

**NOMINATIONS OF ROGER W. MEHLE, JR., MARC E.
LELAND, LIONEL H. OLMER, RAYMOND J. WALD-
MANN, JOHN A. SVAHN AND DORCAS R. HARDY**

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

ON

**NOMINATIONS OF ROGER W. MEHLE, JR., TO BE ASSISTANT
SECRETARY OF THE TREASURY, MARC E. LELAND TO BE
DEPUTY UNDER SECRETARY OF THE TREASURY, LIONEL H.
OLMER TO BE UNDER SECRETARY OF COMMERCE, RAYMOND
J. WALDMANN TO BE ASSISTANT SECRETARY OF COMMERCE,
JOHN A. SVAHN TO BE COMMISSIONER OF SOCIAL SECURITY,
AND DORCAS R. HARDY TO BE ASSISTANT SECRETARY OF
HEALTH AND HUMAN SERVICES**

APRIL 28 AND 29, 1981

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NOMINATIONS OF ROGER W. MEHLE, JR., TO BE ASSISTANT SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE; MARC E. LELAND, TO BE DEPUTY UNDER SECRETARY OF THE TREASURY; AND LIONEL H. OLMER, TO BE UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE

THURSDAY, APRIL 23, 1981

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

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

Present: Senators Dole and Grassley.

[The press release announcing the hearing follows:]

Press Release #81-123

P R E S S R E L E A S EFOR IMMEDIATE RELEASE
April 16, 1981UNITED STATES SENATE
COMMITTEE ON FINANCE
2227 Dirksen Senate Office Bldg.

FINANCE COMMITTEE SCHEDULES HEARINGS ON NOMINATIONS OF
ROGER W. MEHLE, JR. TO BE ASSISTANT SECRETARY OF THE TREASURY,
MARC E. LELAND TO BE DEPUTY UNDER SECRETARY OF THE TREASURY,
AND LIONEL H. OLMER TO BE UNDER SECRETARY OF COMMERCE

The Honorable Robert J. Dole (R., Kans.), Chairman of the Committee on Finance announced today that he has scheduled hearings on the nominations of Roger W. Mehle, Jr. to be Assistant Secretary of the Treasury for Domestic Finance, Marc E. Leland to be Deputy Under Secretary of the Treasury, and Lionel H. Olmer to be Under Secretary of Commerce for International Trade on Thursday, April 23, 1981, beginning at 9:00 a.m. The hearing will be held in Room 2221 Dirksen Senate Office Building.

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 type-written, not more than 25 double-spaced pages in length and mailed with five (5) copies to be received by April 23, 1981, to Robert E. Lighthizer, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D. C. 20510.

P.R. #81-123

The CHAIRMAN. I think we may as well proceed. There are about a half-dozen hearings going on. I am not certain how many other members may be here.

It is a pleasure to welcome Lionel Olmer, nominated to be Under Secretary of Commerce for International Trade, and Marc Leland, who has been nominated to be Deputy Under Secretary of the Treasury for International Affairs and Roger Mehle, to be Assistant Secretary of the Treasury for Domestic Finance.

I would say for the record, we have reviewed the financial disclosure forms of each and the material they have filed with the Office of Government Ethics. I am satisfied there are no problems in this area.

I have also been informed by the Director of Government Ethics that the Director of Government Ethics will soon send letters approving each nominee's compliance with the Ethics in Government Act. Those letters will be made a part of the record when they arrive.

[Material submitted.]

U.S. DEPARTMENT OF COMMERCE,
INTERNATIONAL TRADE ADMINISTRATION,
Washington, D.C., April 6, 1981.

Mr. ROBERT LIGHTHIZER,
Chief Majority Counsel, Senate Finance Committee,
Dirksen Senate Office Bldg., Washington, D.C.

DEAR MR. LIGHTHIZER: Enclosed please find Mr. Waldmann's resume and Financial Disclosure Report. He will deliver his net worth statement at the meeting in your office tomorrow afternoon.

In preparation for his confirmation hearing as Assistant Secretary of Commerce for International Economic Policy, Ray has met with the following members of the Committee: Senators Roth, Heinz, Grassley, Byrd, Bradley and Mitchell. He also met with Gary Horlick and Claude Gingrich. All of those with whom he spoke have received copies of his bio.

Please advise me if I can provide you with any additional information to expedite this process.

Sincerely,

FLORENCE D. BANK,
Confidential Assistant to Raymond J. Waldmann.

OFFICE OF PERSONNEL MANAGEMENT,
Washington, D.C., April 6, 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 John A. Svahn. President Reagan has nominated Mr. Svahn for the position of Commissioner of Social Security of the Department of Health and Human Services.

We have reviewed the report and have obtained advice from the Department of Health and Human Services concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Based thereon, we believe that Mr. Svahn is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

J. JACKSON WALTER,
Director.

OFFICE OF PERSONNEL MANAGEMENT,
Washington, D.C., March 30, 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 Dorcas R. Hardy, whose nomination to the position of Assistant Secretary, Human Development Services, of the Department of Health and Human Services has been sent to you by President Reagan.

We have reviewed the report and have also obtained advice from HHS concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Based thereon, we believe that Ms. Hardy will be in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

J. JACKSON WALTER,
Director.

The CHAIRMAN. Mr. Olmer, we will proceed with you first, if you are ready.

Do you wish to make any statement of any kind?

**STATEMENT OF LIONEL H. OLMER, TO BE UNDER
SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE**

Mr. OLMER. I would just like to say, Mr. Chairman, that earlier this month, I appeared before the Senate Banking Committee, pursuant to the President's nomination of me to be Under Secretary. That statement contained what I believe are my qualifications for the job, and the program that I would like to pursue in the International Trade Administration.

Subject to your agreement, I would like to make that a part of the record of the Senate Finance Committee.

The CHAIRMAN. That will be made a part of the record.
[Material to be inserted.]

**STATEMENT OF LIONEL H. OLMER, UNDER SECRETARY FOR INTERNATIONAL TRADE-
DESIGNATE, U.S. DEPARTMENT OF COMMERCE**

Mr. Chairman, Senators, I am deeply honored to appear before you today to solicit your confirmation of me as President Reagan's selection to be Under Secretary of Commerce for International Trade.

Having read the legislative history associated with the establishment of this position; having worked with people in and out of government during the time the reorganization plan which created the post was being written; and having had numerous occasions in the past four years to call upon the Department of Commerce for assistance, I am properly respectful of the enormity of the tasks which lie ahead if I am confirmed by the Senate for this job.

You have been provided with my detailed biography and so I propose to simply outline my recent experience which I believe contributes most directly to my qualifications for this assignment.

From 1977 until two month ago, I worked for Motorola Inc., a leading U.S. manufacturer and exporter of communications and electronic equipment. My responsibilities as Director of International Programs involved the development and implementation of trading opportunities primarily with Japan, and to a subordinate degree in West Africa and Latin America. This involved frequent travel and discussions with U.S. Foreign and Commercial Service, and foreign government as well as private sector representatives. I also participated in the process of advising U.S. Government officials relative to the Multilateral Trade Negotiations and provided legal advice relative to industry efforts to seek relief from injury due to imports. I analyzed and wrote for the corporate leadership my assessments of business opportunities vs. risks in many countries of the world and was privileged to lead the Company's efforts over a 2-year period to penetrate the Japanese public telecommunications market—to the best of my knowledge the first major such achievement by a non-Japanese company.

I believe that these experiences in the immediate past four years, coupled with the dedication to hard work that I know has been part of my entire professional life, will make it possible for me to advance the objectives of the International Trade Administration.

The data is well known and I believe argues persuasively for a concerted U.S. Government supported major effort to do a better job at exporting U.S. goods and services and to watch carefully lest our open market system, which is so attractive and indeed essential to our competitors, be abused. Starkly put, many of our industries have become less competitive relative to some of our significant trading partners. By "competitive" I mean price, technological uniqueness, service, quality, marketing aggressiveness and terms of finance.

Most especially, by way of contrast, in Japan there is a clear recognition that control of major, future world markets will be heavily dependent on supremacy in high technology and as a consequence there has developed a consensus, a "comity" if you will, between government, business, labor and academia that a program be implemented to assure preeminence within the next decade in the knowledge-intensive sectors.

The President's entire economic program is directed towards increasing investment and accordingly, our competitiveness. Implementation of this program will go far to improve our trade performance. But there are barriers to exporting even highly competitive goods, and unfair trade practices can threaten even competitive U.S. industries.

If confirmed, my program for ITA would involve five major areas.

1. Vigorous implementation of the various codes under the multilateral treaty negotiations which, I believe, represent a commitment by the government to the private sector.

2. Creative promotion of exports, especially greater efforts to involve small and medium size businesses in these opportunities.

3. Careful monitoring of imports relative to enforcement of our trade laws.

4. Identification of industrial sectors of critical importance whose real or threatened decline should spark imaginative counter efforts by business working in concert with the government.

5. Effective management of export control policy.

The fifth program area, that of proper administration of our export control system, will not in the short run contribute to improving our trade imbalance but it is essential for our national security, on which all else ultimately depends, and I would intend to pursue this with equivalent vigor.

I welcome your questions.

The CHAIRMAN. I assume you have discussed possible conflicts of interest with the committee's chief counsel, Bob Lighthizer.

Mr. OLMER. Yes, sir.

The CHAIRMAN. Is there any reason you know of that would preclude you from serving in the office to which you have been nominated?

Mr. OLMER. No, sir.

The CHAIRMAN. I have a number of questions the staff has suggested and which I have gone over. I am not certain whether you have been notified of the questions. Let me see if there are some here that you might want to comment on at this time.

I think one matter that concerns some of us in the Finance Committee and probably other Members of Congress and the public generally is that there has been some conflict on the auto import question in particular on who speaks for the administration. Everybody I can think of has spoken for the administration on auto imports, at one time or the other, Transportation, State, Commerce, STR and probably others that do not come to mind, everybody but the Secretary of Agriculture.

How do you view your relationship to other agencies responsible for trade functions and what steps do you intend to take to see that this administration has not sent conflicting signals on trade issues?

Mr. OLMER. Mr. Chairman, the question of who makes and implements the trade policy in the Reagan administration is one that

has concerned and has been addressed by several ranking people in the Cabinet.

It is my belief that the understandings are pervasive with respect to the automobile issue mentioned at the outset. The Department of Commerce will implement the President's program to restore competitiveness to the U.S. industry. That does not suggest, however, that the U.S. Trade Representative, Ambassador Brock, has any less responsibility as contained in the Trade Agreements Act of 1979 and the reorganization plan for formulating trade policy with the President's approval and for implementing trade policy in concert with other interested agencies in the Government.

I see no inherent conflict or reason why there should be any, between the various elements of the administration that have responsibility in different areas for our trade interests.

The CHAIRMAN. A question of interest to Senator Heinz and others on the committee, would be do you believe the trigger price mechanism is functioning to prevent the dumping of steel in the United States?

Mr. OLMER. The trigger price mechanism, Mr. Chairman, was implemented to avoid injurious dumping of steel into the United States. It is an early warning system which enables the Department of Commerce to initiate investigations whenever steel is sold at less than the established trigger price.

In a program as complicated and as comprehensive as the trigger price system, it is inevitable that there will be attempts to avoid its application.

We are aware of that potential and are prepared to take unilateral action, even prior to an allegedly injured U.S. steel manufacturer bringing a petition. We can initiate on our own volition investigations pursuant to the trigger price system and I think we will be seeing that in the very near future.

