bankers Life Insurance Co., Master Control Inc. and Olympic Life Insurance Co. for their personal benefit.

In addition, it charges that "the defendant systematically looted the defendant banks and insurance companies in furtherance of the scheme and for their personal gain."

The complaint adds: "The defendants not only acted to mislead the public but also the Texas State Banking Department, the Texas State Insurance Department, the Federal Deposit Insurance Corp. and the Securities and Exchange Commission by providing each of these agencies with false and misleading information" concerning the banks, insurance companies and other firms involved.

The alleged role of the leading Democratic politicians is explained in the complaint in this manner:

"The defendants even attempted to avoid further regulation of the banks by the Federal Deposit Insurance Corporation by attempting to have legislation introduced and passed by the Texas legislature that would enable state banks to be insured by the state-chartered insurance company.

"In furtherance of this proposed legislation, (the defendants) caused large sums of money to be loaned to certain legislators, legislative employes and members of the executive branch, and arranged for them to acquire National Bankers Life Insurance Co. stock," then dispose of the stock at a price higher than the amount of the loan.

Accompanying depositions and affidavits submitted to the court indicate that seven state politicians—those named above and Rep. W. S. Heatly, of Paducah, chairman of the appropriations committee of the Texas House—purchased National Bankers Life Insurance Co. stock in July and August 1969 with money borrowed from the Sharpstown State Bank.

A former official of that bank said in a deposition that his institution had loaned Mutscher Jr. \$606,200 in four separate transactions. At least half of that amount was secured by National Bankers Life stock. Asked why he did not seek more collateral when the value of Mutscher's stock dropped sharply, the former bank officer said:

"First of all, he was in public office. He was a prominent political figure. He was a friend of Mr. Sharp's. And under circumstances like this, discretion is the better part of valor."

On Sept. 29, 1969, Smith vetoed the bill designed to aid the state banks on the grounds that "it didn't do what those interested in the banking business thought would be best." But by that time, the politicians had sold most of their National Bankers Life stock at a substantial profit.

For example, in July 1969, Mutscher Jr. bought 10,000 shares for \$130,000 and Mutscher Sr. purchased 5,000 shares for \$65,000. A few months later, each man sold three-fourths of his original portfolio for \$150,000 and \$76,000, respectively, according to the affidavits.

On Sept. 11, 1969—two days after his banking bill was approved by the legislature—Shannon sold back to Sharp's associates 3,500 shares for \$70,000. His net profit on National Bankers Life transactions was reported in the affidavits to be more than \$31,000.

Mutscher Jr. and his two aides also were reported to have disposed of their stock on Sept. 11, under similarly favorable terms. And Smith and Baum reported sales of National Bankers Life stock the next day, according to the documents submitted to the court.

The court records showed that Smith and Baum—who jointly maintained what the governor described as "a little stock-purchasing arrangement"—made a joint profit of \$125,000 on the sale of 20,000 shares of National Bankers Life stock, which they held for only four months.

In explaining his involvement, Shannon said: "If I move in circles (of individuals) who are influential or have money and so forth, they are in a position to help me if they want to. . . . It is nothing more than friendship extended from one person to another, regardless of the outcome, socially, financially or whatever."

But others say a great deal more is involved, particularly for the politicians. "This thing apparently is pretty big. It may develop into a tremendous scandal," said one observer. "The word is that we've only seen the tip of the iceberg so far."

[From the Buffalo, New York, Courier-Express, Jan. 26, 1971]

CONNALLY HOLDS TIES OF FIRM LINKED TO DOME

Former Texas Gov. John B. Connally will go before the Senate Finance Committee for confirmation as secretary of the treasury without severing partnership ties with the Houston law firm he once linked to Erie dome stadium plan.

A Treasury Dept. spokesman first told The Courier-Express Monday that Connally "has resigned" from the firm of Vinson, Elkins, Searls and Connally. But advised the law firm already had told this newspaper Connally "will be withdrawing after confirmation," the spokesman apparently conferred with the nominee and then said:

"He will separate from the firm upon confirmation."

APPROVAL SOUGHT

This means Connally will be seeking approval for a cabinet post without a clean break with interests he associated himself with here in the dome stadium matter, now under investigation by federal and county authorities.

The spokesman asserted that the federal dome investigation would involve no conflict when Connally, whose nomination was formally submitted by the White House Monday morning appears for committee questioning.

Connally, who came to Buffalo last August and talked with legislators opposing Dome Stadium Inc.'s Lancaster plans, said he was here because "my law firm represents Judge Hofheinz and because for a long time he has been a personal friend of mine."

VISITED HERE

Judge Roy H. Hofheinz, a principal in the Houston Sports Assn. which operates the Astrodome there, entered the dome picture here in the spring of 1969 and Connally, on his visit, said:

"We wanted to be sure we had done everything which we had agreed to do, and which we were committed to do."

Monday night, the Treasury Dept. spokesman told The Courier-Express:

"His firm represented Judge Hofheinz for a number of years. But Judge Hofheinz had house counsel of his own at the time the governor went to Buffalo. Connally went at the request of Hofheinz' house counsel—Judge Hofheinz was ill."

ROLE DESCRIBED

Minimizing Connally's role here, the spokesman said:

"He spent an evening and morning listening to details of the dome proposal. He had nothing else to do with it, and knows nothing about the situation now."

In the first telephone conversation with The Courier-Express, the spokesman had said:

"Connally will have severed all private interests when he goes into office. There is no question about that."

Pressed on the question of whether his appearance before the Senate committee, possibly later this week, could be affected by the nominee's formal ties—including the dome stadium matter under investigation—the spokesman said:

DATA DISCLOSED

"The customary procedure is to disclose to the Senate Finance Committee (in this case) all financial information, most of which is confidential, but all members of the committee will have it."

David Searls, senior partner of Connally's law firm, told The Courier-Express by phone from Houston earlier in the day:

"We have a settlement with him" but no effective date will be entered until Connally is confirmed.

Concerning Hofheinz, Searls said, "we represent him only in some things" but not in the dome stadium matter "that I know of."

[From the Buffalo, New York, Courier-Express, Jan. 22, 1971]

SCANDAL DEEPENS OVER DOME ISSUE—BRIBE CLAIMED OFFERED TO LEGISLATORS

The following article is written by Dick Batzer with reports from Peter C. Andrews, Dale English, Modesto Argenio, Dave Condren and Greg Faherty.

Claims of attempted bribes, the revelation of secret tape recordings, and grand jury and legislative investigations, highlighted Tuesday's developments in Erie County's increasingly tangled stadium issue.

Despite the storm warnings of federal and county grand jury probes, County Executive B. John Tutuska, armed with authority given him by the County Legislature, will meet with state officials today in an attempt to forge a partnership on a new stadium course.

ATTEMPTS MADE TO BRIBE 2 DEMOCRATIC LEGISLATORS

The Courier-Express was told Thursday that attempts were made to bribe two Democratic county legislators, Frank C. Ludera of Buffalo and Frederick F. Pordum of Lackawanna.

