NOMINATIONS OF NORMAN B. TURE AND BERYL WAYNE SPRINKEL

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

NOMINATIONS OF NORMAN B. TURE TO BE UNDER SECRETARY OF THE TREASURY AND BERYL WAYNE SPRINKEL TO BE UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

MARCH 20, 1981

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

77-096 O WASHINGTON : 1981 HG 97-14

COMMITTEE ON FINANCE

ROBERT J. DOLE, Kansas, *Chairman*

BOB PACKWOOD, Oregon,	RUSSELL B. LONG, Louisiana
WILLIAM V. ROTH, Jr., Delaware	HARRY F. BYRD, Jr., Virginia
JOHN C. DANFORTH, Missouri	LLOYD BENTSEN, Texas
JOHN H. CHAFEE, Rhode Island	SPARK M. MATSUNAGA, Hawaii
JOHN HEINZ, Pennsylvania	DANIEL PATRICK MOYNIHAN, New York
MALCOLM WALLOP, Wyoming	MAX BAUCUS, Montana
DAVID DURENBERGER, Minnesota	DAVID L. BOREN, Oklahoma
WILLIAM L. ARMSTRONG, Colorado	BILL BRADLEY, New Jersey
STEVEN D. SYMMS, Idaho	GEORGE J. MITCHELL, Maine
CHARLES E. GRASSLEY, Iowa	

ROBERT E. LIGHTHIZER, *Chief Counsel*
MICHAEL STERN, *Minority Staff Director*

CONTENTS

NOMINEES

WITNESS

ADDITIONAL INFORMATION

NOMINATIONS OF NORMAN B. TURE TO BE UNDER SECRETARY OF THE TREASURY AND BERYL WAYNE SPRINKEL TO BE UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

FRIDAY, MARCH 20, 1981

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

The committee met, pursuant to notice, at 9:38 a.m., in room 2221, Dirksen Senate Office Building, Hon. Robert J. Dole (chairman of the committee) presiding.

Present: Senators Dole, Roth, and Symms.

[The committee press release announcing the hearing follows:]

[Press Release No. 81-117, Mar. 18, 1981]

FINANCE COMMITTEE SCHEDULES HEARINGS ON NOMINATIONS OF NORMAN B. TURE TO BE UNDER SECRETARY OF THE TREASURY AND BERYL WAYNE SPRINKEL TO BE UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

Robert J. Dole, Chairman of The Committee on Finance, announced today that the Committee has schedued hearings on the nominations of Norman B. Ture to be Under Secretary of the Treasury and Beryl Wayne Sprinkel to be Under Secretary of the Treasury for Monetary Affairs.

The hearings are scheduled for March 20, 1981, beginning at 9:30 a.m. They will be held in Room 2221, Dirksen Senate Office Building.

Immediately following the hearings, the Committee will meet in executive session to consider the nominations for Mr. Ture and Mr. Sprinkel.

Written testimony.—The Committee will be pleased to receive written testimony from those persons or organizations who wish to submit statements on the nominations for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies to be received by March 20, 1981, to Robert E. Lighthizer, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510.

The CHAIRMAN. The committee will come to order.

I think Senator Percy wanted to be here. I think the fact that the other Senator may not be here is a positive sign. It indicates you don't have too much opposition.

We have under consideration today, the nomination of Norman B. Ture, to be Under Secretary of the Treasury for Tax and Economic Policy, and the nomination of Beryl Wayne Sprinkel, to be Under Secretary of the Treasury for Monetary Affairs.

Dr. Ture, you are the first witness. I would just say for the record, that you certainly have had a distinguished and active career.

Most recently, you have been head of your own consulting firm, as well as being an adjunct scholar at the American Enterprise Institute.

Plus, you have a doctorate in economics from the University of Chicago.

You may have a statement that you would like to present or maybe the record should indicate whether any members of your family may be present.

[The biographical sketch of Norman B. Ture follows:]

BIOGRAPHICAL SKETCH OF NORMAN B. TURE

Current positions

Norman B. Ture, Inc., Economic Consultants. President
Institute for Research on the Economics of Taxation. President
American Enterprise Institute for Public Policy Research. Adjunct Scholar

Previous positions

Planning Research Corporation, 1968-1971. Principal

George Washington University, 1969-1970, 1975-1976. Visiting Professor of Economics

University of Pennsylvania, Wharton School of Finance. 1968-1969. Visiting Lecturer

National Bureau of Economic Research, Inc. 1961-1969. Director of Tax Studies

Joint Economic Committee, United States Congress, 1955-1961. Member of staff (leave of absence April-May 1959 to assist Representative Wilbur D. Mills, Chairman of the Committee on Ways and Means, House of Representatives)

U.S. Department of the Treasury, 1951-1955. Analysis Staff, Tax Division, Office of the Secretary

Ohio State Department of Highways, 1950-1951. Member Senior Staff, Ohio Highway Fiscal Study

Illinois College, 1947-1950. Assistant Professor of Economics

Education

University of Chicago, M.A. and Ph. D., Economics

Experience

Public Service: Member of President Nixon's Task Force on Business Taxation, 1969-1970. Chairman of President-elect Nixon's Task Force on Taxation, 1968. Member of President-elect Kennedy's Task Force on Taxation, 1960.