The CHAIRMAN. Along with the question on Japanese import, some of us have been meeting with representatives of the Japanese Government and have stressed the fact that it is very difficult to penetrate Japanese markets, whether it is beef, orange juice, or whatever.

They have resisted efforts in the past to open markets to foreign products by warning that the ruling coalition is a fragile one, and any major penetration of any sector of the Japanese market, whether it is beef or anything else that might cause a part of the ruling coalition to draw support and thus destroy the coalition. Some of us do not believe that is a good reason for the United States to continue to go easy on its demands for trade reciprocity.

What is your response to such an argument? I have raised it a number of times in discussions on auto imports, but they do not respond to the question.

Mr. OLMER. I can't give you an administration position, but if you will allow me to give you my personal view, Mr. Chairman, I would be delighted to.

My assessment of the situation is based on several years' effort at penetrating the Japanese market and several additional years as a student of Japanese affairs. I don't accept the premise that the ruling Government is a shaky one. Prime Minister Suzuki has garnered adequate support across a wide spectrum of the various

parties that make up the Japanese political system and I view it as a working democracy.

Even if I did accept the premise, it would not be sufficient rationale for me to accept it as a reason for us to back off on seeking reciprocity and equivalence of access.

The CHAIRMAN. I appreciate that. I know it is difficult but it seems to me when we view it in the content of the auto import question—and I am not certain I favor the bill that is pending in this committee—the Japanese should address some of our concerns.

I am advised that since 1963 we have conducted five national export drives designed to demonstrate our national exports. During that period of time, our trade account has gone from \$5.8 billion surplus to a deficit of \$24.4 billion last year.

Our market share in world trade has dropped from 25 percent to 17 percent in the period of time from 1950 to 1970 and down to 12.2 percent in 1980.

Obviously, something is not working. Given the proposals that came out of the last administration's report on export incentives and disincentives and the current desire in the Congress to try to address these problems, do you have any suggestions on what might be the most productive way to turn the trend around?

Mr. OLMER. Mr. Chairman, before responding directly, I would like to comment on your introductory remark in this regard.

The phenomenon that is especially striking is that among those five export studies that were mounted by the Government, there was one done in the White House, I believe in 1967, a time when we enjoyed a rather substantial trade surplus. The study identified only two disincentives to export of any significant proportion.

Now we have a trade deficit approaching \$30 billion. A White House study last year identified over 15 significant export disincentives. Not only are we studying the problem to death, we are acting in a way which is having a negative impact on our trade balance.

There are a number of programs which we have in mind to initiate in the Department and a number of programs which have been initiated that I think have a lot of promise.

One of them is the Foreign Commercial Service which was given birth in the trade reorganization of a year ago. To measure the performance of the Foreign Commercial Service against export sales is something that has never been attempted before. I would like to implement just such a system as soon as possible.

Also, in the U.S. Commercial Service, we have several hundred qualified people in the United States available to American exporters and to U.S. businesses which could be exporting. We need to educate them better; we hope soon to have an export trading company act that will enable us to pursue a more vigorous program in that regard. We intend to have the commercial officers in the United States out on the road as marketeers two-thirds of the time and in the office one-third of time, a near reversal of the past trend.

We do have a number of vigorous programs to get people moving in a way which will enable us to measure how good or how ineffective they and the programs have been.

We have other mechanisms that you may be aware of to improve the speed with which we can receive tender offers from foreign

governments, translate them and turn them around to companies that might be competitive. This is particularly important in the implementation of the MTN, specifically, of the Japanese effort at abiding by the Government procurement code.

There are several billions of dollars worth of exports involved and there is no good reason why a significant portion of that annual procurement could not be won by U.S. companies.

I have a deep personal commitment to seeing to it that we vigorously implement the Government procurement code and other codes under the MTN. I believe that American business can perform, that it really wants to, and that Government has a unique role to play in encouraging them and supporting them.

The CHAIRMAN. Will that include active and useful consultation of the private sectors required by the Trade Act of 1974?

Mr. OLMER. Yes, sir. We have nearly 500 private sector representatives organized into nearly two dozen committees known as Industry Sector Advisory Committees.

We have inherited this organization and I am not yet persuaded that it is the most effective mechanism for pooling the talents and expertise available in the private sector. But, as someone who came to the Government from the private sector and participated in that ISAC process, I know it isn't all bad either. The private sector gets a lot of good opportunities to influence the Government and I think the Government was both responsive and of significant value.

I want to take a careful look at it, and perhaps restructure it in some modest way. We will make great use of that resource.

The CHAIRMAN. Finally, we have had expressions of concern by some of the major aircraft manufacturers. Most of the major aircraft manufacturing nations in the free world have signed the Civil Aircraft Agreement as part of the MTN. What are your views regarding the sale of aircraft and aircraft products in the United States by nations who have declined to sign this agreement or are not complying with its provisions?

Mr. OLMER. There are several nations who have not yet acted on that code, nor, as I believe you indicated earlier, on the principle of reciprocity. I would have to take a careful look at the individual cases because there may be overwhelming equities on the other side, but with regard to a couple of nations which have not yet indicated a willingness to abide by the code, I think we ought to get tough with them.

The CHAIRMAN. There are a number of proscribed types of unfair trade practice by signatories such as embargoes, tariffs, and government supported financing policies and subsidies which enable the foreign manufacturers to compete unfairly in the U.S. marketplace.

Again, this is particularly evident in the aviation competition. If you are going to have a major responsibility for forcing the trade agreements, I would hope you would keep this in mind. Also, we need to protect our U.S. aircraft manufacturing interests against any unfair practices. Do you share that view?

Mr. OLMER. Yes, sir, I do indeed.

The CHAIRMAN. Have you any other statements you would like to make for the record? We will make that other statement part of the record made before the Banking Committee.

Mr. OLMER. In the business world, when you have made a sale it is time to get off the court, if that is not mixing metaphors, Mr. Chairman. So, if you have no further questions, I will leave the court.

The CHAIRMAN. I have no further questions. It may be that we will want to submit a question or two in writing. The record will be kept open in the event that other members of the committee would like to address a question in writing and hopefully we can act on your nomination next Tuesday in a full committee and later in the week, the Senate floor.

Mr. OLMER. Thank you, Mr. Chairman.

Question. Section 777 of the Trade Agreements Act requires that a subsidies library be established as a source of information to help American industries, particularly small business, determine whether harmful import competition is being caused by subsidy practices abroad. Has the Commerce Department established a subsidies library? What are your intentions with respect to this statutory requirement?

Answer. The library does not yet exist. While I have no bias against its creation and no intent to avoid the Trade Agreements Act of 1979, which requires its establishment, I am not sure that even if it were established it would really meet the ends that the Act seeks. We will proceed with the requirements of the Act and I will look at the utility of the library very carefully and let you know my conclusions and recommendations.

BIOGRAPHY OF LIONEL H. OLMER, NOMINEE FOR UNDER SECRETARY FOR INTERNATIONAL TRADE, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Lionel H. Olmer was nominated by President Reagan as Under Secretary of Commerce for International Trade on February 12, 1981.

From 1977 until his nomination, Olmer was Director of International Programs for Motorola, Incorporated. At Motorola he was responsible for development and implementation of international trade strategies; he devoted particular attention to the trade opportunities created by the Multilateral Trade Negotiation Agreements. Partly as a result of his efforts, Motorola has become the first major U.S. high technology manufacturer to penetrate the highly competitive Japanese public telecommunications market. In Africa, Olmer assisted Motorola to succeed in markets long dominated by French telephone equipment manufacturers.

Before joining Motorola, Olmer served for nearly five years on the President's Foreign Intelligence Advisory Board, ultimately as staff director. The Board, established by President Eisenhower in 1956, consisted of private citizens who advised the President on the adequacy of U.S. foreign intelligence, including economic intelligence.

Olmer holds a bachelor's degree from the University of Connecticut and a law degree from the American University in Washington, D.C. He is a member of the Connecticut and District of Columbia bars.

Olmer served as an officer in the U.S. Navy in assignments which included the staff of the Chief of Naval Operations during the late 1960's. He is a graduate of the National Defense University. Olmer is a member of the Board of Directors of the International Rescue Committee and Chairman of its Washington Advisory Group. The IRC is a voluntary agency whose purpose is to aid in the relief and resettlement of refugees.

A native of Connecticut, Olmer and his wife, the former Judith Saylor of Portland, Oregon, live in Rockville, Maryland, with their two children.

U.S. DEPARTMENT OF COMMERCE,
THE UNDER SECRETARY FOR INTERNATIONAL TRADE,
Washington, D.C., April 27, 1981.

Hon. JOHN HEINZ,
Russell Building,
Washington, D.C.

DEAR SENATOR HEINZ: I am pleased to respond to the questions you have posed relative to my confirmation hearings for Under Secretary for International Trade, Department of Commerce.

Over 60 percent of our imports of apparel come from Hong Kong, Taiwan and South Korea—three countries which are newly industrialized. Should not the rate of growth of U.S. imports from these countries be limited to our domestic market growth rate?

Hong Kong, Taiwan, and South Korea unquestionably are the most important sources of supply to be addressed in the textile and apparel restraint program. Negotiations are now being completed to reduce the export limits available to these countries in sensitive categories in 1982. In my view, we have to formulate, negotiate, and administer our textile and bilateral policy to be certain that apparel imports from these countries do not grow at rates that would disrupt our domestic market.

The United States and China (PRC) signed a bilateral textile agreement last year. Thus far, the U.S. Government has put only 10 of the 106 categories under quota even though imports from the PRC are growing rapidly. What is your view about these imports? Should we react more quickly to limit these imports?

At present, five categories are under consultation for the establishment of import quotas. We must take action to seek formal consultations with China whenever her imports threaten to disrupt our market. I plan to give priority to constant, careful monitoring of China's textile and apparel exports to the United States to be sure that warranted actions to restrain these imports are taken as soon as possible.

The GATT Multifiber Arrangement or MFA provides for orderly trade in textiles and apparel between low wage countries and the developed countries. How do you believe the MFA should be strengthened in this year's renewal?

Our most important priority should be to assure that a MFA-type mechanism remains in place. Under U.S. law, this is necessary to allow us to establish and administer restraints on imports of textiles and apparel into the United States market. I plan to give personal attention to the development of our MFA policy, in consultation with private sector and Congressional leaders.

The European Economic Community has taken and is considering further measures to try to limit U.S. textile exports to Europe. How do you anticipate dealing with this problem?

It is my understanding that recent decisions have been taken in Brussels and London to forego any new restraints on U.S. textile exports to Europe. Should new threats to our textile exports to the European Community arise, I believe we should take quick and effective actions to protect our rights under existing international trading rules.

One of our big problems in the textile trade area is the fact that even though we've made bilateral textile agreements with our major suppliers, our government has been lax in the past in enforcing those agreements. How will you address this problem?

Although I have not had the opportunity to examine in detail the enforcement practices used in past years, I do know that overshipments of quotas in our bilateral agreements have been virtually eliminated under the management and monitoring system we are now using. Our bilateral agreements should be honored and enforced and I will give priority to that goal.

In a letter to Senator Strom Thurmond during the Campaign, President Reagan supported a renewed and strengthened Multifiber Arrangement (MFA) for handling textile and apparel imports. How do you feel about renewal of the MFA? Do you agree that it should be strengthened?

In that letter, President Reagan stated that the "MFA expires at the end of 1981 and needs to be strengthened by relating import growth from all sources to domestic market growth." How do you see this being implemented? And what role do you see your agency playing in this?