Both said they were offered bribes in exchange for votes on the county's proposed \$50 million domed stadium project. Both said they advised County Atty. Robert E. Casey of the attempts and added they will voluntarily appear before grand juries. However, they had not been subpoenaed as of Thursday.

"There have been occasions in the past when certain interests attempted to influence my vote on the stadium," Pordum said.

CERTAIN OVERTURES MADE IN PAST, LUDERA REPORTS

In an equally guarded statement Ludera, Democratic minority leader, said, "There have been certain overtures in the past to attempt to influence my vote."

Both refused to say who had made the attempt, where or when—or in what way they were asked to vote.

Casey said he relayed information given him by Ludera and Pordum to federal and county investigators by telephone Thursday afternoon.

INCIDENTS REPORTED OVER THE PAST SEVERAL MONTHS

"The incidents (involving Ludera and Pordum) have been reported over the past several months," Casey said. They were believed to have started last summer.

Asked why he had not previously turned information over to the district attorney's office, Casey said:

"We have been conducting an investigation over the past months and have intended to turn over any information to the proper investigating body at the proper time."

CONVERSATION TAPE RECORDED BY DETECTIVE SGT. GIAMBRA

Buffalo Police Commissioner Frank N. Felicetta revealed Thursday that it was Detective Sgt. Joseph G. Giambra, head of the police intelligence unit, who tape recorded a conversation in a Delaware Ave. restaurant about the proposed domed stadium.

Federal authorities have either the original recording or a copy of it, and Giambra still has a copy. Asked whether Buffalo police turned over the tape recording to federal investigators, Felicetta said, "No, but it wound up there."

Neither Giambra nor Felicetta would reveal the circumstances of the tape recording, who was recorded or what was said.

WON'T DISCUSS MATTER ON TAPE, GIAMBRA SAYS

"I have decided, as well as the commissioner, that it would be practical not to discuss this," Giambra said. "I don't want to talk about it because a grand jury is going on and it would just add to the confusion."

Felicetta said, "I knew it (the tape recording) was going to take place, but I don't know who was involved." The commissioner added that he was unable to recall whether the conversation occurred "this month, or December or October or when." However, it was believed to have taken place last Nov. 9 or 10.

"It was not an investigation at that time," Felicetta said, "but it is now."

FELICETTA SAYS GIAMBRA HAS FREE HAND IN PROBE

The commissioner said Giambra did not inform him of the names of the participants in the conversation.

"He told me what he was going to do, but he didn't say who he was going to plant the bug on," Felicetta said. "He has a free hand."

The commissioner said he will "know more" when he talks in person to Dist. Atty. Michael F. Dillon who has been vacationing in Florida. Felicetta said he talked with Dillon by telephone Thursday morning.

POLICE COMMISSIONER SAYS THERE ARE OTHER RECORDINGS

Felicetta added, enigmatically, that, "There are other recordings." But he refused to elaborate.

Giambra refused to say why a listening device was secreted on the person of one of the participants in the restaurant conversation.

U.S. Atty. H. Kenneth Schroeder Jr. said Thursday that a federal grand jury investigation of "allegations of bribery and attempted bribery" was initiated last fall by the Buffalo office of the FBI.

SCHROEDER DISQUALIFIES SELF FROM DOME PROBE

Speaking at a press conference, Schroeder said he informed the Justice Dept. last Sept. 17 that he was disqualifying himself "from any and all investigations" concerning the domed stadium.

"I in no way wanted this investigation to be burdened, deluded or smeared at some future date because of my prior background," Schroeder said. He previously was associated with the same law firm as that of Victor T. Fuzak, counsel for Dome Stadium Inc. which seeks a 40-year dome lease.

Schroeder said he will remain "aloof" from the federal grand jury investigation.

BROUSE SHUNS COMMENT ON FBI IN ENQUIRY

There were widespread reports in Washington and Buffalo that a nationwide sports and business enterprise might be involved in the federal enquiry.

Karl Brouse, special agent in charge of the Buffalo FBI office, refused comment on the FBI's role in the matter. Kurt Muellenburg, deputy chief of the Justice Department's Organized Crime and Racketeering Office in Washington is heading the government's probe here.

In a statement Thursday, Fuzak said it was Kenford, Co., and Dome Stadium Inc. that last September requested a federal investigation because "10 legislators refused to accept" a lease with his clients, and because Tutuska "failed to take actions required of him by the county's contract with us."

"Accordingly," Fuzak said, "We contacted the Justice Dept. in Washington to request that the entire situation be reviewed in order to determine if an investigation should be undertaken."

FUZAK SAYS JUSTICE DEPT. CONTACTED IN SEPTEMBER

"We made this request last September. The Justice Dept. decided to conduct an investigation and we have been assisting and cooperating with them since," he said.

The Courier-Express reported Tuesday that one witness had been granted immunity to testify before the grand jury sometime before Christmas.

Federal Judge John T. Curtin said he did not grant immunity to anyone, but indicated that the granting of immunity would be a matter of public record.

JUDGE HENDERSON INSISTS MATTER NOT PUBLIC RECORD

Federal Judge John O. Henderson, who may have granted the immunity, said it would not be a matter of public record because it probably would have been processed out of court.

Judge Henderson said he was "without knowledge of any witnesses and their connection with the dome stadium."

Judge Henderson said he rarely read immunity requests from the U.S. attorney's office because the grand jury cases might come up in his court.

AIDE DENIES VISIT HERE IS LINKED TO ENQUIRY

Sources close to Judge Henderson recalled, however, that he had granted immunity to "someone involved with a dome investigation," but they could not elaborate.

Meanwhile, Will R. Wilson, assistant U.S. attorney general in charge of the Criminal Division, visited Buffalo Thursday, but denied his visit had anything to do with the grand jury investigation.

Wilson, who was met at the airport by Commissioner Felicetta, said, "My trip here was set months ago to talk to the 100 Club." The club, which supports law enforcement agencies, met Thursday night in Hotel Statler Hilton.

CASEY URGES LEGISLATURE CONDUCT STADIUM ENQUIRY

Wilson said he talked briefly with Schroeder after his arrival here but "just as a courtesy" and not about the stadium investigation. Felicetta said he and Wilson did not talk about the probe.

In a letter to the legislature Thursday, County Atty. Casey recommended that the legislature conduct an investigation of its own efforts to build a domed stadium to determine whether there is a basis for civil lawsuits.

Casey said the legislature should use its power of subpoena "to fully and publicly disclose certain acts of surrounding the stadium issue."

DELAY LEGISLATIVE PROBE, COUNTY ATTORNEY SUGGESTS

However, he advised that the legislative investigation be delayed until criminal investigations by the federal and county grand juries are completed. "We do not want to compete with criminal investigations," he said.

Casey said that on the basis of his interviews with several county legislators, "I have reached certain conclusions with respect to potential civil actions which are indicated against certain individuals."

Casey said the civil investigation "would prove fruitful to the citizens of Erie County and serve to clear the air with respect to certain aspects of the stadium issue as well as serve as a basis for possible lawsuits against certain individuals."