Consultant for U.S. Department of the Treasury. Member of Advisory Group to the Commissioner of Internal Revenue, 1964. Member of Treasury Internal Revenue Service Committee on Statistics of Income, 1962-1965; chairman of the committee, 1964-1965.

Affiliations: Member, Taxation Committee, Chamber of Commerce of the United States, 1974-1976. Board of Directors, National Tax Association-Tax Institute of America, 1975-. Board of Directors, American Council on Capital Formation, 1977-. American Economic Association. National Association of Business Economists. National Economists Club. USA Branch of International Fiscal Association.

Other Activities: Has lectured extensively on a wide range of public economic policy issues before such organizations as the U.S. Chamber of Commerce, the National Association of Manufacturers, the American Mining Congress, the National Tax Association-Tax Institute of America, the Cleveland Business Economists Club, the American Enterprise Institute for Public Policy Research, the Conference Board, the Graduate School of Business of the University of Chicago, the Tax Foundation, the Institute of Investment Banking, the American Bankers Association, the Columbia University Conference of Economists on Money and Banking.

Dr. TURE. Thank you, Mr. Chairman. It is very good to see you back here.

The CHAIRMAN. Thank you.

Dr. TURE. I have no formal statement for the record, but I would be happy to say a few words.

My wife, Donna Cramer, is sitting directly behind me.

STATEMENT OF DR. NORMAN B. TURE, TO BE UNDER SECRETARY OF THE TREASURY FOR TAX AND ECONOMIC POLICY

Dr. TURE. I think that the circumstances of the economy and the tax considerations that we face certainly make this an interesting and challenging time.

I am looking forward, with great interest, to working with this committee, in efforts to improve our tax system and our economy.

The CHAIRMAN. You have discussed with the Finance Committee chief counsel, Mr. Lighthizer, any possible conflicts of interest; is that correct?

Dr. TURE. Yes, sir.

The CHAIRMAN. Are there any problems that you are aware of or those called to your attention by counsel?

Dr. TURE. There are none.

The CHAIRMAN. Is there any reason that you know of that would disqualify you from serving as Under Secretary of the Treasury?

Dr. TURE. No, sir.

The CHAIRMAN. What will your responsibilities be as Under Secretary of the Treasury for Tax and Economic Affairs?

Dr. TURE. Let me preface that by offering some observations about the fact that this is a new position in the Treasury Department.

I think the fact that it was created should be interpreted as recognition of the fact that tax policy and economic policy are necessarily very closely interrelated concerns of the Treasury Department.

What we do in tax policy has a direct and important bearing on the state of the economy and the direction of its movement. The kinds of concerns to which tax policy should be addressed, are to a very substantial extent concerns that come from the state of the economy and the direction in which it is moving.

My principal responsibilities in the Treasury Department will be to guide the overall economic policy efforts of the Department, to assure that they are consistent, one with the other, and that they are mutually reinforceable.

As I see it, my responsibilities are to be broadly concerned with the broad policy configurations, and beyond that, to be sure that the details of the respective programs of my responsibility are consistent and mutually reinforcing.

The CHAIRMAN. I have one other question.

Dr. TURE. Surely.

The CHAIRMAN. You probably have been reading this week about the difference of opinion in economic assumptions between the Congressional Budget Office and the administration's economic assumptions.

Dr. TURE. Yes, sir.

The CHAIRMAN. CBO claims that the 1980 deficit could be about $25 billion higher, in other words, about $70 billion, rather than the $45 billion, based on the Reagan economic assumptions.

Is there some way to reconcile these differing estimates or is it, in any case, guesswork? Maybe you can give us something that will not change in the next few months.

Dr. TURE. We often march to different drummers and the type of economic analysis upon which the CBO relies is not the kind that was employed in developing the administration's projections of economic magnitudes and the revenue and spending consequences thereof.

Though, I would be the last person to affirm the sanctity down to the last tittle and jot of any such projection of economic magnitudes, I think on the whole we are on the right track.

We hope to have an even better kind of device for projecting the economic magnitudes, budgetary magnitudes, and the consequences of tax changes in the relatively near future.

But, we are confident that we have the right orders of magnitude for these results.

The CHAIRMAN. Is it still the view of the administration that we might have two tax bills this year?

Dr. TURE. Yes.

The CHAIRMAN. There has been no change in that attitude?

Dr. TURE. No, sir. We are dedicated to that.

The CHAIRMAN. The only reason that I raised the question, is that I don't find any money in the budget, for the second proposal. I don't know whether we would be compelled to offset any changes or spending reductions are, of course, one possibility, or whether the administration has some hidden kitty somewhere that we are not aware of.

Dr. TURE. We wish we did. [Laughter.]

No, I don't think there is any fiscal magic that we can rely on. But, I think there will always be opportunities, we certainly believe, to make additional reductions in spending programs. We will continue to look.

Also, a principal problem in trying to make budgetary provision for the cost of the second bill, is that we are not quite sure what the contents of the second bill will be yet.

In that respect, we want to work very closely with this committee, and with the House committee, in developing the content of that bill and in determining how we ought to proceed on it.