MFA renewal is essential if we are to maintain the ability, under present law, to establish and enforce restraints on imports of textiles and apparel. To a significant extent, we will be able to relate import growth to domestic market growth in the renegotiation of our significant bilateral agreements, all of which expire during 1982. ITA will play a significant role in this complex renewal process since we have the principal staff resources in the Government on textile and apparel import

restraint operations and we also chair the Committee for the Implementation of Textile Agreements.

The GATT Multifiber Arrangement was established to provide for orderly trade in textiles and apparel between the developing exporter countries and the developed importer countries. More than 60 percent of our imports of apparel come from Hong Kong, Taiwan, and South Korea—countries which have moved from developing country status to newly industrialized. With such a large volume of the market do you believe that our textile and apparel imports from these three countries should continue to grow at a rate far in excess of the one percent growth rate of our domestic market? Should not the United States tighten its quotas for these three countries by allowing less growth than now permitted thus assuring a more proper share of the domestic market growth to the United States industry as well as to the truly less developed countries seeking U.S. markets?

If we are to avoid domestic market disruption, and provide room for smaller, poorer suppliers, we must check the constantly expanding shares of our market taken by Hong Kong, South Korea, and Taiwan. Not only will this be a major issue during the MFA renewal negotiations, but it needs to be addressed as a central factor in our strategy for renegotiation of our bilateral agreements with Hong Kong, Taiwan, and South Korea in 1982.

The European Economic Community has taken a number of actions recently to restrict our exports of textiles and apparel. Do you believe we should retaliate against their exports when we believe their actions against us are unwarranted?

Should new EC restraints on our textile and apparel exports appear, I believe we should give serious consideration to all available measures to defend against unwarranted barriers to our trade, including retaliation against exports to the United States from the European Community.

Sincerely,

LIONEL H. OLMER,
*Under Secretary-Designate,
International Trade Administration.*

The CHAIRMAN. Marc Leland. Mr. Mehle you might as well come too.

Mr. Leland has been nominated to be Deputy Under Secretary of the Treasury for International Affairs and Roger Mehle, to be Assistant Secretary of the Treasury for Domestic Finance.

Again, I would say for the record, that you have provided to all members of the committee your biographic material. There are a number of committee meetings going on at the same time this morning, so you are in luck; I am the only one present. We have also reviewed the financial disclosure forms and material filed with the Office of Government Ethics.

Mr. Leland, have you discussed possible conflicts of interest with the committee's chief counsel?

Mr. LELAND. Yes, sir, I have.

The CHAIRMAN. Is there any reason that you know of why you cannot responsibly serve in the office to which you have been nominated?

Mr. LELAND. No, sir.

The CHAIRMAN. Do you wish to make a statement for the record at this time?

Mr. LELAND. No, I have no statement. It is an honor to be here and I look forward to working with the committee.

The CHAIRMAN. Have you had an opportunity to visit with members of the committee?

Mr. LELAND. Just a few.

The CHAIRMAN. It has been pretty difficult to find them in the past couple of weeks. I am not aware of any questions any other member of the committee had asked me to address to you. Are there any questions from any other members of the committee?

Senator Grassley has no questions. The record will be kept open if other members wish to submit questions in writing. If there are none, we hope we can act on your nomination next Tuesday or Wednesday and get it on the Senate floor as quickly as possible. I assume you would like to be confirmed.

Mr. LELAND. Thank you, yes.

RÉSUMÉ OF MARC E. LELAND

EDUCATIONAL AND PROFESSIONAL BACKGROUND

September 1978–January 1981: London Resident Partner with the law firm of Proskauer Rose Goetz & Mendelsohn.

March 1976–September 1978: Senior Advisor, U.S. Delegation to the Mutual and Balanced Force Reduction talks, Vienna, Austria.

February 1972–February 1976: Partner with law firm of Cerf, Robinson & Leland, San Francisco, California.

June 1971–February 1972: General Counsel for ACTION (Peace Corps, Vista, Foster Grandparents, Retired Senior Volunteer Program, Service Corps of Retired Executives), Washington, D.C.

January 1970–May 1971: General Counsel, Peace Corps, Washington, D.C.

June 1968–January 1970: Faculty Fellow in Foreign and Comparative Law, Harvard Law School, Cambridge, Massachusetts.

1964–68: Associate and Partner with law firm of Cerf, Robinson & Leland, San Francisco, California.

1963–64: Ford Foundation Fellow, Institute of Comparative Law, University of Paris, Paris, France.

1963: School of Law, University of California, Berkeley, California, J. D. Bartley Crum Scholar. Order of Coif, Research Editor, California Law Review.

1961: St. John's College, Oxford University, Oxford, England.

1959: Harvard College, Cambridge, Massachusetts, A.P.

1955: Lowell High School, San Francisco, California.

Mr. Leland was born on April 20, 1938, in San Francisco, California.

[Questions submitted by Senator Heinz and answers by Marc E. Leland]

EXPORT LED GROWTH

Question. My predecessor as Chairman of the Subcommittee on International Finance was fond of noting that the only Western Economies with both high growth and low inflation were those of West Germany and Japan, who also were highly successful exporters.

Do you subscribe to the belief that export-led growth is also likely to be less inflationary growth and that it is a good model for the United States?

Answer. I believe it is more likely that relatively low inflation in Japan and West Germany is what has led fundamentally to the successful performance of those countries in export markets, not the other way around. The key to controlling inflation rests on following appropriate monetary and fiscal policies. Whether demand for production comes from external or internal sources is not really relevant in assessing total demand, inflationary pressures, or the need for changes in monetary and fiscal policy. Moreover, it might be noted that export-led growth has sometimes occurred through maintenance of undervalued exchange rates, which means implicitly that the domestic cost of imports is higher than it would otherwise be and is therefore a source of inflationary pressure.

THE ROLE OF OFFICIAL EXPORT CREDITS

Question. What role do you believe official, fixed-rate, longer term export financing has to play in the overall export strategy of the United States Government?

Answer. The Reagan Administration believes that in general, trade finance should be left to the private market. Government allocation of credit has the effect of transferring resources from domestic sellers, or from non-favored exporters, to favored groups of exporters or to importing countries. Such transfers do not necessarily benefit the U.S. economy as a whole, and in fact may penalize efficient producers.

Moreover, government export credit programs could not be big enough to have a significant effect on the overall balance of payments except at a high budgetary

cost. A much more powerful stimulus to export production (as well as to other producers) can be achieved by general improvements in productivity and lowering of inflation rates. That is what we have set out to do.

We see a limited role for government export finance of the kind you describe in the following circumstances:

To remedy market imperfections. There are classes of transactions for which the capital markets may be unable to provide adequate funding. These might include exports of large, expensive capital items requiring a lengthy period of manufacture, or sales to certain countries such as some developing countries. In these cases, prospects for U.S. exports could hinge on the availability of officially-supported finance.

To meet subsidized competition. Certain foreign governments are using extensive systems of official financing as a means of stimulating their exports, rather than relying on the more basic economic mechanisms being adopted by the United States. These practices threaten to leave American exporters at a disadvantage in certain cases. We therefore will use official credits as a weapon, where appropriate, to encourage other governments to join us in eliminating these subsidies.

RESTORE EXIMBANK FUNDING?

Question. Secretary Baldrige is quoted in the Washington Post yesterday (April 22), promising that he and other administration officials will lead a campaign to restore Eximbank funding next year if the United States is unsuccessful in its attempt to induce our OECD counterparts to reduce their export subsidies. Would you be willing to join such a campaign?

Answer. I certainly would join in recommending ways to strengthen the U.S. bargaining position if the negotiations are not successful. Among the options that should be considered are an increase in Eximbank funding, and creation of a fund to enable us to match foreign subsidies—the “war chest” idea proposed by Senator Heinz.

NEGOTIATING STRATEGY

Question. Turning to those negotiations—As you know, I have been very vigorously urging both the past and the present Administration to take a more aggressive posture in dealing with our trade competitors within the OECD . . . What is your assessment of the plan I have laid out?

Answer. Senator, we in the Treasury, including Secretary Regan, are keenly aware of the strong stand you have taken on this issue and are most appreciative of the support you, Chairman Dole and others have provided for our negotiating efforts. It is essential that the Executive Branch and the Congress work toward the same objectives if U.S. policy is to be credible, and you have helped greatly to make it credible.

We have been reviewing with the U.S. Trade Representative's office, the State Department, and other agencies the actions you have suggested to lend teeth to our negotiating effort. The status of that review is as follows:

Eximbank already has begun targeting its financing toward those transactions where U.S. suppliers are in competition with the French. Specifically, we have begun offering longer maturities where this might win a sale against French competition. We already have won two sales in Mexico against French (and German and Japanese) competition, and have bids outstanding in the Ivory Coast, Argentina and elsewhere.

We are now reviewing the kinds of actions we might take in the GATT itself or under the Subsidy Code. A U.S. delegation will leave for Geneva April 25 for meeting of experts on the relationship of the International Arrangement to the Subsidy Code. They also will be discussing the standing of the Aircraft, Nuclear Power Plant and Tanker Standstills under the Code's subsidy commitments, among other issues.

Your “war chest” bill is potentially one of the strongest weapons we could have in these negotiations. We are reluctant to conclude yet that we will need it, since we remain hopeful that progress can be made without such action. But if we do not see acceptable results in timely fashion, we will be returning to Congress to make recommendations on our next steps. Additional funding for Eximbank, and/or the “war chest” bill, would be high on our list for consideration.

FOREIGN PERCEPTIONS OF U.S. POLICY

Question. The French and the Japanese are extremely sophisticated in their analysis of Congress and its interactions with the Executive Branch. Do you believe

these tactics can be successful if the overall strategic picture remains clouded by inadequate Eximbank funding?

Answer. For the present, we believe the funding levels we have proposed for Eximbank are adequate, with careful management, to permit it to do its job of complementing the market and meeting foreign competition. We have learned recently, for example, that U.S. exporters won two sales in Mexico against competition from France. We will continue to target the Bank's operations against cases involving subsidized financing from abroad.

We are hopeful that these tactics will be sufficient to accomplish our purpose within the budgetary limits we have proposed. But if events should prove us wrong after a reasonable interlude, we will certainly consider what changes may be required. We will consult closely with Congress at every step. In the meantime, the continued strong support of Congress, as evidenced by these questions, is a great aid to our negotiating efforts.

U.S. TRADE COMPETITIVENESS

Question. It has been predicted by many, including your predecessor C. Fred Bergsten, that the new strengthened dollar will have an adverse effect on U.S. trade competitiveness in the latter half of 1981. Do you agree with that assessment? Is there anything that can be done to ameliorate the adverse effects?

Answer. Appreciation of a currency alone, of course, tends to reduce a country's trade competitiveness. However, the exchange rate is only one determinant of competitiveness, and it is important to look closely at the time periods involved when assessing the significance of any particular exchange rate change. For example, the appreciation of the dollar since late 1978 has been large, but that appreciation was from an extremely low—probably unsustainably low—level in the first place. In part because of the very low levels reached by the dollar during the 1977-78 period, U.S. exports grew at more than twice the rate of world trade during 1978-80, well above long term trends.

More generally, it is critical also to consider trends in productivity and in prices. The Administration's program is dedicated to bringing inflation under control and restoring the vitality and productivity of the U.S. economy. I have no doubt that success in this program will contribute greatly to the maintenance of a strong and sound U.S. competitive position in international trade.