EXTENSION OF GRAND JURY WILL BE SOUGHT TODAY

A one-month extension of the January county grand jury to look into "allegations of bribery and attempted bribery" in connection with the domed stadium will be sought today from County Judge Frank R. Bayger, it was announced Thursday by First Asst. Dist. Atty. John J. Honan.

ONE WITNESS TO APPEAR UNDER 'JOHN DOE' SUBPOENA

Dist. Atty. Dillion said earlier that two "John Doe" subpoenas had been issued Jan. 9 and one of the witnesses is scheduled to appear at 2 p.m. Monday.

Tutuska will meet today with representatives of the State Urban Development Corp. (UDC) to discuss possible state participation in construction of a stadium.

The county executive will meet in his office with Francis S. Faust, local executive officer of UDC, and A. John Latona, Buffalo area UDC manager.

TUTUSKA HOPES PROBES WON'T HAMPER ARENA PROJECT

In reference to the probes, Tutuska said, "I hope these investigations will not interfere with our efforts to build a stadium to retain the Buffalo Bills."

He said he has made no attempt to personally contact Gov. Rockefeller on the stadium matter.

Legislators expressed concern Thursday about the federal and county investigations of the stadium matter, but most agreed that efforts to build a stadium should proceed to meet Bills' owner Ralph C. Wilson's mid-March deadline on a stadium decision.

Republican members of the legislature will meet in County Hall at 9:30 a.m. today to discuss the federal and county grand jury investigations.

Arthur J. Carlsen, a Republican and chairman of the legislature, said, "We want to collectively get our thoughts together and determine if there is any way we can clear the air concerning the investigations as far as the stadium is concerned, and to offer whatever cooperation may be asked of us."

[From the Washington Post, Washington, D.C., Jan. 27, 1971]

NIXON TO CONNALLY

(By Joseph Alsop)

The country has not heard the end of the enormous innovations President Nixon wants to make—although his message on the State of the Union was the most radical proposal for restructuring our government that any President has offered in a very long time.

While he was still working on this remarkable message, the President also held a series of meetings with his Secretary of the Treasury designate, John Connally. At that time, as reported in this space, the White House was giving serious thought to mentioning the so-called value added tax in the recent message.

Doing this would have rounded out the picture by specifying the means of much more generous revenue-sharing with the state and local governments. But it was impractical to do, because of the enormous complexity of this particular tax-problem.

Two things can now be stated, however, on unchallengeable authority. First, the President is now an enthusiastic convert to the idea of a value-added tax. He wants it partly to increase the federal revenues a bit, but above all, as the key to radical tax reform.

Second, the upshot of the Nixon-Connally meetings was a firm presidential directive to Connally. As soon as he has been confirmed by the Senate, the new Secretary of the Treasury is to start work with his department's experts on a root-and-branch revision of the entire system of federal taxation.

The idea is to start with a clean slate, and to design a brand new federal tax system. The value added tax—an enormous revenue-raiser—will be one of the new system's centerpieces. But everything else will be changed as well.

The word is that the President is now ready to explain his directive to Connally rather frankly, if anyone asks him about it. So the question now arises even more starkly than before: Why is the President planning so ambitious and controversial a tax plan, for presentation to Congress in an election year?

Political considerations, after all, are never very far from the Nixonian mind. And you would not suppose, at first glance, that the President's re-election in 1972 would be aided by plunging the Congress and the country into a tremendous debate about taxes in the ten months before the voting.

But this would be a superficial judgment. In the first place, just about every state and local taxpayer, all over the country, is now threatened with new taxes, to keep his state, city, school district or whatever from slipping over the grim brink of bankruptcy.

Secondly, the value-added tax in the new system Connally is to design, will be used for other purposes besides financing more generous federal revenue sharing. It will be used, to begin with, to finance reasonable reductions in the present corporate and personal income taxes.

But that is by no means all. The President believes, absolutely correctly, that there is not a place in the whole country where the old-fashioned property tax has not got thoroughly out of hand, except for the state of Washington. The property tax cannot get out of hand in Washington, because the state constitution limits the tax to 40 mills per dollar of assessed valuation.

Thus the new federal tax system will include some form of relief for homeowners, particularly, who are now badly strained by the high property taxes they must pay. One way would be to let homeowners use their property taxes, not as a normal tax credit, but as a direct credit against the amount of federal income tax they have to pay.

All this is really something to think about. Add homeowners burdened by high property taxes, to people burdened by existing income taxes. Then throw in the businessmen, who would like a lower corporate tax, and all the people, everywhere, with good reason to fear further increases in their already onerous state and local taxes.

If you do the sum, it adds up to a huge number of votes—and all of them are just the sort of votes the President wants to attract. The truth is that the Democrats are being a bit slow to see the political side of the vast innovations the President has proposed, and will propose next year.

The cry against "big government" did not carry much conviction in the past, when big government seemed to be needed to solve great national problems. But in reality, big government has failed to solve those problems.

And now President Nixon is positioning himself to run against "governance government," and against other hated things as well, like over-high property taxes. It is an interesting strategy.

[From the New York Times, Jan. 25, 1971]

SHAH WARNS WEST OF AN OIL SHUTOFF—IRANIAN SAYS COUNTRIES WILL
CONSIDER MOVE IF TALKS WITH COMPANIES FAIL

(By Eric Pace)

NAVARAN, Iran.—The Shah of Iran said today that Iran and nine other producing countries would seriously consider stopping the flow of their oil to the West if their negotiations with Western companies broke down in the next nine days.

Answering questions at his first news conference here in 12 years, Shah Mohammed Riza Pahlavi also hinted that foreign oil interests might be nationalized by the producing countries if the dispute between the countries and Western oil interests intensified.

The 51-year-old monarch derided the insistence of 17 Western oil companies on a global settlement with 10 oil-producing nations, which are demanding more favorable payment terms. He said it was a joke and if adhered to would be "a terrible mistake and a big blunder."

WARNINGS CALLED SCARE

The Shah delivered his warnings to scores of Persian and foreign newsmen gathered in the Hall of Mirrors at Navaran Palace in this northern suburb of his capital, Teheran.

Highly placed officials involved in the oil negotiations said that his warnings were made to strengthen the producing countries' hand against the companies. One said, "He wants to scare people."

Iran, Saudi Arabia and Iraq are representing six Persian Gulf oil nations in talks in Teheran with representatives of the 17 American, British, French, Dutch and Belgian companies. The countries want a Persian Gulf regional settlement in line with the position of the 10-nation Organization of Petroleum Exporting Countries, which seeks more favorable payment terms from foreign concerns.

The Shah offset today's warnings somewhat by voicing assurances that had already been given privately to the companies that the Persian Gulf countries would honor a five-year regional settlement if one were attained.

All 10 members of the exporting countries' organization are to hold a conference here on Feb. 3. If the talks with the companies have been broken off, the Shah said, "the question of cutting off the flow of oil will definitely be considered" at the meeting.

EIGHTY-FIVE PERCENT OF WORLD'S OIL

Together the countries in the organization account for about 85 per cent of the world's oil production outside the United States and the Soviet Union.