At that point, I think we will have a much clearer view of what budgetary magnitudes we are dealing with. We would than be prepared to come to grips with that matter in terms of either revenue raising devices that would not be antithetical to the thrust of the President's program or additional spending cuts to finance it.

The CHAIRMAN. I noted a day or two, at least speculation by Secretary Weinberger that we exempt from taxation anyone in the military, I guess, with an income of $20,000 or less.

Have you figured up the cost of that at Treasury?

Dr. TURE. I think that estimate is being prepared just at this point.

The CHAIRMAN. It will cost some money.

Dr. TURE. It surely will.

The CHAIRMAN. That is not yet an administration policy; is that correct?

Dr. TURE. No, it isn't.

The CHAIRMAN. I am just advised that the Joint Tax Committee has rough estimates of about $2.5 billion a year.

Dr. TURE. I think that is probably a conservative estimate. I think what the Secretary in fact had said on it was that this was a device that was being contemplated as part of the program of reinforcing enlistments and maintenance of personnel. I don't think any firm decision had yet been made.

The CHAIRMAN. No, that is what—I don't suggest it has even been presented to the President, beyond the Secretary level.

I think he is correct. There must be some way to attract the young men and women, we have someone in uniform relying on food stamps, is not the direction we should go under any administration. I think we need to find some way. In fact, I watched the Secretary, this morning, on the network, making the same point.

Dr. TURE. Indeed not. It is a derogation of that kind of a position.

The CHAIRMAN. Well, there are no other members here. I don't have any further questions. Here is Mr. Roth, of Roth-Kemp fame. [Laughter.]

I say it each day he walks in because he has asked me to. [Laughter.]

Senator ROTH. To repeat it more often.

The CHAIRMAN. Yes. [Laughter.]

I would submit for the record a letter dated February 5, from the Office of Government Ethics, indicating that based on your position and their review, that you are in compliance with applicable laws and regulations governing conflicts of interest.

So, there is no problem in that regard. As far as I know, there are no other—I don't have any questions. On the Democratic side, I assume, if there are questions, you would be willing to submit answers for the record.

Dr. TURE. Absolutely.

The CHAIRMAN. We won't be able to act on your nomination today, without additional members here, but I think we can do that early next week.

Senator Roth, do you have any questions of Dr. Ture?

Senator ROTH. Thank you, Mr. Chairman.

One of my concerns, Dr. Ture, is that you hear a lot of differing proposals made at this time. For example, I have heard that business is very strongly for business cuts, but not so interested in individual tax cuts.

I hear others say that we ought to make spending cuts and delay any tax cuts, in order to reduce the deficit.

I am concerned that the President's program is not being fully understood by the public at large.

Would it make, in your judgment, any sense, to try to adopt just part of it, perhaps just spending cuts this year and the tax cuts next year or break down the individual tax cut year by year. Would this accomplish the same goals?

Dr. TURE. No, it will fall far short, sir. I think that would be a tragic error at this point, of policy and strategy.

I think the way to perceive this is that each of the component parts of the President's program, while the program integrates beautifully, each of those component parts is essential unto itself.

We need the spending reductions, because we need to rationalize Government spending programs. Those programs are preempting our resources. They often involve inefficient uses of those resources. They are checking our economic progress. We have to do something about them. We have to do something about them irrespeetive of what we do to the rest of the program.

I think very much the same observation has to be made with respect to our tax system. We have a tax system that imposes enormous biases against work and saving, investment, innovativeness, enterprise, risk taking. We have to do something about it. We have to do something about that irrespective of what we can accomplish with respect to spending cuts.

The same thing is certainly true with respect to monetary policy which Dr. Sprinkel would be happy to address. It is true about regulatory policy. I think each part of that program the President has presented to the public is essential unto itself. But neither one must be or should be held hostage to the other.

If I may address the individual tax reduction, I have to affirm what you are reporting sir, that there is a good deal of misapprehension, particularly in the business community, I have discovered, about the importance of the individual tax cuts.

What I have been trying to point out, whenever I have the opportunity to discuss the matter, is something that is so rudimentarily simple and so basic to the way in which this economy operates, I think it explains a great deal of why we have to focus, why we have to give as much emphasis as we believe we have to, to the individual tax reductions.

In the last analysis, every single dime's worth of savings and investing that is done in this country is done by individuals.

Every single dime's worth of capital in this country, in the private sector, is owned by individuals.

To treat the individual tax reductions as inconsequential from the point of view of increasing the aggregate volume of private sector saving and investing, I think it's just a gross mistake. It will not occur unless individuals have greater incentives to acquire and hold capital. Those tax reductions are essential to that purpose.

I don't think we can get the economy on the growth path the President has laid out and which I am sure all of us wish to see without tax reductions at least very much of the sort that have been presented on the individual and the business side to the public.

Senator ROTH. It seems to me that if they are going to provide the necessary capital, particularly for a new business and a new business or small business in many cases, creates the most jobs, then we have to have individual tax cuts to provide that capital formation.

Dr. TURE. Absolutely right.