The CHAIRMAN. Mr. Mehle, have you discussed possible conflicts of interest with the committee's chief counsel?

Mr. MEHLE. Yes I have, Senator.

The CHAIRMAN. Is there any reason that you know of that you cannot responsibly serve in the office to which you have been nominated?

Mr. MEHLE. No; there is not.

The CHAIRMAN. Do you have a statement that you would like to make for the record?

Mr. MEHLE. No; I do not. Like Mr. Leland, I'm delighted to be here and look forward to the opportunities, assuming a favorable outcome here, for working with the committee.

The CHAIRMAN. Have you had an opportunity to visit with some of the members?

Mr. MEHLE. I have. I have visited with five or six members of the committee over the last several weeks.

The CHAIRMAN. I have some questions Senator Byrd of Virginia would like me to submit. You can provide the answers for the record. Just glancing at the questions, I think they can be answered rather quickly. If you could provide answers for the record today or tomorrow, we will be able to act on your nomination, I hope, early next week.

You frightened a lot of our savings and loan officers in Kansas. I have been deluged with telephone calls and letters that you are out to do in the savings and loan institutions, that you have a bias against the industry. I believe other members have had the same

sort of mail. If you could clear up the origin of that rumor or state for the record that you do or do not have a bias, that would be helpful.

Mr. MEHLE. I will be glad to state for the record that I certainly don't have any bias against the savings and loan industry or any other depository institution.

To the contrary, I think the industry is a very important segment of the financial institutions community. I really don't know how these groundless rumors have gotten started, but I don't, as I say, have any such bias.

The CHAIRMAN. You know that savings and loan associations are having some difficulty these days. Have you given any thought to what might be an appropriate Federal response to some of their problems?

Mr. MEHLE. Over the course of the last several weeks, members of the administration, not only the Treasury, but representatives from other Departments, have been carefully keeping up with the situation in the savings and loan and the mutual savings bank industries.

The regulators, the FDIC in the case of mutual savings banks, and the FSLIC, in the case of savings and loans—are very closely watching and evaluating the industry's situation. The Secretary of the Treasury and other senior members of the administration are concerned, interested, and would be prepared to take any appropriate actions that seemed necessary.

The CHAIRMAN. You will have responsibility for overseeing Federal credit programs. The growth in those off-budget programs have been roundly criticized by the President. Do you have any efforts planned to redirect the growth in the Federal credit programs? Is that a priority?

Mr. MEHLE. Well, it is a very important priority to the administration. That's for certain. I think the Office of Management and Budget, working together with the Treasury, will be keenly interested in the programs which, in effect, are financed off-budget, but which impose the same kinds of financing requirements on the Federal Government that on-budget programs impose. The review process which has taken place in connection with the submission of the President's proposed 1981 budget amendments on March 18 addressed off-budget programs.

I am sure that in the near future as well as in the distant future, the Treasury, the Office of Management and Budget and agencies whose programs give rise to the off-budget financings will be making every effort to insure that credit allocation process does not, on the one hand, swamp the normal market allocation process and, on the other hand, does not improperly withhold credit from borrowers whose entitlements are deemed to be in accord with administration initiatives. This is an issue which has gotten a great deal of scrutiny by us and others.

The CHAIRMAN. As I understand it, you are also responsible for advising the Secretary on Federal loan policy, particularly the Chrysler loan guarantees. Are there any new developments in that matter?

Mr. MEHLE. Well, I know you and other members of the Finance Committee are aware, Mr. Chairman, that on February 27 the

Chrysler Loan Guarantee Board approved the issuance of \$400 million worth of obligations guaranteed by the Federal Government. These moneys have been used by Chrysler.

In the course of time since February 27, when a fairly full review of Chrysler's prospects took place, the company has largely exceeded expectations in both its sales and in its market penetration.

Additionally, the company's cash balances have been larger than they were projected to be as of February 27 for the period to date.

Chrysler's long term prospects, of course, await many events. The Loan Guarantee Board did, however, find that Chrysler had a reasonable prospect of viability on the basis of the financing and operating plans that were presented on February 27.

Much does depend on Chrysler management's ability to cope with the problems presented to it. There are some exogenous factors, over which neither Chrysler nor any other automobile manufacturer has control, that will be very important in the months to come—principally, the interest rate climate, which affects not just the automobile industry, but many others as well.

We would like to see Chrysler and the other members of the U.S. automobile industry prosper. The President's economic program, we believe, is very important in its implementation to effect the environment which will enable industry to prosper. We look forward to that program's being put into place.

The CHAIRMAN. Many Americans are concerned with the increasing foreign ownership of U.S. Government obligations. Could you state for the record how serious a problem this may be and what, if anything, should be done about it?

Mr. MEHLE. The amount of obligations that foreign holders now have is approximately 10 to 15 percent of the total Federal debt outstanding which the Treasury does not regard as an alarmingly high level. The debt is not concentrated in the hands of any particular country and therefore we, generally speaking, are not uncomfortable with the situation as it exists.

I think the purchase by foreign governments of U.S. debt obligations may in fact be regarded as a vote of confidence in the economy and the security of the United States. To have access to those buyers is not a bad thing; it is a good thing.

On the other hand, if it seemed that there were an undue concentration of securities in the hands of one particular government, that might give some cause for alarm, but that is not the case. I frankly don't visualize it as ever being the case.

The CHAIRMAN. Mr. Leland?

Mr. LELAND. I would agree with him. There is nowhere near that. The situation is, as Roger said, between 10 to 15 percent at home and abroad. Of that, that is pretty well disbursed also.

There is nobody who has more than a quarter of that. The largest is Germany, with approximately 2½ percent, then Japan and the OPEC nations as a group, down around 1.7 percent. As long as the volume of foreign investment is at these low levels, you just have to let the market take its course.

The CHAIRMAN. Mr. Leland the Domestic International Sales Corporation provisions of the Code were enacted to promote U.S. exports. In 1976 the Congress cut back the favorable DISC provisions to apply only to increases in a company's exports. Do you

know whether or not the 1976 limitations limited the revenue loss due to DISC without stifling U.S. exports or adversely affecting the balance of payments?

Mr. LELAND. Well, we are now of course, doing a study of DISC itself. I guess it is always studied. We have a problem with DISC because of its relationship to GATT and the objections to our use of DISC.

It is one of the hardest things to do to determine exactly what the DISC does for exports. I have seen figures that indicate that we experience a revenue loss of \$1 billion for only \$2 billion of increased exports. That would be a bad deal.

I have seen other figures, however, which indicate that DISC leads to an increase in exports of up to as much as \$7 billion. We are trying to get a handle on how useful DISC is as well as what should be done about it. At this stage it is pretty hard to say. I think what we would say is that the 1976 change has made a substantial difference.

The CHAIRMAN. In your position, you will be responsible for Treasury's international monetary policy, Mr. Leland. As domestic interest rates fall, as we hope they will, the Treasury and the Federal Reserve traditionally have acted to support the dollar abroad. In some cases, this has tended to hurt U.S. exports. Do you know what role the administration might plan to maintain the value of the dollar abroad?

Mr. LELAND. I think basically the concept of this administration—if it can be stated in a sentence—is to return to the fundamentals, in so far as you can let the market take its course. We feel it is better than having the Government trying to find a so-called right rate. Obviously, in cases of emergencies or extreme situations, there will have to be a certain amount of intervention. Basically, we feel the market can handle it and that everyone will benefit by that.

The CHAIRMAN. I am not aware of any other questions that other members of the committee may have, but the record will remain open for other questions and for those directed by Senator Byrd to Mr. Mehle.

If there are other questions submitted, you may answer them in writing for the record. If there are no further questions, we hope to take action on your nominations early next week. Are there other statements you would like to make at this time?

Mr. MEHLE. I have none, Mr. Chairman.

Mr. LELAND. I have none, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Mr. MEHLE. Thank you.

Mr. LELAND. Thank you.

The CHAIRMAN. The committee will stand in recess until tomorrow morning at a subcommittee hearing at 9 a.m.

[The hearing adjourned at 9:37 a.m.]

[The following was received for the record:]

QUESTIONS RAISED AT THE CONFIRMATION HEARING OF ROGER MEHLE TO BE
ASSISTANT SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE

SENATOR BYRD'S QUESTIONS

Question. Some contend that the present earnings crisis in the savings and loan business is the result of poor management by savings and loan operators. Do you agree?

Answer. The present earnings problems of savings and loan associations are the result of excessive inflation and exceptionally high interest rates. Savings and loans have more deposits with interest rates that vary with market rates relative to total deposits than they have variable rate mortgages relative to total loans. Most of their mortgages have fixed rates that were set when the mortgages were made years ago often at interest rates well below current rate levels. As a result, when short-term interest rates are above the average fixed rates for loans in their portfolios or just above current long-term rates on new mortgages the institutions are paying more for their deposits than they are earning on their loans, which means they are operating at loss.

There are undoubtedly a wide range of managerial talents in the savings and loan industry as in any other industry, but managerial skills could not greatly alter the adverse impact of high inflation and high interest rates on the industry.

Question. If, because of recent dramatic changes in market conditions, law and regulations, the savings and loan business was slowly phased out of existence, who would fill the void and finance the housing needs of America?

Answer. First, let me state clearly that I do not anticipate any phasing out of the savings and loan industry. A less restricted industry may do additional types of business, but I expect savings and loan associations to remain a major factor in housing finance. However, other organizations—commercial banks, insurance companies and pension funds—may be competing more to finance housing if mortgage instruments with interest rates variable with market rates become increasingly popular, so that mortgage loans compete more effectively with other types of long-term investments.

Still, these instruments should be most useful to traditional lenders to housing who have the infrastructure in place to deal with home builders and home buyers. Savings and loan associations should be able to retain their important role whether or not other intermediaries play a larger part in home lending to the benefit of housing.

Question. Do you feel that our current housing problems are a result of too much government housing assistance and, in the future, such housing assistance should be curtailed.

Answer. Our current housing problems are not the result of too much government assistance. They are the result of excessive inflation which is raising the cost of a home beyond the reach of the average American. It is also keeping interest rates so high that thrift institutions cannot afford to make home loans and home buyers cannot afford to borrow the money needed to purchase a home. As I indicated previously, I expect the President's economic program to reduce inflation and lower interest rates which should greatly assist housing and all other sectors of our economy.

As part of the effort to reduce the contribution of government spending to inflation some reduction in housing assistance may be necessary.

Question. Some people have suggested that thrifts be able to sell their below-market loans at par and allow the buyer to recognize the tax loss due to the discount from par. Do you have any idea the size of the tax loss from this type of activity? What if you stretch the loss over a ten-year period?

Answer. The thrift industry has outstanding about \$102 billion of mortgage loans with fixed interest rates of 8 percent or less. If we assume a 50 percent discount from the current average mortgage rate of about 14 percent, the total loss due to the discount would be approximately \$50 billion. If the loss were spread over ten years it would be about \$5 billion per year.

Question. In 1978, the IRS reduced the loss carryback benefit of savings and loan institutions. Should savings and loan associations be able to fully charge their losses against taxes paid in prior years? Do you know, or could you tell us, what this would cost?

Answer. The Administration is examining this proposal along with other tax approaches to assisting the thrift industry, but no decision has been made regarding tax policies affecting thrift institutions.

The savings and loan industry reported a net profit in 1980. This was based on gross income exceeding gross losses. To discover which firms reported losses would require a company by company examination which could take time. Similarly, we

are not able to make a meaningful loss estimate for this year without some idea of what losses were in 1980.