Western Europe's oil reserves are said here to be sufficient for less than three months, while Japan, which relies heavily on Middle Eastern oil, has an even shorter supply. The United States produces about two-thirds of her oil needs and is therefore less vulnerable.

The Gulf nations want a regional settlement in line with a resolution voted at the organization's conference last month in Caracas, Venezuela. The oil companies have chosen to press for an over-all settlement to forestall progressively higher demands from various producing countries.

The Shah said that Iran would go along with whatever the majority of the group's members decided to do. Speaking in Persian, French and English during the three-hour news conference, he several times mentioned in passing the possibility that one or more countries would disrupt the outflow of oil.

CAUTIONS AGAINST DEFEAT

In his soft Persian he said, "If the producing countries suffer the slightest defeat, then we must read O.P.E.C.'s funeral oration and henceforth no one will be able to stand against the oil giants."

Though he cut a businesslike figure in his dark double-breasted suit, the ruler expressed fears about Western businessmen's intentions. He said, "If the oil companies make a big international cartel believing they can stifle everybody and if the industrial countries put themselves behind the oil companies" as their protectors, this would be "the ugliest expression of industrial imperialism—a new form of neocolonialism."

In this context the Shah alluded briefly to the years in the nineteen-fifties when the Iranian Premier, Mohammed Mossadegh, ousted him briefly and nationalized the Iranian oil industry.

The Shah continued: "We saw what happened about the Suez Canal" which was nationalized by the Egyptian Government in 1956.

"A sovereign country can do what it wants in its own territory," he said.

SEES CRISIS POSSIBLE

Asked if the oil situation had now become a crisis, the Shah leaned across his ornate desk and said, "It could become a crisis if the oil companies think they could bluff us or they could put such pressure on us that we are going to surrender."

If Western Governments intervene on the companies' side, he said, and "try to defend their interests, that would mean a terrible crisis between those countries and the oil producing countries and the countries not yet fully developed."

"Then anything could happen," he continued, "not only the stoppage of the oil, but a much more dangerous crisis—a rebellion of the have-nots against the haves, and if this starts one day, it will be beyond my control."

He said Iran received only \$1 of every \$14 from the sale of her oil abroad, and he added, "It must be made clear how much the producers whose wells will be dried up in 20 to 30 years shall receive" and how much foreign parties, notably the oil companies, would get.

Similar grievances have spurred members of the organization of exporting countries to demand more favorable tax rake-offs and other revenue arrangements for their oil. The members in the Persian Gulf area are Iran, Iraq, Kuwait,

Saudi Arabia, Abu Dhabi and Qatar. Other members are Libya, Algeria, Indonesia and Venezuela.

The Shah said that differences in geography and marketing factors made an over-all "global settlement" a bad idea. But he said that if the companies insisted on it, the organization would "all rally to the position of Venezuela," which he called "most satisfying, even sensational."

Last month the Venezuelan Parliament voted legislation providing for a tax rakeoff of 60 per cent on oil extracted by foreign companies. The organization wants to establish a lower figure, 55 per cent, as the minimum tax rate on the net income of the oil companies operating in its member countries.

[From the New York Times, New York, Monday, Feb. 1, 1971]

FOUNDATION PAID CONNALLY \$225,000 WHILE GOVERNOR

(By Martin Waldron)

FORT WORTH, TEX.—John B. Connally, Jr., who has been nominated by President Nixon to be Secretary of the Treasury, was paid at least \$225,000 while he was Governor of Texas by the Sid W. Richardson Foundation, which has large oil and gas holdings.

While he was Governor, Mr. Connally was quoted in the Texas press as denying that he had performed any outside services or received any outside compensation during his time in office.

Records filed by the foundation with the Internal Revenue Service disclosed a debt to Mr. Connally of \$225,000 in 1966, which the foundation was paying at a rate of \$75,000 a year.

According to the records, which are on file in Washington and open to public inspection, the payments had ended by 1969 when Mr. Connally left the Governorship and joined a Houston law firm.

Under the Texas Constitution, a Governor is prohibited from receiving any "salary, reward or compensation or the promise thereof from any person or corporation for any service rendered or performed during the time he is Governor."

Perry R. Bass, a director and chief spokesman for the foundation as well as a former business partner of Mr. Connally, said there was nothing improper about the foundation's paying Mr. Connally while he was Governor.

The money, Mr. Bass said, was in payment for work that Mr. Connally had done as an executor of the \$105-million estate of Sid W. Richardson, a Fort Worth oil millionaire, after Mr. Richardson's death in 1959.

"Those were executors' fees," said Mr. Bass, a nephew of Mr. Richardson and himself a coexecutor of the Richardson estate. "That was a helluva long time ago."

Mr. Bass, who was in a hurry to leave on a trip and had trouble remembering details of the arrangement under which Mr. Connally had been paid, made himself available only for a limited telephone interview. Subsequent efforts to reach him were unsuccessful.

And Mr. Connally could not be reached at all. Associates said that President Nixon had asked him not to grant interviews until after the Senate voted on his confirmation.

At the time of Mr. Richardson's death, Mr. Connally was secretary and director of the Richardson Foundation, and in October of 1959 he formally became an executor of the Richardson estate.

Mr. Connally served as an officer of the foundation until he became Secretary of the Navy in January, 1961. The records do not show when, if ever, he resigned as executor of the Richardson estate or whether his services as executor ended before he entered public life.

The Richardson foundation at the bulk of its \$86-million in assets from the Richardson estate on Jan. 1, 1962, but the records that the foundation filed with the Internal Revenue Service were sketchy until 1966, when they became more detailed and listed debts and disbursements to Mr. Connally among other transactions that were not noted in earlier records.

The records in the estate's file in Fort Worth are also sketchy. The file contains only a half-dozen documents dealing with the estate, the last of which was dated Dec. 21, 1961.

Those records show no final accounting of the estate nor do they list any fees or expenses paid to the executors.

The probate clerk in Fort Worth said it is not necessary to file a declaration that the estate has been closed. He said the court, if there are no challenges to a will, considers an estate settled when its taxes have been paid. And the taxes were paid on the Richardson estate in December of 1961.

UNANSWERED QUESTIONS

The New York Times was unable to determine why Mr. Connally was still receiving compensation from the estate seven years after the last transaction was recorded in Fort Worth.

It was also unable to determine from the records of the foundation, or from the probate court, or from the brief interview with Mr. Bass, whether Mr. Connally received any compensation from the foundation between January 1961, when he became Secretary of the Navy, and 1966, when payments to him were first listed in the foundations tax records.

The Times was also unable to determine from records or from interviews what services Mr. Connally performed for the estate in his role as executor in order to earn the payments he received.

Last Thursday, at the first day of hearings on Mr. Connally's nomination before the Senate Finance Committee, he was not asked about payments from the foundation or from the estates. But he did briefly discuss his finances after Senator Russell B. Long, the Louisiana Democrat who is chairman of the Finance Committee, praised him for being willing to incur a heavy loss of income by accepting the appointment as Secretary of the Treasury.