Senator ROTH. It is true that your larger companies, big business, may be able to provide the necessary capital through depreciation and internal growth, but that is not where the buoyancy of the economy is going to come about. In my judgment, it is to create an environment where we have new creative business, as well as a healthy climate for existing business.

Dr. TURE. Let me add to that point, I think it was extremely well taken, Senator Roth, it is generally overlooked that the overwhelming proportion of the business population in this country is unincorporated.

Senator ROTH. That is overlooked.

Dr. TURE. The kinds of tax change which is up front of most importance to most of the business entities in this country is an individual tax rate reduction.

Senator ROTH. You know, it seems to me that a lot of people have overlooked the results of the election last November. They overlook the fact that the working people feel that they are entitled to a tax break. I think that is extraordinarily important.

I have sort of abused the big spenders, as they did in the past, sort of have an attitude of soak the middle class, soak the working people; let them pay.

As I look upon it, if we don't give tax cuts and frankly, I would like to have them in January, rather than in July but, if we don't provide tax cuts, substantial tax cuts, we are in effect voting for a tax increase on the people of America.

Isn't that correct?

Dr. TURE. It certainly is. One estimate that has been developed in the Treasury Department is that if the present inflation rate were to continue, and if the tax reductions for individuals that we propose are not effectuated by the end of the century, not two decades away, virtually every family now paying tax will show a marginal tax rate of 50 percent.

That is an absolutely unbelievable, mindboggling kind of a projection.

Senator ROTH. I think that is a message that must be gotten across very clearly. I have suggested to the President, as well to the others in the administration, that we really ought to make April 15 a tax freedom day. Everybody is going to be paying their taxes that day. I think it is important that we bring the message home very clearly. We have a golden opportunity, at that time, to bring the kind of message you just mentioned.

I would urge you to do that.

I would just like to make one final observation. I think one of the reasons so many people of the big spending variety are suddenly becoming fiscally conservative—that is, they want to support budget cuts—is that what they want to do long-range is to keep the big revenue coming in to the Government so they can revert to old practices down the road.

I understand Federal revenue will double something between $500 billion and $1 trillion between 1980 and 1985; is that correct?

Dr. TURE. That is approximately the order of magnitude.

Senator ROTH. So it is critically important.

One final question that also concerns me. If the President's package gets through early this year, as I hope it does, does that mean we can expect the economy to turn around immediately? What is the time frame of the new beginning?

Dr. TURE. I think the response would be very prompt, for a number of reasons. I think that the President's program, each component and taken in the large, represents a signal to the American public.

I think evidence of progress in implementing that program will have a very substantial effect on people's attitudes and outlook about where the economy is going.

I know this is sometimes treated as one of the intangibles in determining the outcomes of economic activity, but I don't think those intangibles should be disregarded.

I think we will see a very substantial change in people's attitudes about saving and investment. We will see that occurring quite promptly.

I think you will see a different attitude about being willing to enter the labor force and to take jobs.

Senator ROTH. Yes.

Dr. TURE. I think you will see an upturn in the very, very near future, following the adoption of the President's program.

One of the first statistics that you will see that would be an upturn would be an increase in the capacity utilization rate which we use for existing production capability. I think that would turn up very promptly.

Senator ROTH. I must tell you, you have been more optimistic than I have. I have felt it would take a while to feel the impact. I hope your predictions are more accurate than mine.

I would just like to say to you and Dr. Sprinkel, I am delighted with your appointment. I know you bring a great deal of fresh, innovative thinking to Government which is very badly needed.

Dr. TURE. Thank you.

Dr. SPRINKEL. Thank you.

The CHAIRMAN. I just have one other question. I am not certain you are directly involved. I understand you may be indirectly involved in the auto import controversy, and without getting into that, just in general, do you think the tax package recommended by the President will have a direct and positive impact on the auto industry?

Dr. TURE. Oh, indeed yes. I certainly do.

I think the tax package, in and of itself, will have a very strong expansionary effect on the economy.

As I just indicated to Senator Roth, I believe you will start to see the effect of that very quickly. The magnitude of the effect will be deferred. Perhaps in 1982 we will see the first big response, and in 1983, even more.

With a bigger economy, we are going to have bigger use of all kinds of consumer durables. I would expect that if the program is implemented, the auto industry ought to be looking forward to a substantial resurgence in sales, and therefore, domestic production.

The CHAIRMAN. Maybe it is not fair—are you proposing or will propose any other legislation in the tax area aimed specifically at the auto industry, other than what we now have in the first package?

Dr. TURE. My preference would be to avoid industry-specific legislation, certainly at this time. I think that the appopriate strategy is to work as effectively as we can to implement the overall program the President has recommended and to see if that does not produce the kind of resurgence in economic activity with benefits to all industries, those who are having a hard time now, as well as those who aren't.

I think before we try to address industry-specific problems, we ought to see what those results are.

The CHAIRMAN. Thank you very much.

Do you have other questions?

Senator ROTH. No. Thank you, Mr. Chairman.

The CHAIRMAN. Dr. Ture, you may be excused. You may just stay there in case we need you.

Dr. TURE. Thank you, Mr. Chairman.