SENATOR ROTH'S QUESTIONS

Question. Do you believe that today's specialized financial institutions, i.e., savings and loan associations and mutual savings banks, will have a role to perform in our future unregulated financial system? Is homogenization of our financial system the answer?

Answer. I would definitely expect specialized financial institutions to have a role in any future "unregulated" financial system. Specialization might be by choice rather than dictated by government restrictions or incentives but specialization has its own advantages. Many companies in our economy specialize fully or in part and I would expect financial institutions to do so. Given the long experience and well developed infrastructure of many traditional financial institutions in certain types of business, they should have enormous advantages continuing to focus their efforts on those activities.

Question. The Depository Institutions Deregulations Committee (DIDC) was created last year for the express purpose of gradually deregulating interest rates as new lending authority for thrifts was phased in over a six-year period. Do you believe the DIDC acted properly by deregulating interest rates before the new thrift powers had been implemented (interest checking, consumer lending, expanded real estate lending, etc.)?

Answer. It would have been desirable if the DIDC could have expanded the industry's asset powers, particularly some liberalization of the restrictions on mortgages whose interest rates vary with market rates, but the Committee does not have authority over asset powers. The Federal Home Loan Bank Board on April 23 took such action with regard to variable and roll over rate mortgages. This should enable thrift institutions to have more balanced rate sensitivity on both the asset and liability sides of their balance sheets.

Question. Do you believe we have too many institutions in our financial system? If so, what do you propose to reduce that number? What number of savings and loans should be permitted to survive?

Answer. The question of "too many" or "too few" financial institutions is a subjective matter. Rather, the fundamental question is whether or not we have an "optimal" number of financial institutions and the answer to that will be forthcoming only in a free-market environment.

Conceptually, at least, when the barriers to entry and exit are not significant and firms are otherwise free in their decision-making, the competitive interplay of the market will yield a relatively stable number of efficient producers. If economies of scale are noteworthy in an industry the optimal number of firms may be few, and vice-versa.

Currently, we have in the neighborhood of 40,000 depository institutions alone, operating within a heavily regulated environment. This regulation starts with "entry" and extends on through to service powers, pricing, facility locations, and so on. It has been argued frequently that such all-encompassing regulation has served only to subsidize a more-than-optimal number of institutions—"too many"—at an excess cost to the public. If this is true, then any program of deregulation will lead to fewer financial institutions but more efficient financial markets.

Nevertheless, it is worth remembering that not long ago airline deregulation was expected to appreciably decrease the number of firms. But just the opposite happened in response to market dynamics and the resulting opportunities for specialization. In a like manner, I suspect that deregulated financial markets will leave ample room for substantial numbers of specialized institutions.

Question. The Carter Administration submitted to Congress last December a report on interstate branching which in effect said that the McFadden Act and the Douglas Act should be consigned to the Smithsonian along with other once useful but now antiquated laws which line its shelves in exhibits. Do you share this view, will you recommend that Congress lift in any fashion the restrictions by Douglas and McFadden?

Answer. The Administration has not yet taken a position on the question of interstate banking. I hope that we will be able to examine this issue with the Congress at a later date.

Question. Many of my colleagues in Congress are troubled by the battle between financial institutions and the money market funds. Financial institutions and the money market funds. Financial institutions want more control over the funds; while the funds and their customers say that they are simply filling a gap which high rates, accompanied by ceilings on interest rates, are producing. What is your view?

Do you believe that any restraints—supervisory, investment or otherwise—should be placed on the funds?

Answer. The Administration has been reviewing this issue and I expect the Secretary of the Treasury will address the issue at the April 28 hearing of the Senate Banking Committee on the condition of the financial markets.

Question. You are from the securities business and are certainly aware of the growing problem between financial institutions and the money market funds. Do you believe you will be able to make decisions and recommendations concerning these problems in an unbiased manner?

Answer. I do not believe my former work in the securities industry will cause me any problems in dealing with issues relating to conflicts between financial institutions and money market funds. I will make every effort to consider issues affecting the securities industry or any other industry or the public on their merits. In addition, there will be several other officials at the Treasury Department participating in any major policy decisions and most of them have backgrounds in industries other than the securities industry. Some, in fact, have worked for financial institutions.

BIOGRAPHICAL SKETCH OF ROGER WILLIAM MEHLE, JR.

Born: December 28, 1941, Long Beach, California.

Address: 310 East 70th Street, New York, New York 10021 (Home); Dean Witter Reynolds Inc., 130 Liberty Street, New York, New York 10006 (Work).

1947-53: Attended public and parochial elementary schools in California, Florida, Maine, Pennsylvania, and Washington, D.C.

September 1953: Entered seventh grade of Georgetown Preparatory School, Rockville, Md., spending the next six years as a day student and boarder.

June 1959: Graduated from Georgetown Preparatory School, first in the class for five out of six years and first in the graduating class of 43 for the six year course.

July 1959: Entered the U.S. Naval Academy, Annapolis, Md., as a principal Congressional appointee.

June 1963: Graduated with a Bachelor of Science degree from the U.S. Naval Academy, standing 243 out of 887, and commissioned as Ensign, U.S.N.; selected for the Naval Nuclear Power Program by Admiral H. G. Rickover.

February 1965: Upon graduation from intensive theoretical and practical nuclear power training, assigned to the commissioning crew of the nuclear submarine U.S.S. *Lewis and Clark* (SSBN 644) as a Lieutenant (junior grade).

1965-67: Served in various division officer and department head billets on board *Lewis and Clark* in shipyard construction phase, sea trial and shakedown operations and for two Polaris deterrent patrols; stood watch as Diving Officer, Engineering Officer of the Watch and Officer of the Deck; Qualified in Submarines and promoted to Lieutenant, U.S.N.

September 1967: Assigned as Chief Engineer of nuclear submarine U.S.S. *James K. Polk* (SSBN 645), third officer in eligible year group of approximately 350 to be qualified as such and first to be so assigned.

1967-69: As Chief Engineer of *James K. Polk*, was responsible to the Commanding Officer for the safe operation and maintenance of the nuclear power plant and all main propulsion and auxiliary systems of the ship, as well as the proficiency of all engineering watch standers; had administrative and operational responsibility for five officers and fifty enlisted men in the Engineering Department; acted as Chief Engineer for four Polaris deterrent patrols in the north Atlantic.

August 1969: Resigned from U.S. Navy, having declined Secretary of the Navy's offer of immediate promotion to Lieutenant Commander and bonus to remain; accepted commission as Lieutenant, U.S.N.R.

December 1969: Began employment with The First Boston Corporation in its professional training program.

January 1970: Began course of night study at New York University Graduate School of Business Administration.

September 1970: Upon completion of training program at First Boston, joined a group of two people to create a "Public Finance" department at the firm. This group was to be responsible for all Federal Government and Federal Government guaranteed negotiated financings, as well as for all state and local government and corporate negotiated financings in the tax-exempt market place.

September 1972: Began course of night study at Fordham University School of Law.

October 1972: Graduated "with distinction" from N.Y.U. Business School with a Master's degree in Business Administration, first in a class of 181 day and night students; received class prize for overall excellence and for excellence in the finance curriculum.

October 1975: Named Co-Head of the Public Finance Department at First Boston.

May 1976: Graduated from Fordham Law School with a Doctor of Law degree, 43rd in a class of 294 day and night students; received class prizes for excellence in Criminal Law and Commercial Paper; elected to membership of Fordham Law Review.

1970-78: While attending night school continually for six and one-half years, I had major responsibility for the development and implementation of the policies of the Public Finance Department and the solicitation and execution of its financing business. I was the principal organizer and recruiter for the department and its main financing technician as well. In rapid course, I was promoted through the ranks of Assistant Vice President and Vice President at a rate unprecedented as of then. Under my administration, the Public Finance Department grew to approximately twenty-five professionals and to preeminence in the Wall Street community. The diverse clients for which my group and I designed financings during this time include the Farmers Home Administration, the Federal National Mortgage Association, the Government National Mortgage Association, Intermountain Health Care (the largest not-for-profit hospital system in the U.S.), the Louisiana Offshore Oil Port (a consortium of five major U.S. oil companies), the Municipal Electric Authority of Georgia (one of the country's premier "public power" organizations), dozens of investor-owned electric utilities and major industrial corporations and a number of savings and loan associations—virtually every kind of entity that borrows money in long-term capital markets.

June 1976: Elected to Board of Directors of The First Boston Corporation.

May 1977: In addition to other duties, selected to staff, develop and head First Boston's mortgage-related securities program, a major business initiative of the firm. This entailed solicitation of commercial banks, savings and loan associations, mortgage bankers and mortgage insurers as well as major institutional investors.

January 1978: Named Senior Vice President of First Boston.

February 1978: Named Chief Administrative and Financial Officer of First Boston and appointed to twelve person Operating Committee which governed the firm; responsible for the Accounting, Data Processing, Operations (securities handling and cashing), Personnel and Tax Departments of the firm, as well as for the firm's short and long term financing needs, foreign exchange exposure, real estate activities and administrative oversight of its investment in Credit Suisse-First Boston, a European subsidiary. After approximately eight years with First Boston and no prior business experience or training, I was among the four or five people running the firm.

January 1979: Resigned from First Boston; accepted retainer proffered by the Securities Industry Association, the national trade organization of securities firms, to act as a consultant on the subject of commercial bank securities activities.

March 1979: Joined Dean Witter Reynolds Inc. as a Senior Vice President and member of the Board of Directors to head (and "turn around") the firm's Public Finance Department, a group of approximately twenty finance professionals with the same general business purpose as that of First Boston's Public Finance Department.

December 1979: Chosen as Chairman of the Municipal Finance Committee of the Securities Industry Association and elected to the SIA Board of Directors and Executive Committee. In the role as Chairman, I preside over and coordinate a group of approximately forty senior securities industry representatives in an effort to educate federal and state legislatures as well as certain federal agencies on the securities activities of commercial banks.

March 1979 to present: During the twenty months of my responsibility for Dean Witter Reynolds' Public Finance Department, I have turned over about half the staff I inherited, recruited an equal number and reorganized the group. In consequence, the firm's Public Finance market share has improved dramatically, increasing from thirtieth to tenth in the industry.

Professional and Community Affiliations: Member, New York Bar; member, American Bar Association; trustee, New York Shakespeare Festival; member, National Advisory Council, Georgetown Preparatory School.

Social Affiliations: Member, New York Athletic Club, The Recess, Naval Academy Alumni Association of New York, New York University Alumni Association.

Other Information: Lieutenant Commander, USNR-R; selected to appear in 1981 edition of "Who's Who in America".

Hobbies: Squash, Jogging, Golf, Opera.

**NOMINATIONS OF RAYMOND J. WALDMANN TO
BE ASSISTANT SECRETARY OF COMMERCE,
JOHN A. SVAHN TO BE COMMISSIONER OF
SOCIAL SECURITY, AND DORCAS R. HARDY TO
BE ASSISTANT SECRETARY OF HEALTH AND
HUMAN SERVICES**

TUESDAY, APRIL 28, 1981

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

The committee met, pursuant to notice, at 10:15 a.m., in room 2221, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (acting chairman) presiding.