Mr. Connally said that there had been published references to his "vast wealth" in oil, but that his current holdings amounted only to the "magnificent sum of \$7.240."

REPORTS CIRCULATE IN TEXAS

After Mr. Connally became Governor of Texas in 1963, reports began circulating in Texas that he was receiving substantial payments from the Richardson Foundation or the Richardson estate. And the reports continued to crop up from time to time until he left office in January of 1969.

However, no formal record of the payments came to light until The Times began a routine check into Mr. Connally's finances upon the announcement recently of his nomination as Secretary of the Treasury.

The payments from the foundation were of interest to Texas newsmen during Mr. Connally's tenure as Governor because Section 6 of Article 4 in the Texas Constitution provides the following:

"During the time he holds the office of Governor, he shall not hold any other office, civil, military or corporate; nor shall he practice any profession, and receive compensation, reward, fee, or the promise thereof for the same; nor receive a salary, reward or compensation or the promise thereof from any person or corporation, for any service rendered or performed during the time he is Governor, or to be thereafter rendered or performed."

In 1964 The Texas Observer, a liberally oriented biweekly Texas magazine that frequently opposed Mr. Connally's policies, asked the Governor's office whether Mr. Connally was receiving a compensation from the Richardson estate.

In the May 1, 1964, issue of The Observer, Ronnie Dugger, the editor, quoted from the State Constitution and said the section dealing with gubernatorial compensation "is a very strict one."

"Being the executor of a person's will is not holding a corporate office," Mr. Dugger wrote. "However, receiving compensation for being executor of a will would be receiving compensation 'from any other person or corporation,' and for this reason The Observer asked Connally through this press secretary, George Christian [who later held the same post with President Johnson], 'if the Governor had received any such compensation.' He said, 'I have performed no services or received any compensation,' during the time he was Governor, Christian reported back to The Observer."

This exchange took place at a time when abbreviated foundation records were showing no payments to Mr. Connally. However, the question of Mr. Connally's outside compensation arose again in 1967 during a period in which the foundation records were showing payments to Mr. Connally.

The payments question came up in 1967 after Mr. Connally had told reporters at a press conference in Austin that he was worth about \$1-million. Five years

before that, he told The Houston Press that he was worth about a half-million dollars, almost all of it represented by his home and a ranch.

The Texas Observer juxtaposed the two statements about Mr. Connally's personal fortune, and asked how he could accumulate a half-million dollars between 1962 and 1967 on a Governor salary that never exceeded \$40,000 a year.

ENTITLED TO CERTAIN FEES

According to The Observer, Mr. Connally explained the increase in his fortune by saying: "When Richardson died, I was made one of the executors of his estate. As a consequence I was entitled to certain fees. Nineteen-sixty-two was fairly soon after his death."

The Observer printed this quote in 1968 in an article summing up the Connally years in the Texas statehouse. In the same article, Mr. Connally was quoted as saying he had received no income from the Richardson estate while Governor.

Mr. Dugger said last week that his notes reflected that Mr. Connally had also said that he had received no fees from the Richardson estate during the time he had been Secretary of the Navy, from Jan. 25, 1961, to Dec. 20, 1961.

Mr. Connally became associated with the Richardson oil interests in 1951. Before that, he had been on the fringes of state and national politics.

Mr. Connally graduated from the University of Texas in 1939 and was hired by Lyndon B. Johnson, then a Congressman, as his secretary.

Mr. Connally's first meeting with Sid Richardson was in 1940 at the Democratic National Convention in Chicago.

After World War II, during which he was in the Navy, Mr. Connally managed an Austin radio station for three years, and then joined the Texas law firm headed by Alvin Wirtz, whom former President Johnson once referred to as the man who got him into politics.

In 1951, after Mr. Wirtz had died, Mr. Connally was hired by Mr. Richardson, who had the reputation of "taking care of" his top employes.

In 1962, Mr. Connally related to The Houston Press how he was hired:

"I went to Fort Worth and visited Mr. Richardson in his rooms at the Fort Worth Club. We talked most of the night. He invited me to join his organization, and he said: 'I can hire good lawyers and good engineers and good geologists, but it is hard to hire good common sense.' At the end of our talk he told me: 'I'll pay you enough so Nellie and the kids won't go hungry, and I'll put you in the way to make some money.'"

Mr. Connally became vice president and director of a number of Mr. Richardson's companies, and was put on the board of directors of other corporations to watch out for Mr. Richardson's interests.

When he was appointed Secretary of the Navy, Mr. Connally said he had had to resign as director of 15 corporations.

RACE TRACK TRANSACTION

One transaction for which Mr. Connally had been criticized was Boys Incorporated of America, a nonprofit company that received profits from the Del Mar Race Track in California. The company was set up by Texas oil men in 1954, with Mr. Connally as a director, but the project had its origins in the depression of the 'thirties.

In 1933, a group of movie stars, including Bing Crosby and Oliver Hardy, formed the Del Mar Turf Club and leased the small Del Mar race track from the 22d Agriculture Association, a local government unit in California.

In 1936, the Works Projects Administration, a Federal agency created to provide jobs for the millions of unemployed men in the United States, granted the association \$500,666 that was spent in enlarging the facilities of the Del Mar track.

The Del Mar Turf Club in 1936 signed a formal 10-year lease to run the track. Before the lease expired, the agricultural district granted a number of extensions so that by 1953, the 10-year lease was not scheduled to expire until 1969.

On July 26, 1954, the Del Mar Turf Club assigned its lease on the track to a newly organized concern named Operating Company.

Operating Company agreed to pay the Del Mar Turf Club 90 per cent of the profits, or \$250,000 a year, whichever sum was greater. Profits were to be figured by deducting operating expenses from income. No provision was made for Federal or state income taxes.

The same day it reached this agreement with Operating Company, the Del Mar Turf Club sold its rights in the contract to Boys Incorporated of America.

FOND OF HORSE RACING

Boys Incorporated of America had been formed four days earlier in Delaware as a non-profit, tax-exempt corporation, by Mr. Richardson and by a Dallas oil man, Clint Murchison, who, like Mr. Richardson, was fond of horse racing.

The stated purpose of Boys Incorporated was to instill virtue into boys and to fight juvenile delinquency.

At a hearing in California in May, 1959, an attorney for Boys Incorporated told an investigative committee that the idea for setting up a charitable group to receive the profits from the Del Mar race track originated in 1954 during a conversation between Mr. Murchison and J. Edgar Hoover, the director of the Federal Bureau of Investigation.

The lawyer said Mr. Murchison and Mr. Hoover were sunning themselves in a solarium at Scripps Institute at La Jolla when they discussed the possibilities of helping boys through such an arrangement.

Some critics in California suggested a few years later that the real purpose of Boys Incorporated was to give the Texas oil men control of a race track without having to pay the attendant taxes.

An auditor hired by a state investigating committee in 1960 described the deal between Del Mar Turf Club, Boys Incorporated of America and Operating Company as a "sweetheart contract."

TALKS AT "ARMS LENGTH"

The directors of the organizations insisted, however, that there had been "arm's length" negotiations between all concerned. But one man—Eugene L. Stockbridge Jr.—was secretary of both the Del Mar Turf Club and Operating Company.