[Letter from the Office of Government Ethics, dated February 5, 1981, follows:]

OFFICE OF GOVERNMENT ETHICS,
OFFICE OF PERSONNEL MANAGEMENT,
Washington, D.C., February 5, 1981.

Hon. ROBERT DOLE,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Norman B. Ture who has been nominated by President Reagan for the position of Undersecretary for Tax and Economic Policy in the Treasury Department.

We have reviewed the report and have also obtained advice from the Department concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. We have been informed by the Department that Mr. Ture will resign his position in the American Council for Capital Formation and that he will retain his position in the National Tax Institute—Tax institute of America. The latter is a tax exempt organization which takes no position on matters affecting the Department.

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

Sincerely yours,

J. JACKSON WALTER,
Director.

STATEMENT OF HON. CHARLES H. PERCY, A U.S. SENATOR FROM THE STATE OF ILLINOIS

Senator PERCY. Mr. Chairman, I thank you very much indeed. First, I would like to say how pleased all of us are to have you back.

The CHAIRMAN. Thank you.

Senator PERCY. And we——

The CHAIRMAN. I have been out at a place where they believe in deep cuts, I tell you. [Laughter.]

Senator PERCY. Well, at the same time you were having your operation, our daughter-in-law was at Georgetown University Hospital having an operation. So, we sympathize with both of you.

I am very pleased to be here to present to the committee a young man. I always think of him as a young man, because about a quarter of a century ago, when I was the recently elected president of Bell & Howell, and had a big contract in London, a young fellow came out to see me from the economics department of the Harris Trust & Savings Bank.

Well, I was on the board of the bank. I thought it was a little bit presumptuous for a young economist to barge in to the chief executive officer of the company and just want to see me.

Well, I thought, well, all right, maybe he has some grievance down there at the bank.

He came in and he said, "Looking at your balance sheet, I see that you have a large income expected from Great Britain." He said, "If I were you, I would buy futures in the pound market to protect yourself and cover yourself so if there is a drop in the monetary value of that money, you wouldn't be adversely hurt."

I didn't even know what he was talking about. I am still not sure I know. But if he was talking about protecting that income I was counting on, it was music to my ears, and I did as he recommended. We bought futures and the pound dropped dramatically. It was $4.80, I believe then. I looked smart as could be to my board of directors.

Well, I wanted to do something to help him. I talked to a fellow by the name of Stanley Harris and I said, "Keep your eye on this young fellow. He really impressed me, because he helped me tremendously."

Ever since then, they have been keeping an eye on him, if they can find him. [Laughter.]

Senator PERCY. He has been one of the truly outstanding bankers in America.

So, when the President nominated him to be Under Secretary of Treasury for Monetary Affairs, I hope this is the last time I have to pay off his help to me, 25 years ago. [Laughter.]

So any place he wants to go up the line is all right with me.

Dr. Sprinkel has been executive vice-president and an economist of the Harris Trust and Savings Bank since 1974.

He was also director of Harris Economics, an economic and financial forecasting service published by the bank, which I know many members of this committee have benefited by through the years.

Through these positions, Dr. Sprinkel has been widely known as a superb economist in his own right, both in the United States and abroad.

Prior to joining the Harris Bank, where he has been for 28 years, Dr. Sprinkel taught economics and finance at the University of Chicago, and before that, at the University of Missouri School of Business.

He received his undergraduate degree from the University of Missouri, and his MBA and Ph. D. in economics and finance from the University of Chicago.

I think it is a credit to the administration that they were able to convince Dr. Sprinkel to devote a portion of his working years to Government service.

I would like to say in conclusion, Mr. Chairman, that even though he has not been confirmed by this committee, he has been working at the Department. I took to him a problem that Bob McNamara and Secretary Haig had with the sixth replenishment of the World Bank. How do we figure out a way to meet the requirements of that agreement, not break up 29 months of negotiating and lose all that, and keep 32 countries bound to it, and yet, at the same time, help out with the economic recovery program.

Out of it came the 3-year stretchout, loading it heavily in the third year, which gives us a breathing space to get this economy back on track.

Once again, Dr. Sprinkel demonstrated he is able to take a problem and solve it. I think he is going to be just a tremendous asset.

I highly commend him to this committee.

The CHAIRMAN. Thank you very much, Senator Percy. I agree with everything you said. I can't confirm or deny the personal contact you have had over the years, but I certainly appreciate your endorsement.

I have indicated to both nominees that lack of attendance is an indication they don't have much opposition on this committee. I would guess that their confirmation will, by this committee, will be unanimous, and also by the Senate.

We appreciate very much your coming.

Senator PERCY. I am for both nominees, too.

Dr. SPRINKEL. Mr. Chairman, may I reply to the kind remarks of my good friend Senator Percy.

Indeed, you have the essence of the experience correct, but he did not go on to say that he not only went to Mr. Harris, he went to the chairman of the board, to the president of the bank, and all of a sudden he did me the most important favor in that early stage of my life that was done.

A few years later, I did pay off; that is, I helped Senator Percy in his first political campaign. We won in our area, but unfortunately, he did not win finally. [Laughter.]

The CHAIRMAN. Thank you very much.