Present: Senators Dole, Roth, Grassley, Bentsen, and Bradley.
[The committee press release announcing the hearing follows:]

Press Release #81-124

P R E S S R E L E A S EFOR IMMEDIATE RELEASE
April 16, 1981UNITED STATES SENATE
COMMITTEE ON FINANCE
2227 Dirksen Senate Office Bldg.FINANCE COMMITTEE SCHEDULES HEARINGS ON NOMINATION OF
RAYMOND J. WALDMANN TO BE ASSISTANT SECRETARY OF COMMERCE,
JOHN A. SVAHN TO BE COMMISSIONER OF SOCIAL SECURITY,
AND DORCAS R. HARDY TO BE ASSISTANT SECRETARY OF
HEALTH AND HUMAN SERVICES

The Honorable Robert J. Dole (R., Kans.), Chairman of the Committee on Finance announced today that he has scheduled hearings on the nominations of Raymond J. Waldmann to be Assistant Secretary of Commerce for International Economic Policy, John A. Svahn to be Commissioner of Social Security, and Dorcas R. Hardy to be Assistant Secretary of Health and Human Services on Tuesday, April 28, 1981, beginning at 9:00 a.m. The hearing will be held in Room 2221 Dirksen Senate Office Building.

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 type-written, not more than 25 double-spaced pages in length and mailed with five (5) copies to be received by April 28, 1981, to Robert E. Lighthizer, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D. C. 20510.

P.R. #81-124

Senator ROTH [acting chairman presiding]. The committee will be in order.

It is a great pleasure for me to welcome to the Committee on Finance, Raymond J. Waldmann, who has been nominated to be Assistant Secretary of Commerce for International Economic Policy; Dorcas R. Hardy, who has been nominated to be Assistant Secretary of HHS for Human Development Services and John A. Svahn to be Commissioner of Social Security.

We are delighted to have you here with us this morning.

I believe that members of the committee have all been provided with the biographical material for all three of the nominees.

I would also say that Senator Dole has reviewed the financial disclosure forms for each and the material they filed with the Office of Government Ethics. I am satisfied—he is satisfied that there are no problems in this area.

I have also been informed that the Director of Government Ethics has sent us letters approving each nominees' compliance with the Ethics in Government Act. These letters will be made a part of the record.

U.S. DEPARTMENT OF COMMERCE,
INTERNATIONAL TRADE ADMINISTRATION,
Washington, D.C., April 6, 1981.

Mr. ROBERT LIGHTHIZER,
Chief Majority Counsel, Senate Finance Committee,
Washington, D.C.

DEAR MR. LIGHTHIZER: Enclosed please find Mr. Waldmann's resume and Financial Disclosure Report. He will deliver his net worth statement at the meeting in your office tomorrow afternoon.

In preparation for his confirmation hearing as Assistant Secretary of Commerce for International Economic Policy, Ray has met with the following members of the committee: Senators Roth, Heinz, Grassley, Byrd, Bradley and Mitchell. He also met with Gary Horlick and Claude Gingrich. All of those with whom he spoke have received copies of his bio.

Please advise me if I can provide you with any additional information to expedite this process.

Sincerely,

FLORENCE D. BANK,
Confidential Assistant to Raymond J. Waldmann.

OFFICE OF PERSONNEL MANAGEMENT
Washington, D.C., April 6, 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 John A. Svahn. President Reagan has nominated Mr. Svahn for the position of Commissioner of Social Security of the Department of Health and Human Services.

We have reviewed the report and have obtained advice from the Department of Health and Human Services concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Based thereon, we believe that Mr. Svahn is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

J. JACKSON WALTER,
Director.

OFFICE OF PERSONNEL MANAGEMENT,
Washington, D.C., March 30, 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 Dorcas R. Hardy, whose nomination to the position of Assistant Secretary, Human Development Services, of the Department of Health and Human Services has been sent to you by President Reagan.

We have reviewed the report and have also obtained advice from HHS concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Based thereon, we believe that Ms. Hardy will be in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

J. JACKSON WALTER,
Director.

Senator ROTH. The first nominee today is Raymond J. Waldmann who has been designated to be Assistant Secretary of Commerce for International Economic Policy.

I would like to take this opportunity to say a few words of introduction on behalf of Mr. Waldmann.

I was particularly pleased by this nomination, as I know Ray to be an extremely capable individual, and in fact, I strongly recommended that President Reagan take advantage of so talented a person. I am glad he took my advice and placed Ray in this key role.

I know Ray as a well-rounded, well-versed attorney and domestic and foreign policy adviser. He comes to us from private, legal practice where he concentrated on international issues.

Previously, he served in the Nixon and Ford administrations where he was variously Deputy Assistant Secretary of State for Transportation and Telecommunications, and a White House counsel on foreign policy.

We have here a man of great depth and breadth who knows what it is like to run his own business and can assist our firms on a policy and practical level.

The job of Assistant Secretary for International Economic Policy is a most complex one. He must be at once a policymaker for trade and investment matters involving goods and services and a monitor of international trade agreements to make sure that we receive our rights.

One of his most important tasks in this regard will be the implementation of tariff and nontariff trade agreements reached in the multilateral trade negotiations, seeing to it that all overseas sales opportunities are discovered and that violations of our international rights are stamped out.

He will also need to play a key role in identifying barriers to trade in services and international investments.

Last, he will need to work closely with Congress, whose constituents continue to face barriers and other difficulties in selling abroad.

From the discussions I have had with him on international economic policy matters I believe Ray's judgment and understanding should enable him to master these tasks and make an important contribution to the public and private sectors.

I am certainly very happy to introduce Ray Waldmann.

Ray.

Mr. WALDMANN. Thank you very much, Mr. Chairman.

Senator BENTSEN. Mr. Chairman, may I comment, Mr. Chairman?

Senator ROTH. Please do.

Senator BENTSEN. Thank you, Mr. Chairman.

I wish only to say, Mr. Chairman, I didn't have anything to do with his appointment and nothing to do with this recommendation, but I wish I had, as I look over the list of some of your areas of interest, particularly regarding economic incentives and steps that must be taken with respect to work under the Corrupt Practices Act.

I am very pleased to see a man of your background, education, and experience in that role.

Senator ROTH. I want to thank Senator Bentsen for his very gracious remarks.

Mr. Waldmann.

Mr. WALDMANN. Thank you, Mr. Chairman, and Senator Bentsen for those kind remarks. It is an honor to be here.

I have been privileged to have been nominated to serve as Assistant Secretary of Commerce for International Economic Policy.

As the Senator has said, the committee has been provided with the details of my biographical and professional background. I have submitted a financial statement as well.

[The biographical sketch of Mr. Raymond J. Waldmann follows:]

RAYMOND J. WALDMANN

PERSONAL

Born Nov. 28, 1938, in Walton, New York
 Married with one daughter and resident of Bethesda, Md.

EDUCATION

Massachusetts Institute of Technology: S.B. Chemical Engineering - 1960
 S.B. Humanities and Economics - 1961

Harvard Law School: J.D. - 1964

EXPERIENCE

NASA Apollo Project, Mass. Inst. of Tech. Instrumentation Lab., June 1962-1964

Arthur D. Little, Inc.

Cambridge, Mass. (Sept. 1964 - Nov. 1967) - Assistant corporate counsel and management consultant. London, England and Brussels, Belgium, (Nov. 1967 - Nov. 1970) - consultant on regional development and management strategies.

Domestic Council, The White House, Washington, D.C., Nov. 1970 - March 1973

Staff assistant to the President for policy planning.

Bureau of Economic and Business Affairs, Department of State, Washington, D.C. March 1973 - Sept. 1975

Deputy Assistant Secretary for Transportation and Telecommunications.

The White House, Washington, D.C. - Sept. 1975 - Sept. 1976

Special counsel to the President for review of the intelligence community and for special studies on foreign policy, the budget and the Republican party platform.

Attorney at Law, Washington, D.C. - Sept. 1976 - Feb. 1981

Practice in international investment, transportation, communications and corporate law. Of Counsel to Schiff, Hardin & Waite of Chicago and Washington. President of Transnational Investments, research and publishing company (July 1979 - Feb. 1981). Executive consultant to Harbridge House (Sept. 1976 - Sept. 1978). Member, Republican Platform Committee staff, August, 1980. Assistant Director for Economic Affairs, Office of the President-Elect, Washington, D.C. (Nov.-Jan. 1981).

Department of Commerce, Washington, D.C., Feb. 1981 to Present

Assistant Secretary for International Economic Policy.

PROFESSIONAL ACTIVITIES

Member, Massachusetts and District of Columbia Bars
 Consultant to American Bar Association Standing Committee on Law and National Security; Editor, ABA Intelligence Law Newsletter
 Chairman of Committee on Foreign Investment in the United States, Int'l Section
 Chairman of Committee on Transfer of Technology, D.C. Bar
 Advisor to Journal of International Law and Economics
 Member, Washington Institute of Foreign Affairs
 Member, Republican National Committee Economic Advisory Council

PUBLICATIONS

Author of Direct Investment and Development in the United States; and Regulating International Business Through Codes of Conduct; co-author of Investment Incentive Programs in Western Europe; editor of Investment Incentive Programs of the Pacific Basin; and author of numerous articles on international economic issues.

Mr. WALDMANN. If confirmed, you have my commitment to a stewardship of excellence and integrity, and a pledge to cooperate with the Congress.

I believe this cooperation is necessary to achieve those goals which are beneficial to our domestic economy.

I will be pleased to answer any questions that the committee may have at this time.

Thank you.

Senator GRASSLEY [acting chairman presiding]. We have a couple of standard questions here that we would like to ask you.

Have you discussed possible conflicts of interest with the committee's chief counsel, Bob Lighthizer?

Mr. WALDMANN. Yes; I have, Senator Grassley.

Senator GRASSLEY. Is there any reason that you know of that you cannot responsibly serve in the office to which you have been nominated?

Mr. WALDMANN. No, sir.

Senator GRASSLEY. Thank you.

I have a personal question. Not a personal question about you, but a personal question from me, not a standard one.

Do you believe the United States should continue to accept the European Community Common Agricultural Policy which blocks U.S. agricultural exports to Europe, while at the same time it subsidizes European exports to our Third World markets?

Mr. WALDMANN. I think that the basic objective of all of our trade policies must be to find ways to eliminate any barriers to our exports which may exist, either at home or in the foreign country.

The common agricultural policy has been one of those barriers in the past. There are obviously going to be future matters where particular exports would be blocked, controlled, limited, or restricted by that policy.

It is our objective to try to remove as many of those barriers, to minimize their effect and to do as much as we possibly can in that area.

Senator GRASSLEY. I honestly don't know your involvement as opposed to the State Department and the Special Trade Representative's involvement in the multilateral trade talks, but I know one of the things that held up agreement on the GATT during the last administration was the agricultural part of it. It was only when Mr. Strauss strongly argued to the U.S. position that we prevailed. I'd like you to remember that.

Finally, I am not sure the GATT agreement was all that satisfactory to the agricultural sectors of America.

America and you, as a spokesman for our country, must be willing to shake off a lot of the traditions surrounding trade negotiations and be sure our own interests have not been put somewhat secondary to the interest of other countries, we can no longer withstand an unfavorable balance of trade; we can no longer take a traditional attitude. We must look to you and the administration generally, for the leadership in breaking out of that cocoon.

Mr. WALDMANN. Well, Senator, as you know, the primary responsibility for trade negotiations does rest with the U.S. Trade Representative; in the agricultural fields, he would be supported by the Department of Agriculture. But, we obviously pursue the same objectives in terms of opening up our trade possibilities.

Senator GRASSLEY. Thank you.

I would like to now ask our colleague, Senator Bentsen, and then, Senator Bradley, for any questions you may have and/or comment.