Boys Incorporated, in return for being given the rights to the profits from Del Mar, agreed to pay the owners of Del Mar Turf Club \$250,000 as a down payment plus \$1,780,000 over a 10-year period, plus 6 per cent interest on the unpaid balance.

In 1959, the State of California began several investigations of the leasing of the Del Mar race track after there was public grumbling that the feeding of profits into Boys Incorporated was a form of tax dodging.

One legislative committee concluded that all the leases were illegal, including the 1936 one, but they were not canceled, and the state began taxing Boys Incorporated receipts. The Federal Government decided to follow suit.

In 1962, the Commissioner of Internal Revenue revoked Boys Incorporated's tax exemptions and directed the organizations and directed the organization to pay back taxes for the preceding four years.

Boys Incorporated paid a total of \$729,234.90 in back taxes, \$120,083.34 in interest, and \$664.54 in penalties.

The oil men then sued the Federal Government for a refund, contending that the Commissioner of Internal Revenue had no grounds for revoking its tax exemption. They said that Boys Incorporated had not been able to devote much of its resources to instilling virtue into homeless boys or fighting juvenile delinquency because it had these large payments to make to the Del Mar Turf Club and because they were saving to be able to pay taxes if their tax exemption should be canceled.

The Federal District Court at Dallas, where the tax refund suit was brought, agreed that Boys Incorporated was entitled to a tax exemption, and ordered the taxes refunded.

Records on file with the Secretary of State in Delaware show that Mr. Connally was made a director of Boys Incorporated in 1958 and served 10 years.

In the 1962 Governor's race in Texas, in which Mr. Connally made his first attempt to win elective office, will R. Wilson, then the Texas Attorney General and a candidate for the Democratic nomination for Governor himself, tried to use Mr. Connally's connection with the Del Mar race track to discredit him. But the issue never caught on.

In discussing his financial standing with reporters in 1962, Mr. Connally said that most of his money was in land. It was then that he estimated he was worth about a half-million dollars.

He is part owner of two ranches, one near Floresville, Tex., where he was born. His father was a butcher who farmed and raised cattle on the side.

In his years as an employe and associate of the Richardson oil companies, Mr. Connally acquired land near the old homesite and built himself a \$250,000 home there in 1964. The Floresville ranch also had a small airplane landing strip.

After he left the Governor's office in January, 1969, Mr. Connally became a partner in the Houston law firm of Vinson, Elkins, Searls & Connally.

Other lawyers regard the Vinson, Elkins firm as one of the most important ones in Texas political and business circles.

It has close ties with the Halliburton Company, the holding company for the worldwide Brown & Root enterprises.

Mr. Connally was elected to the board of directors of Brown & Root. Other directors included George R. Brown, chairman of the board of Brown & Root and of the Texas Eastern Transmission Corporation, a natural gas pipeline company.

In 1969, Mr. Connally also went on the board of directors of the General Portland Cement Company; Texas Instruments; the Gibraltar Savings Association, a subsidiary of Imperial Corporation of California that holds 13 savings and loan associations, four in California, six in Texas, two in Kansas and one in Colorado, and a consumer credit financing company in Texas.

[From the New York Times, New York, Feb. 2, 1971]

UNANSWERED QUESTIONS

The disclosure yesterday that John B. Connally Jr. received substantial secret payments from a foundation while serving as Governor of Texas raises questions about his nomination to be Secretary of the Treasury.

It may well be that the annual payments of \$75,000 which the Sid W. Richardson Foundation paid Mr. Connally during the last three years of his governorship were deferred legal fees for his services as a coexecutor of the Richardson estate. If so, and if he was certain that this arrangement did not violate the Texas constitution, Mr. Connally will surely be able to explain why he apparently took pains to deny the fact of this financial relationship when he was Governor.

Mr. Connally's service as a director of Boys Incorporated of America also raises a question. In the view of the Internal Revenue Service, this organization was a shell created as part of a tax avoidance scheme which enabled the Richardson interests to own the Del Mar race track in California without paying taxes on its revenues. Inasmuch as a Treasury Secretary is a potent policymaker on tax issues, Mr. Connally's involvement in this arrangement must be fully aired.

Perhaps the most disturbing aspect of these disclosures is that Mr. Connally while Governor evidently tried with considerable success to conceal his financial relationship with the Richardson Foundation. Under these circumstances, Mr. Connally was well advised to ask the Senate Finance Committee to open today's executive session to the press and public. Public hearings which explore Mr. Connally's relations with the Richardson interests should be able to resolve these questions satisfactorily. What went unanswered in Austin must not remain undisclosed in Washington.

. . . AND FULL DISCLOSURE

Senator Case of New Jersey has reintroduced in the new Congress his bill to require full public disclosure of the personal financial interests of all senior Federal Government officials. The Connally case underscores the wisdom of this proposal. If the state of Texas had such a law, the relationship of John B. Connally with the Richardson interests during his governorship would have been public knowledge.

The Case bill, which has eleven co-sponsors from both parties, would cover each member of Congress, each candidate for Congress and all officials of the Congress, the executive branch and the judiciary who earn \$18,000 or more a year. These

public officers would list their sources and amounts of income, assets and liabilities, and gifts and transactions in real and personal property.

From the public's standpoint, the virtue of full disclosure is that it is automatic. It lifts the conflict-of-interest problem out of the miasma of secrecy, rumor and innuendo. From the officials' own standpoint, it is a healthy preventive influence. In Senator Case's words, "the knowledge that one's financial activities and interests will become known is the best possible stop-and-think signal."

If the generally high standard of probity in Federal office is to be maintained and occasional scandals diminished in number, Congress would do well to adopt the early warning system of full disclosure.

[From the Washington Post, Washington, D.C., Jan. 27, 1971]

THROWER RESIGNS AS HEAD OF IRS

Randolph W. Thrower, director of the Internal Revenue Service, resigned yesterday to return to his Atlanta law firm.

Asked if he was requested to resign, Thrower said, "I submitted the letter" of resignation.

In reply, President Nixon accepted it "with particular regret" and praised Thrower for his "exceptionally dedicated service." He asked Thrower to delay his departure "until the end of February in order to take maximum advantage of your experience in arranging for an orderly transfer of responsibilities." Thrower agreed to do so.

Thrower told reporters that his resignation should in no way be related to the arrival of John B. Connally, who is to be the new Secretary of the Treasury "except that it's just a part of the total change."

Thrower said he decided that he should resign now or remain for another two years, and he concluded that now was the time to return to his law firm.

Asked if Connally had refused to give him a commitment to keep him for another two years, Thrower said "no."

The IRS commissioner ran into congressional criticism when he declined to reverse a five-year-old policy of giving tax exemption to segregated private schools.

Later, he reversed the ruling, imposing taxes on private academies established in the South to avoid desegregation.

Thrower also was criticized for an announcement that some public-interest law firms would be subject to federal taxation. However, in the face of widespread criticism, IRS granted tax-exempt status to non-profit, public-interest law firms by issuing broad guidelines under which such groups could qualify as charities.