[The biographical sketch of Dr. Beryl Wayne Sprinkel follows:]

BIOGRAPHICAL SKETCH OF DR. BERYL W. SPRINKEL

Dr. Beryl W. Sprinkel, 57, was nominated to be Under Secretary of the Treasury for Monetary Affairs by President Ronald Reagan on January 29, 1981.

Prior to his nomination, Dr. Sprinkel worked for the Harris Trust and Savings Bank in Chicago, Illinois, for 28 years. Following a series of promotions he was named Executive Vice President and Economist in 1974. In that position, he headed the bank's economic research office, and was a member of its management, investment guidance, trust investment and asset/liability committees.

He also was director of "Harris Economics," an economic and financial forecasting service published by the bank; a member of Time Magazine's Board of Economists; and formerly Chairman of the Economic Advisory Committee of the American Bankers Association. Between 1955 and 1975, Dr. Sprinkel also served as a consultant to various Government agencies and Congressional committees. For the past 16 years Dr. Sprinkel travelled extensively abroad calling on customers, central banks, and Treasuries and participated in numerous international conferences dealing with international monetary policy issues.

Before joining Harris Trust and Savings, he taught economics and finance at the University of Chicago (1949 to 1952), and at the University of Missouri School of Business and Public Administsration (1948 to 1949). He is author of two books, and co-author of a third, on the effects of monetary policy upon financial markets and the economy, and has contributed numerous articles concerning economics and finance to professional and business journals.

Dr. Sprinkel received his B.S. degree in Public Administration from the University of Missouri in 1947, and M.B.A. degree from the University of Chicago in 1948, and a Ph.D. in economics and finance from the University of Chicago in 1952. He also holds a Chartered Financial Analyst degree from the Institute of Chartered Financial Analysts, and a honorary Doctor of Humane Letters degree from DePaul University.

He was born November 20, 1923 on a farm near Richmond, Missouri, and is married to the former Barbara Angus Pipher. They have four children.

STATEMENT OF DR. BERYL WAYNE SPRINKEL, TO BE UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS

The CHAIRMAN. We have had an introduction by Senator Percy. You may have members of your family here that you would like to introduce, and then you may have a statement. However you may wish to proceed.

Dr. SPRINKEL. Mr. Chairman, I do not have members of my family, but I have some dear friends, right back of me, Herb and Ann Rowe, whom I have known for many, many years.

I have no statement. But, I would be very pleased to respond to any questions you may want to raise.

I am certainly pleased to have the opportunity to appear before this committee. We are very pleased to see you back in your role.

The CHAIRMAN. Well thank you. I appreciate that.

You have discussed possible conflicts of interest with the committee's Chief Counsel, Bob Lighthizer?

Dr. SPRINKEL. Yes, sir; I have.

The CHAIRMAN. Do you see any problems arising in that area?

Dr. SPRINKEL. No, sir.

The CHAIRMAN. Do you know of any reason that would disqualify you from serving as Under Secretary of the Treasury for Monetary Affairs?

Dr. SPRINKEL. None.

The CHAIRMAN. We had a panel yesterday of economic experts, Dr. Houthakker and Eric Heynemann and Dr. Felner.

I think it is fair to say that they indicated that perhaps as important as tax policy was fiscal policy. Of course, that will be an area that you will be directly involved in.

How do you see your relationship as Under Secretary of Monetary Affairs and the Federal Reserve System?

Dr. SPRINKEL. Let me say first, Senator Dole, my job has three aspects to it.

One is I will be the principal Treasury representative to treasuries abroad, and central banks, abroad. This involves constant work on important international monetary issues.

The second role relates to fiscal policy; namely, we will finance this enormous debt that we already have, and additional debt that we are going to be creating, including such items as the guaranteed programs of Chrysler and New York City, the Federal Financing Bank, et cetera.

The third role, which is a new one for this particular position, is the interface, the major interface between the Treasury and the administration and the Federal Reserve System. It will not be the only interface.

As you know, the President has met with Mr. Volker, and Secretary Regan is meeting regularly with Mr. Volker. I have met with him and plan to continue doing so.

I do not anticipate difficulties on that score. I have known many of the members of the Federal Reserve Board for a long time, Paul Volker, since the early sixties, and some of the others even longer.

I know the others a shorter period of time. We are on friendly grounds. We have the same objective, if I understand what they are saying. I know what our objective is. We want to gradually reduce the rate of growth in the money supply until eventually, it is growing at a rate commensurate with reasonably stable prices.

That has not been the history of the last 15 years, in particular. It has been the objective of the Federal Reserve since 1975. It is my judgment it has not been achieved.

We are encouraging slower, moderate, stable growth in money. That is what they indicate they plan to achieve.

So we will work with them. They have been quite helpful in giving us advice from time to time on fiscal policy matters. We expect to communicate with them in terms of our judgments, on monetary policy matters.

The CHAIRMAN. I think Mr. Volker has been correct the past few years indicating he has had very little in the past few years since he has been there, indicating he would need a little help from Congress. We haven't provided very much.

Perhaps now, with this, I think a new direction, as indicated by the action of the Budget Committee, that in itself will be helpful to you and to Mr. Volker and others who have that responsibility. I mean, if we have spending reductions, I think it makes it a little easier for him and others to have to deal with monetary policy.