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

Mr. Waldmann, on the administration's spending recommendations, a \$2.8 million dollar cut in fiscal year 1981, and a \$50 million increase in fiscal year 1982 has been proposed. That is a transfer, as I understand it, of the trade adjustment assistance program.

Now, would that be handled by your office?

Mr. WALDMANN. That's correct, Senator. The trade adjustment assistance program at Commerce is now operated under the Economic Development Administration.

Senator BENTSEN. Right.

Mr. WALDMANN. That will be transferred to ITA and will become a part of my responsibilities in international economic policy.

Senator BENTSEN. Well now, the USTR staff is rather small. They deal with an incredible amount of detail and complexity surrounding implementation of nontariff barriers policy. I assume that a small businessman who runs into an abuse or limitation would probably be bringing his complaint first to your section.

Would that be right?

Mr. WALDMANN. With respect to the implementation of the agreements that were reached in the MTN, we have established an office specifically for that purpose called The Trade Advisory Center where a businessman can get an answer to the way in which a code or a barrier might be affected.

Senator BENTSEN. Would you give me a cursory description of your staff?

Mr. WALDMANN. I have about 240, or 250 people working for me in four separate offices. One deals with textiles and apparel issues and agreements, one deals with trade agreements and trade policy, a third deals with finance, investment and services, including trade in services, and a fourth deals with policy planning and analysis.

Senator BENTSEN. What kind of staff continuity do you have there? How much of a turnover has that particular staff experienced recently?

Mr. WALDMANN. There were only three deputy positions opened up by the change in the administration.

Senator BENTSEN. Most of the staff have continuity; is that right?

Mr. WALDMANN. That's correct.

Senator BENTSEN. Is that correct?

Mr. WALDMANN. That is correct.

Senator BENTSEN. One of the things that concerns me is our developing long-term expertise in that particular area. When we enter into the GATT negotiations with some of these other countries one finds people who have been at one negotiation after another. They can recount how this was done and how that was done. They seem to have quite an advantage, often, over some of our negotiators.

So, I was trying to get a feel for the expertise and the continuity of the staff as we transition from one administration to another.

Mr. WALDMANN. Well, in the trade agreements part of my office, which is a staff of some 50 people, there will only be one change and that will be the deputy position.

Senator BENTSEN. I have no further questions, Mr. Chairman.

Senator GRASSLEY. Thank you, Senator Bentsen.

We now turn our attention to Senator Bradley for any questions he has to ask.

Senator BRADLEY. Thank you, Mr. Chairman.

Mr. Waldmann, I am interested in hearing your views on two subjects. One is U.S. exports to developing countries. As you know, our exports to developing countries increased at a rapid rate in the 1970's, more rapidly than our exports to developed countries.

My question to you is, What do you see as steps that we should take to maximize our opportunities for exporting to developing countries?

Mr. WALDMANN. Well, I think there are a number of steps that we can take. We can certainly attack some of the disincentives which we have placed in our own way of doing business abroad. The administration has already begun to work on a few of these in the area of the export trading companies, the illicit payments or the foreign corrupt payments practices and the tax area.

I think we can do some things to make it a little easier for our businessmen to operate in those countries.

Senator BRADLEY. Do you see anything more systemic required?

Mr. WALDMANN. I think that one of the objectives we have to keep in mind is broadening and strengthening the international trading system as represented by the General Agreement on Tariffs and Trade, the GATT system.

Many of the developing countries are not now members of the codes which were negotiated in the MTN round. I think we have to attempt to bring those countries into those agreements in a more aggressive way.

Senator BRADLEY. As happens occasionally when the world goes into a recession or whenever there are economic stresses, the developing countries themselves are the first hit and people in the United States frequently think that is a matter of their problem, it is not our problem.

To what extent do you believe that recessions that hit the developing countries are our problem and what kind of steps would you take specifically to see that at times when prices of oil go up dramatically or other systemic shocks occur that we would protect the export market in developing countries, markets into which we can look forward to exporting the greatest quantity of goods and services in the future.

Mr. WALDMANN. Well, I think you are right to point out that trade has to be a two-way matter. We can't close down our markets and expect countries, particularly developing countries, to buy our goods at the same time.

We have done a lot in the last couple of years, perhaps going back two decades or more to enable developing countries to enhance their buying power.

We have a system of preferential access to the United States for certain goods for certain developing countries. We should certainly deal with their financial problems to the extent we can.

Senator BRADLEY. Should that be done bilaterally or through multilateral banks, in your view?

Mr. WALDMANN. In my own view, I think we can do more in a bilateral way to target the assistance that is required to those countries which need the assistance most.

Senator BRADLEY. Does that mean that I am going to see you up here when various members of the Republican Party and some Democrats will be blocking assistance to various Third World countries for assorted reasons that are not directly related to economic efficiency?

Mr. WALDMANN. Well, you probably won't see me here, because direct operational responsibility for those programs basically lies in Treasury, not in my domain.

Senator BRADLEY. But, can we count on your voice of reason since you are the person that oversees some of our trade matters?

Mr. WALDMANN. I hope you can count on a voice of reason from me at all times.

Senator BRADLEY. Well, good. Let me go to one other area. The question of performance requirements is one that is increasingly troubling to me. These are requirements that allow a foreign firm to operate in a country only if it buys a certain amount locally or if it exports a certain amount. It is required to export a certain amount. If it does not it may be denied general tax benefits, or various other things.

Are you interested in making performance requirements an important issue in this administration?

Mr. WALDMANN. Yes, I am, Senator.

Senator BRADLEY. What are you going to do about it?

Mr. WALDMANN. A couple of things are already underway. The administration is addressing this matter in preparation of a statement on trade policy.

We are raising this issue in the OECD with other developed countries. I believe that in our bilateral approaches to specific countries which have these kinds of requirements, we are making it a very specific issue. I have in mind countries which are not too far away, such as Canada and Mexico.

Senator BRADLEY. Any others?

Mr. WALDMANN. Those are the ones that have come up in the short time I have been at the Commerce Department because of the bilateral summit.

Senator BRADLEY. Do you think we need a GATT on investment? Did I hear you heading in that direction?

Mr. WALDMANN. I am not sure that we do need a GATT on investment, but if it turns out that is the way we need to go to address some of these problems in a rigorous and enforceable way, then I would be in favor of it.

Senator BRADLEY. Mr. Waldmann, as you look at the next decade, let us take the next 4 years, what your immediate concern is, and you recognize the need to get the country back on a path of economic growth. How much of that economic growth must come from increased U.S. international activity in your view?

Mr. WALDMANN. I think an increasingly great proportion of our growth will come from international activity. Our trade has grown as a proportion of our GNP. It shows no signs of abating. The

proportion of our manufactured and agricultural products which are exported has been increasing.

Senator BRADLEY. So, would you go so far as to say that if the United States put the walls up around the country and did not participate aggressively in the world trading and international economic systems, we would have no chance of getting the levels of growth that are essential in the next 4 to 5 years?

Mr. WALDMANN. I think if the premise were achieved, that would be the result. But, I don't think we are going to put walls up around our economy.

Senator BRADLEY. You will make sure of that in your capacity? You will be a willing and consistent witness in support of that view before the Congress?

Mr. WALDMANN. I certainly hope so.

Senator BRADLEY. Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you, Senator.

Senator Bentsen?

Senator BENTSEN. I have no further questions, Mr. Chairman.

Senator GRASSLEY. As is our standard procedure, there are many members that could not be here because of conflicts. They take your nomination and its confirmation very seriously and they may have some questions they want to ask you. So, the other questions will be given to you in the record and give you an opportunity to respond in writing.

Thank you very much for being a very good witness.

Mr. WALDMANN. Thank you, Senator.

QUESTIONS FROM SENATOR DOLE FOR RAYMOND J. WALDMANN

Question. How do you plan to ensure that the U.S. obtains the rights for which it negotiated in the course of the 1979 Tokyo Round Trade negotiations?

Answer. To ensure that U.S. rights are enforced, a considerable amount of our endeavors are spent on monitoring foreign government actions and implementation measures. To be better able to perform this important function, a Trade Policy Information System (TPIS) is being developed in phases, with the initial effort focused on GATT tariffs, trade data and nontariff measure data. To enable us to monitor foreign compliance with the agreements, we have issued detailed reporting requirements for each of the MTN non-tariff barrier codes to the Foreign Commercial Service and our economic officers overseas. Moreover, we are seeking to use the international committees of Code signatories for multilateral monitoring, trying to obtain as much information as possible from other signatories through the reporting and review provisions of the codes. Information on foreign actions is also obtained from the private sector.

We intend actively to enforce the agreements. We will investigate complaints of foreign actions inconsistent with the agreements and where appropriate will recommend actions in support of U.S. firms. Section 301 of the Trade Act of 1974, as amended by the Trade Agreements Act of 1979, provides a formal mechanism for such complaints. We participate actively in the interagency Trade Policy Staff Committee, which develops U.S. positions in such cases.

Question. How will you monitor the extent and effects of foreign investment in the United States?

Answer. In its monitoring program, the Office of Foreign Investment in the United States (OFIUS) identifies, investigates and collects information on current and prospective investment transactions, based on Federal agency and public sources.

With the passage of the International Investment Survey Act of 1976, a substantial body of data is now becoming available which will permit a comprehensive examination of the composition, extent, and characteristics of foreign direct investment in this country over recent years. The Department of Commerce is now compiling annual economic data designed to update its 1974 Benchmark Survey. Data for 1977 were published last year and data for 1978 and 1979 will be published shortly. In addition, a new Benchmark Survey covering the year 1980 is underway.

We are also collecting annual data on new investments. The first such annual report covering 1979 was published in January of this year.

With this new data, our Office of Foreign Investment in the United States (OFIUS) is updating and expanding the coverage of a series of industry reports examining the importance and characteristics of foreign direct investment in selected industry sectors. OFIUS is also analyzing the extent and impact of foreign direct investment at the State level, as well as examining trends in foreign direct investment by parent country of U.S. affiliates.

At the request of several Members of Congress, Commerce has undertaken a special study on the extent and impact of foreign direct investment in the U.S. fish processing and wholesaling industry. Other special studies include an assessment of the feasibility of measuring the impact of foreign direct investment on technology flows and case studies on the impact of selected foreign direct investments. We will also soon publish a comprehensive bibliography of materials relating to inward foreign investment.

Question. What can your office do to help remove the barriers which many of our trading partners, including Japan and the European Communities, impose on U.S. agricultural exports?

Answer. Commerce strongly supports U.S. Department of Agriculture efforts to remove trade barriers to U.S. agricultural exports in the EC and Japan. Commerce is represented at all levels of the interagency structure where policies for dealing with these problems are developed.

The Department of Commerce, and specifically the International Economic Policy area, has taken action to combat restrictions on processed agricultural products and will continue to do so. For example, our Japan Division worked closely with U.S. businesses to develop and document a case against Japan's restrictions on the pricing, marketing, advertising, and distribution of manufactured tobacco products in that country. The case, once it was fully developed, was turned over to the Office of the U.S. Trade Representative for negotiations with the Japanese which resulted in a significant liberalization of those restrictions. Our Joint U.S.-Japan Trade Facilitation Committee (TFC) has assisted potential U.S. exporters of processed foods to overcome Japanese market access barriers.

The TFC will continue to help U.S. exporters of processed agricultural products (as well as other manufactured goods and services) overcome formal and informal Japanese import barriers.

Question. What role should the U.S. government play with respect to "sunrise" industries in high technology areas such as aircraft and electronics?