[From the Houston Chronicle, Houston, Tex., Jan. 21, 1971]

SHARP ASKED NO FAVORS, WELCH SAYS

(By Bob Tutt)

Mayor Louie Welch says financier Frank W. Sharp asked no favors for suggesting the transaction and then selling Welch 10,000 shares of National Bankers Life Insurance Co. stock at a price about \$124,000 below its then-market value.

Welch says he has lost money on the deal.

Defending the propriety of his stock transaction, the mayor asked, "How could there be a conflict of interest when the city has neither influence nor authority for the regulation of the insurance, security or banking business?"

Answering questions at a press conference he called Wednesday, the mayor said, "Mr. Sharp has never asked for anything other than the city's policy be extended to him.

"I'm referring to everything he has ever come before City council with or to the city with."

Asked if he talked to Sharp since the story broke on the mayor's stock deal, Welch quipped, "Only to let him know that he had taken the front page away from me one day but that I got it back the next."

Sharp is the key figure in a Securities and Exchange Commission investigation of alleged stock manipulation involving several banks and companies controlled by Sharp, including National Bankers Life.

Last January, Welch purchased 10,000 share of NBL stock from Sharp at \$15.60 per share at a time the market value was about \$28. The stock is now worth about \$3 a share, the SEC says.

Welch said he obtained a \$235,000 loan from the Dallas Bank and Trust Co. to pay for the stock, with the understanding the stock would be pledged as collateral for the loan.

The loan later was transferred to Sharpstown State Bank here. Sharp controls both banks.

The mayor said he doesn't know how the loan was transferred. He also said he didn't know at the time of the loan that Sharp had controlling interest in Dallas Bank and Trust.

He sought the loan from a bank in Dallas, Welch said, because Sharp told him Dallas banks were lending against NBL stock. The insurance company headquarters is Dallas.

Referring to the \$79,000 balance of the \$235,000 loan, aside from the \$156,000 he paid for the \$156,000 he paid for the stock, Welch said, "To the best of my knowledge, I never saw it."

Questioned further, he said, "This might be unusual if there were not other circumstances involved at the time."

Asked about these circumstances, he said, "Collateralizing another loan which had been made some time previously."

BORROWED FROM SHARPSTOWN

Welch did not explain further. However, Dallas Albert Johnson, former chief executive officer of Sharpstown State Bank, has said, Welch borrowed \$235,000 from the Sharpstown Bank Jan. 7, 1970, and that it was used to pay off the Welch note at the Dallas bank.

The mayor said he has suffered a "substantial, considerable loss" because of the declining value of his stock. "I think I just made an error in judgment in buying stocks last year," he said.

"If the stock is worthless my financial statement will reflect the lowest net worth since I reached age 30," said Welch, now 52.

The NBL stock "gave every indication of being an excellent investment, and I do not know it is not, yet I think today would be a bad day to sell the stocks, but I think no judgment should be made until after the examination has ended, the dust has settled and the market value has reached a level which will indicate its value," Welch said.

He said he didn't know that other public officials were buying the stock "until I read it in the paper."

NOT PRIME RATE

Asked about his rate of interest on the \$235,000 loan and another reported \$22,000 loan, Welch said, "Oh, goodness, I'll just say it is not the prime rate."

Asked about his feelings over Sharp involving him in what has proved to be a bad business deal, the mayor said, "I'm certainly not going to prejudge anything at this point."

Asked if he would seek Sharp's help in repaying the loans, Welch said, "I don't imagine it would be appropriate for me to ask Mr. Sharp to help. He has problems of his own."

Johnson, the former Sharpstown Bank official, said the stock pledged for Welch's loan at the bank was in the name of Sharpstown Realty Co., also controlled by Sharp. The mayor said he could not explain this.

"The note I have shows that the collateral is being held in my name," he said.

[From the Houston Chronicle, Houston, Tex., Jan. 21, 1971]

SMITH SEES NO COUNCIL IN PROFITABLE STOCK DEAL

(By Bo Byers)

AUSTIN.—Gov. Preston Smith insists he sees no conflict of interest for himself or Dr. Elmer C. Baum in their purchase of National Bankers Life Insurance Co. stock with a large, unsecured loan from the Sharpstown State Bank.

Smith said Wednesday he knew of no tie-in between the stock deal, on which he and Baum grossed \$125,000 profit, and legislation which the governor allowed the legislature to consider in a September, 1969, special session.

U.S. Securities Exchange Commission investigators have alleged that Houston financier Frank W. Sharp sought to influence members of the executive branch and several legislators to pass bills which would have authorized creation of a state banking deposit insurance corporation.

Smith was grilled at length by reporters.

Asked if he feels there may be grounds for legislative investigation of the circumstances surrounding introduction of two bills by Rep. Tommy Shannon of Fort Worth, Smith said, "There may be."

But, he added, "There may be grounds for investigation of any bill."

Asked whether he sees any conflict of interest for Baum in light of Baum's appointment by Smith to serve on the state Banking Board, Smith said, "I don't see any conflict."

Told that some senators question whether Baum's nomination will be confirmed by the Senate, Smith said, "I would expect the Senate Nominations Committee to explore that very thoroughly."

Smith denied making a profit out of his private partnership investment venture with Baum, started in 1962.

"My guess is we've got about a net \$55,000 loss," said Smith, again referring reporters to Baum for exact details from their records.

Baum has refused to answer questions, saying the National Bankers Life stock deal and their other investments are a personal matter.

On the reported \$125,000 gross profit on the NBL stock, the governor said, "I haven't seen my half of it, I'll tell you that."

He repeatedly denied feeling conflict of interest on his own part in opening the call to consideration of Shannon's bills on the next-to-last day of the second special session in 1969.

"Do you feel any conflict of interest?" a reporter asked.

"No, I sure don't. If I had had any, I don't imagine I would have vetoed the bill," said Smith.

He said his reasons for vetoing the two bills were "perfectly clear" as outlined in his Sept. 29, 1969, veto message. He said his veto was based largely on the fact that then-Banking Commission Chairman J. M. Falkner and Darrell Henry of Odessa, then president of the Texas Bankers Assn., "told me the bill simply wouldn't do what it was supposed to do."

He said he does not recall who asked him to open the session to consider the Shannon bills.

"I imagine I submitted it because some members called and asked me to," he said.

NAME GALLOWAY CALHOON

A few moments later, Smith suggested that Galloway Calhoun of Tyler, then an administrative assistant who handled screening of bills for Smith, probably recommended Shannon's bills.

Calhoun, a former state senator, since has been appointed by Smith as a district judge in Tyler.

Smith said he never talked to Sharp, former Atty. Gen. Waggoner Carr, or John Osorio about the bills—"not one time." The SEC civil suit seeks an injunction against Carr, Sharp and Osorio, Carr's law partner and former president of National Bankers Life.

The governor recalled signing the note for the loan from the Sharpstown State Bank while he was in Baum's office "for a treatment." Baum, an osteopath, is Smith's personal physician and also state Democratic chairman.