Are you as optimistic as others in the administration as far as the Reagan package and the economic assumptions are concerned?

Dr. SPRINKEL. I am very optimistic that over the next 4 years we will restore real growth in a significant way and get the inflation down.

In fact, I am somewhat more optimistic on the inflation front than some of my colleagues in the administration, if we stick to our monetary scenario, and I think we will.

There is a lot of evidence in this world, not only in the United States, but in major countries abroad, showing that if we in fact adopt and pursue monetary discipline, we get very sizable responses on the inflation rate rather promptly.

I was in Japan, for example, in 1974, when they were suffering inflation rates that were almost unbelievable, 25 percent or so.

They then decided to adopt monetary discipline. The inflation rate came down quite promptly, within a year to 2 years, and it has been in the 3 percent or so range since that time.

That is a possible thing to happen to us, if we adopt the kind of monetary discipline that we want.

In one other sense, I am not quite as optimistic as my friend Norman Ture sounded. I agree that there will be some instant effects on incentives and attitudes. However, I also recognize that in the past when we moved from massive money infusion as occurred up until last fall, to more moderate rates of growth, inevitably it results in a slow down in economic activity.

It is entirely possible that we could pass the tax bill in the summer time and the economy promptly flatten out and sag for a while. I don't think that should be indicative of the lack of incentive effects of the program.

I think it would be indicative of an economy trying to adjust to less money growth, which is what the Federal Reserve wants and what we want.

The CHAIRMAN. Do you have any good news on interest rate projections?

Dr. SPRINKEL. Yes, sir. I have a very firm view on that point, again, with one caveat. That is, that the Federal Reserve does what they say they are going to do and what we hope they will do.

In my judgment, the Reagan administration is pursuing a low-interest-rate policy. I have brought this message to our foreign friends twice, since I came to Washington, well, more than twice, but twice abroad, and many times in my own office.

I must say, they are not fully believing, yet. The reason that I think it is a correct statement is that the level of interest rates, in my judgment, is primarily a function of the level of inflation, and which in turn, is a function of how much money is pumped into the economy.

The conventional Keynesian analysis, and I studied a lot of Keynesian economics and I have many Keynesian friends, so I think I can be somewhat objective on this front, the conventional Keynesian analysis says that if you pump in a lot of money, that reduces interest rates. That is intuitively appealing, because when the Federal Reserve buys Treasury bills raising the price, it reduces the yield, and therefore, interest rates go down.

The problem, what is wrong with that is that it would suggest that if we have rapid money growth, those countries that have a rapid growth in the money supply would have very low interest rates, and those countries that have slow growth in money would have very high interest rates, and that is exactly the opposite of what we recognize in the real world.

It leaves out two other much more important effects. As you slow money, the rate of rise in economic nominal activity, personal income, dollar GNP begins to slow and credit demands begin to weaken as they are now doing, and interest rates go down when that occurs.

The third effect is what some would refer to as the price or price anticipation or inflation effect. As we begin to make progress on inflation, this will be a further factor pushing interest rates down.

We know that we do not get instant response on inflation by tightening money. There is a lag involved. But we are already seeing, the early signs. We are seeing sensitive commodity prices declining. We are seeing gold and silver prices declining. We are seeing even now, short-term interest rates declining. Very recently we have seen longer term interest rates declining.

I am convinced, if we stick to our scenario, that we will have lower interest rates. That would be beneficial not only for our foreign friends, but it would certainly be highly beneficial for our own domestic economy. Our capital markets are not working very well now. They cannot function with high and volatile interest rates which we have suffered in recent periods.

Housing is dropping again. Small businesses find it very difficult to finance their operation. Either they can't get a loan or if they can get it, they pay horrendous interest rates.

Even many corporations have had to pull back their bond issues.

So I am convinced we are going to make those capital markets work. The way we are going to make them work is to pursue a low-interest-rate policy, and that does not mean pumping in a lot of dough.

The CHAIRMAN. Do you have any specific forecasts?

Dr. SPRINKEL. I gave up the luxury of forecasting when I left Chicago. But when I was in London about 6 weeks ago, I said at our next meeting interest rates will be lower than they are. I was in Paris a week or so ago I said, "They are. At our next meeting, they will be lower, yet," and I anticipate by yearend there will be significant further decreases in interest rates provided we get moderate money growth.

The CHAIRMAN. I would just include in the record at this point the letter from the U.S. Office of Government Ethics, dated February 10, 1981, which suggests that based upon the position you will hold and they have reviewed the agency's functions and possible functions, and they find you in compliance with the laws and regulations concerning and governing conflict of interest.

That will be made a part of the record.

[A letter from the Office of Government Ethics follows:]

OFFICE OF GOVERNMENT ETHICS,
OFFICE OF PERSONNEL MANAGEMENT,
Washington, D.C., February 10, 1981.

Hon. ROBERT DOLE,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Beryl W. Sprinkel whose nomination for the position on Undersecretary of Treasury for Monetary Affairs in the Department of Treasury, has been sent to you by President Reagan.

We have reviewed the report and have also obtained advice from the agency concerning any possible conflict in the light of the agency's functions and the nominee's proposed duties. Based thereon, we believe that Mr. Sprinkel is in compliance with applicable laws and regulations governig conflict of interest.

Sincerely,

J. JACKSON WALTER,
Director.

The CHAIRMAN. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman.

I just have one question. First, I must say my own reaction is that the benefits of the Reagan program are really long term. Hopefully they will take effect immediately, but I think it is important to the public at large, that they understand what we are trying to accomplish in Washington is to adopt policies that have long-term benefits.

For too many years, those of us in Government, particularly here in Congress have been concerned with what can we do short term—what can we do that will look good on November 4. As a result, we have had bad policy.

I know that Mr. Ture agrees with that. So I urge this administration, and those of you who are in a role of decisionmaking, to try to adopt long-term policies to create an environment of real growth without inflation.

I would like to ask one question and I don't know how directly you are involved, but it concerns the plight of the savings and loan institutions, which I think play a very important role in this country.

I wonder if you would care to comment as to what can and should be done to insure their viability?

Dr. SPRINKEL. Yes, sir. That does come under my jurisdiction. We have some experts in the finance section that know a great deal about the industry. We have been studying it. We are aware of their problems, at least their major problems.

Essentially, it is a function of an inverted yield curve, that is, they are paying more for money than they are earning on assets. You can't make that up on volume.

Senator ROTH. I know some businessmen who have tried. [Laughter.]

Dr. SPRINKEL. Therefore, the volumes have dropped sharply, and people pay either higher rates for mortgages or they don't get it at all. The real solution, the important solution is to get this inflation under control and get interest rates back to a normal yield curve.

Typically, under most circumstances, over most periods of time, short-term rates are below long-term rates. In that sort of an environment, our savings institutions as now structured work very well. They serve an extremely important role. They moved, the savings and loans in particular, they moved into the housing market ahead of the commercial banks. They are both in that market, and of course, the mutual savings banks in the Eastern part of the country.

But, on that front, none of them work very well when short-term interest rates are very high.

So the long-term solution, in my judgment, and the important solution, is to get rid of and reduce inflation rates and get short-term interest rates below longer term interest rates.

I think that is going to happen for reasons I have previously mentioned.

Now, in the meantime, I think timing is of the essence. I would be very unhappy if we had to wait 1½ to 2 years to accomplish that objective of getting interest rates down, because some of the institutions would have some difficulty. I am not talking about the depositors. I am talking about some of the institutions.

I am more optimistic than that, however. I think we are making major progress in getting interest rates down. I think the intense pressure that those institutions have felt well through much of 1980, it eased up for a brief period, but then it got worse in the fall. I think it is gradually beginning to happen now.

There may be other measures. We are looking into that. We are not hiding our head in the sand about the potential problems. We are studying it very carefully. We will be extremely pleased if market forces make it unnecessary to take emergency measures.

Senator ROTH. Well, I would like to urge very strongly that you and your group keep a close eye on it.

Dr. SPRINKEL. Yes, sir.

Senator ROTH. Because I think the next several months are very critical.

Dr. SPRINKEL. That's correct.

Senator ROTH. I happen to believe that these institutions are tremendously important and we must do whatever is necessary to insure their viability.

Dr. SPRINKEL. We agree with you.

Senator ROTH. Thank you. I wish you well.

Dr. SPRINKEL. Thank you, Senator.

The CHAIRMAN. We are also hopeful there will be some visible improvement by November 1982. Senator Roth is running then. [Laughter.]

Dr. SPRINKEL. I never had that in mind. [Laughter.]

The CHAIRMAN. Having been just reelected, I can look at long-term impacts.

I think the record would indicate that Senator Symms was here and indicated he had no questions. He intends to vote for the nominees.

I have no further questions unless there is something that either Dr. Ture or Dr. Sprinkel would like to add to the record.

Dr. SPRINKEL. Could I add one comment in response to Senator Roth's statement about short-run optimizing and long-run gains. I think the tone of this administration was set by our President. He stated during the campaign and subsequently, that he had always conducted himself in office as if that would be his last elected office. It hasn't been and probably won't be, but what he implied was, and explicitly stated, those actions will be taken that in the long-run benefit the economy, even if there are short-run costs.

I can assure you that all of the people I know at Treasury, and I know all of them now, among the policymakers, have that same viewpoint. We are long-run optimizers. We are willing to pay some short-run costs to get there.

Senator ROTH. I would say I am not taking the attitude this is my last term. [Laughter.]

I agree with the long-term approach.

The CHAIRMAN. Yes. We are sort of getting used to this majority bit. [Laughter.]

We would like to have a little long-term lease here.

Well, we appreciate very much both your statements and being here this morning. We will hopefully act on your nominations probably next Tuesday, send them to the floor, so we can have confirmation by the end of the week by the full Senate.

Dr. Ture, do you have anything else you want to add for the record?

Dr. TURE. Thank you, sir. It has been a pleasure to be here.

The CHAIRMAN. Thank you very much.

Dr. SPRINKEL. Thank you, sir.

[Whereupon, at 10:31 a.m., the hearing adjourned, subject to the call of the Chair.]

○