Smith said the note "probably" was for an unsecured loan, and the interest rate was 8.5 percent. He understood the loan was for purchase of NBL stock.

He saw nothing unusual in getting an unsecured loan for \$275,000 (to cover his and Baum's purchase of 20,000 shares of NBL stock at \$13.75 per share).

COULD GET LOANS BEFORE

"I could get loans before I got to be governor," said Smith.

"Unsecured, for that large an amount?" asked a reporter.

"I would say I could, but that would be pushing it a little," Smith said.

He reiterated that he leaves the handling of investments to Baum. "We operate over the year, and at the end of the year we divide it if we got anything, and we haven't been dividing anything," Smith said.

In response to a question, Smith said he does not think publicity about the NBL deal has hurt him politically.

He questioned whether passage of a tough ethics law would affect how legislators and other state officials operate.

"It's going to be difficult to legislate ethics or honesty," said Smith. "I think each house should regulate the conduct of its members."

PROMISES TO SIGN BILL

However, if the legislature passes an ethics bill, he promised he would sign it. "The position they take might create a better atmosphere," Smith said, adding that he would not object to a bill requiring full disclosure of financial transactions for all Texas public officials.

Smith said one reason he bought NBL stock was because "I thought (former Gov.) Allan Shivers owned it (the company)." Shivers sold NBL to Sharps-town Realty in 1968.

Smith said he has "made some boo-boos on some personal investments apart from those he and Baum have shared.

He said he bought 2000 shares of Minnesota Enterprise a few years ago at \$12 a share, and it went to \$44, but he held, hoping it would go to \$50.

"It's down to \$4. Figure how much I've lost on that," he told reporters.

Smith kept the tone of his answers casual throughout intensive questioning by reporters, but bristled occasionally.

He said he was questioned by SEC investigators three weeks ago. He said the conversation was informal and that he was not under oath as he answered their questions.

[From the Houston Chronicle, Houston, Tex., Jan. 21, 1971]

SHARP'S LAWYERS CHARGE SEC WITH RIGHTS VIOLATION

(By Barry Lawes)

Attorneys for financier Frank W. Sharp charged today that the Securities and Exchange Commission is engaged in a "witch-hunt" and has violated Sharp's constitutional rights in its investigation of his stock dealings.

The SEC Monday filed a civil injunctive suit in federal court in Dallas alleging Sharp interests are in violation of the Federal Securities Act.

REPLY FILED

Attorneys Morton Susman and Jerry G. Hill, representing Sharp and his interests, filed a reply in U.S. district court in Dallas this morning.

The reply denies any wrongdoing as charged.

It also claims the SEC "has conducted their investigation contrary to their own rules and regulations pertaining to private investigations, to the prejudice and detriment of the defendants" and that any evidence obtained "has been unlawfully obtained and cannot be used in this or any other litigation."

CHARGES CITED

The response said the defendants "would show that the SEC has acted in a willful, prejudicial, unlawful and inflammatory manner, motivated by actual prejudice and malicious feelings toward the defendants."

"There's no doubt it's a witch-hunt," said Susman, former U.S. Attorney in Houston.

The reply further charged that the SEC has "willfully and intentionally denied to the witnesses and parties herein their fundamental constitutional rights, in a willful and malicious effort to falsely discredit the defendants and others in the eyes of the public and in the eyes of state and other federal regulatory agencies."

CLAIMS OF ATTORNEY

In discussing the legal response, Susman specified four ways in which the attorneys allege their clients' constitutional rights were violated:

SEC investigators repeatedly barred witnesses' lawyers from hearings conducted Dec. 9 and Dec. 17.

Witnesses were intimidated by being told they would be indicted for obstructing justice if they talked to anyone about the hearings and testimony given.

The SEC attempted to search businesses and confiscate records of those businesses without search warrants.

The SEC filed legal documents connected with its civil suit in a manner calculated to get maximum coverage by news media and deny a fair trial to the named defendants.

The answer to the complaint, filed in Sharp's behalf, asks that the SEC be stopped from proceeding further until a hearing can be held on the alleged violation of constitutional rights.

Sharp's attorneys also contend their client was not given sufficient time to prepare for last Tuesday's hearing in which U.S. Dist. Judge Sarah T. Hughes, at SEC request, ordered a temporary halt of sale of unregistered stock of National Bankers Life Insurance Co. by Sharp or his agents. The SEC asked for an injunction against such sales.

A complete copy of the SEC complaint was not made available to the defendants until "just 15 minutes prior" to the hearing, Susman said.

"We didn't even get a chance to read the complaint until the hearing was over," he added.

CHANGES SOUGHT

The attorneys finally requested that the federal court dissolve Judge Hughes' temporary restraining order and deny the injunction sought by the SEC.

Attorney Hill charged that the SEC suppressed evidence favorable to Sharp in filing their motion for a preliminary injunction.

As a supportive document, the SEC filed a transcript of its hearing in Houston Dec. 17 at which Sharp appeared. He had testified earlier at the Dec. 9 hearing.

FIRST QUESTION

In the transcript of that Dec. 17 hearing, Sharp answered the first question put to him by SEC attorney Robert Watson. He gave his address as 2307 River Oaks.

However, Sharp claimed the immunity from self-incrimination under the fifth amendment when asked his occupation.

"Will that be your answer to all questions directed to you in the course of this investigation?" Watson asked.

"I will give the same answer," said Sharp.

NO AUTHORITY

Watson said he had no authority to compel Sharp to testify.

Hill said Sharp appeared at the Dec. 9 hearing and answered fully all questions asked of him. It was not until the Dec. 17 hearing that Sharp "exercised his constitutional rights as guaranteed by the fifth amendment," Hill said.

"However, the SEC suppressed the Dec. 9 testimony and exhibited the Dec. 17 testimony in an attempt to place Mr. Sharp in the most unfavorable light possible," Hill charged.

Sharp's testimony of Dec. 9 is not in the SEC records filed with the U.S. district clerk in Dallas.

LIST OF COMPANIES AND INDIVIDUALS NAMED IN DALLAS SEC SUIT

National Bankers Life Insurance Co.
 Master Control Inc.
 Olympic Life Insurance Co.
 Nashwood Corp.
 FLAP Inc.
 South Atlantic Corp.
 Dallas Bank and Trust Co.
 RIC International Industries Inc.
 Sharpstown Realty Co.
 Forest Realty Co.
 Oak Forest Investment Co.
 Sharpstown State Bank
 City Bank and Trust Co.
 Mr. Frank W. Sharp
 W. D. Haden
 Jesuit Fathers Inc.

J. Quincy Adams
Ling and Co.
Joseph P. Novotny
Tom Max Thomas
West Virginia Life Insurance Co.
Sam Stock
Donald S. Askins
Phillip I. Proctor
William P. Strange
James Farha
David Hoover
Andy Byram
H. E. McCain
Ideal Life Insurance
Interstate Life Insurance
Cadillac American Life Insurance
Great American Life Insurance
Bluebonnet Life Insurance
Insurance and Investment Enterprises Inc.
Texas Investment and Enterprises Inc.

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