Answer. The most appropriate role for government is to provide a stable and unfettered environment in which private individuals can confidently plan and make appropriate decisions. The new economic recovery program will achieve this end. It seeks to establish properly functioning markets, free play of wages and prices, reduced government spending and reduced government barriers to risk-taking and enterprise. High technology industries are expected to flourish in the enhanced economic environment which will permit them to fully realize their inherent competitive strengths unimpeded by government intervention.

The improved treatment proposed by the Administration for machinery and equipment used for research and development will be of particular benefit to high technology industries. This type of equipment will now be written off in three years rather than five years and the investment tax credit moves up to six percent. All together, this is the equivalent of writing off ninety percent of R & D equipment investments in two years.

We are seeking fair trade along with free trade. High technology industries will benefit if we all follow a set of international principles that will prevent foreign governments from providing permanent import protection on export subsidies. Our foremost objective is to promote the market mechanism by fostering trade that reflects competitive advantages and is free of the distortions caused by subsidies and other unfair trade practices.

QUESTIONS FROM SENATOR ROTH FOR RAYMOND WALDMANN

1. Services account for a substantial portion of U.S. trade and yet services-related trade problems have not been addressed adequately by the Executive Branch. The 1974 Trade Act, for example, called for Multilateral Trade Negotiations for goods and service, and yet, for the most part, the concessions we negotiated with other countries deal exclusively with trade in goods.

What plans do you have as Assistant Secretary for dealing with services-related trade matters? What is your timetable for identifying, developing policy positions on, and negotiating the elimination of services trade barriers? Where do we have

our greatest leverage? Bilaterally? In the GATT? In the OECD? What is the position of our trading partners on these matters?

2. One of the most important tasks facing you as the Assistant Secretary at Commerce is the implementation of the agreements reached in the Multilateral Trade Negotiations, monitoring other countries' activities, enforcing our international rights and re-negotiating existing agreements. Do you believe you are well organized and equipped to implement these agreements? If not, what changes do you plan to make? What mechanisms do you have in place to work closely with other members of the Executive Branch—notably USTR—to achieve our implementation goals?

REPLY BY ASSISTANT SECRETARY WALDMANN TO SENATOR ROTH ON SERVICES
RELATED TRADE PROBLEMS

I agree that service industries comprise an area which calls for stepped-up attention by U.S. trade policy officials. I have a direct and personal interest in this topic as a former Deputy Assistant Secretary of State for Transportation and Telecommunications and as a member of the U.S. Chamber of Commerce's International Services Industries Committee.

Services are increasingly important in the domestic economies of most industrialized countries and many LDCs, and this growing prominence is being carried over to international trade and investment issues. My plans for reducing or eliminating barriers to a free international flow of services include a variety of simultaneous steps.

Multilaterally, ITA will work with other interested government agencies in pressing a U.S. initiative in the OECD Trade Committee to study trade in services. Our aim is to identify problems in common with a view to reaching internationally-agreed rules in the longer-run, probably in GATT. The attitude of our trading partners has been cooperative but it is difficult to lay down a timetable because such work involves many diverse business sectors and negotiations will require careful and detailed preparation.

In addition to multilateral trade discussions, I plan to give personal attention to solution of specific country problems on a bilateral basis. At present, 45 country problems, involving such services as insurance, data processing, films, transportation, accounting, construction, banking, and consulting, are being pursued by ITA desk officers and trade policy personnel.

Multilateral and bilateral approaches help solve trade problems which arise from foreign government actions but, at the same time, it is essential to review USG export policies, for example, export financing, taxation issues, trade promotion programs, to make sure that USG programs offer equal help to service industries as to goods producers. By implementing a balanced agenda of stepped-up activities (including maintaining close liaison with private sector groups and firms), my objective will be to ensure that U.S. service industries have the opportunity to compete freely and fairly abroad.

Answer to Question 2. I believe that we are organized and equipped adequately to implement the MTN agreement. As Secretary Baldrige stated in his testimony before the Joint Economic Committee, the Administration has given this effort a high priority. Although it is difficult to estimate our needs with precision, I believe we have allocated sufficient funds to ensure effective implementation. We are actively monitoring foreign governments' implementation of the agreements with the assistance of the Foreign Commercial Service and the State Department, in coordination with USTR. With the help of the Assistant Secretary of Commerce for Trade Development, we are helping U.S. companies to take advantage of the agreements, in particular with respect to the agreements on government procurement and standards. We are also doing our best to inform U.S. firms of the agreements and the opportunities they have created. In all these activities, we are coordinating with other agencies, including USTR, and we do not see any need for significant changes. If organizational or other changes become necessary, we will certainly let you know.

Senator GRASSLEY. It is now my pleasure to call to the witness table the next nominee, Dorcas R. Hardy who has been designated to be Assistant Secretary for HHS, for Human Development Services.

Ms. Hardy, we welcome you to the committee. We congratulate you on your nomination and ask you to now proceed with your statement. Your entire statement will be included in the record.

[The biographical sketch of Ms. Dorcas Hardy and her prepared statement follow:]

**DORCAS R. HARDY'S TESTIMONY BEFORE THE SENATE FINANCE COMMITTEE
CONFIRMATION HEARING, APRIL 28, 1981**

Thank you, Mr. Chairman.

Mr. Chairman, Members of the Committee I am honored to be presented before you today and to be nominated as the Assistant Secretary for Human Development Services. I look forward to the prospect of being able to participate in the challenges offered by the new directions of this Administration. One of my priorities will be to restore States to a full and effective partnership in the management of human services. In this time of reduced resources, difficult decisions will need to be made. I believe that these decisions can best be made by States acting on their priorities within a broad framework of Federal guidance. The focus of the Federal role in human services should be to assist States to effectively plan for and manage their social services programs.

This is an exciting time, one full of opportunity and expectation for the Federal Government and our State and local counterparts. It is also a time to challenge and involve members of each community to provide for the needs of that community whether through the private or the public sector.

I am privileged to be nominated to serve at this time and in this capacity and hope to work closely with you individually and as a committee in the future to work on the pressing problems and issues before us.

CURRICULUM VITAE

DORCAS R. HARDY

University of Southern California
Center for Health Services Research
2025 Zonal Avenue
Los Angeles, CA 90033
(213) 224-7337

Education:

B.A., 1968 Connecticut College, New London, Connecticut

M.B.A., 1976 Pepperdine University, Los Angeles, California

Executive Program in Health Policy and Financial Management, Harvard University, December, 1978.

Experience:**October, 1974 - Present:**

Associate Director
Center for Health Services Research
University of Southern California,
School of Medicine:

Established and direct multi-disciplinary research center designed to address economic, social and health policy issues with a staff of approximately 20 professionals. Obtain and administer over \$1 million in grants from government and private agencies for projects in areas of health care technology, alcohol diversion, hospital data management systems, health benefits utilization and rural and international alternative health systems. Design, market and conduct hospital financial feasibility studies, health planning and evaluation programs and cost benefit analyses.

April, 1974 - December, 1974:

Health Consultant
Urban Management Consultants
San Francisco, California
Medi-Mark Inc.
Sacramento, California

Study of intergovernmental effectiveness of services for children. Design and development of health care delivery systems, feasibility studies and health program planning and development; public relations and marketing programs.

DORCAS R. HARDY

Page 2

January, 1973 - April, 1974:

Assistant Secretary for Health
California Health and Welfare Agency
Sacramento, California

Responsible for all State health program policy planning, development and implementation. Instrumental in reorganization of new Department of Health combining three former departments involving social services, Medicaid, mental health and public health with 22,000 employees and \$2.5 billion annual budget. Numerous conferences and meetings throughout State; coordination with Legislature, Office of the Governor, related departments, public officials and local community health leaders.

November, 1971 - January, 1973:

Executive Director of Health Services Industry Committee
Cost of Living Council, Washington, D.C.

Executive Director of 21-member Presidentially appointed Committee comprised of national leaders of health industry. Developed regulations governing health sector during Phases II and III of the Economic Stabilization Program. Responsible for liaison with Pay Board, Price Commission and Cost of Living Council. Supervised staff research of Committee issues. Coordination with other federal agencies, including White House. Maintained contact with professional organizations, AHA, AMA, ADA, etc. Developed public relations and information program. Organized and managed seven national Wage/Price Seminars to explain regulations to industry leaders.

April, 1970 - June, 1971:

Special Assistant to National Chairman and Director
White House Conference on Children and Youth, Washington, D.C.

Responsible for organization, including selection and recruitment of 400 interdisciplinary task force members comprising nation's experts in children's affairs. Supervised planning and organizational activities of 12 children's specialists. Liaison with executive personnel from governmental agencies, major corporations and media. Program Coordinator of National Conference of 5,000 participants. Post-Conference coordination of follow-up activities. Directed Youth Sponsorship Program.

DORCAS R. HARDY

Page 3

January, 1970 - April, 1970:

Legislative Research Assistant, Senator Clifford P. Case
Washington, D.C.

Domestic legislation and constituent requests regarding transportation, health, welfare, military and international issues. Wrote speeches, articles, news releases and radio scripts.

Memberships and Volunteer Activities:

Member, California Hospital Association

Board of Directors, Volunteers in International Service and Awareness,
Santa Barbara, CA

Board of Directors, Junior League of Pasadena

Advisory Board of Directors, Pasadena Heritage

Connecticut College Alumni Association, Key Alumna, Los Angeles Area

Board of Directors, All Saints Children's Center, Pasadena, CA

Board of Directors, Sierra Madres Girl Scout Council, Pasadena, CA

World Association of Girl Scouts and Girl Guides and Girl Scouts of U.S.A.:
Adult Home Visit and Service Project, Pakistan, 1968-1969; Year 2000,
Bahamas, 1968, a top-level research and planning conference; Staff, Our
Chalet, Adelboden, Switzerland, 1964, 1969, 1971

Awards:

Who's Who of American Women, 1978, 1979

Outstanding Young Women of America, 1978

DORCAS R. HARDY

Page 4

Publications:

American Hospital Association. Technology Evaluation and Acquisition Methods for Hospitals (TEAM), Chicago, IL: American Hospital Association, 1979.

Hardy, D.R., A Study of Attitudes Toward the Use of an Automated Information System, Pepperdine University, 1976.

Hardy, D.R., and Rank, P.C., Evaluation of CHAMPUS Claims Appeal Mechanism, University of Southern California, 1975. (Report submitted to U.S. Army Defense Supply Service, Grant #MDA903-75-M-7856.)

Hardy, D.R., Young, E.M., Delker, M., Determination of Legal and Social Benefits, Rights and Remedies Accruing to Illegitimate Children Upon the Establishment of Paternity, University of Southern California, 1978 (Report submitted to Office of Human Development, Department of Health, Education and Welfare, #90-C-1334).

Hardy, D.R., Jewett, A., and Young, E.M. Determination of Optimal Support Processing and Collection Techniques for Interstate Child Support Enforcement Cases, University of Southern California, 1979 (Report submitted to Social Security Administration, #18-P-00104-9-01).

Hardy, D.R., Young, E.M., Smith, M.T., Jewett, A., Shecter, G., Financial Feasibility of the Construction of Lake Otis Community Hospital, Anchorage, Alaska, University of Southern California, June, 1978.

Hardy, D.R., Young, E.M., and Brian E.W. "Automated Hospital Information Systems Workbook", Proceedings of The Fourth Annual Symposium on Computer Applications in Medical Care, November, 1980.

Young, E.M., Hardy, D.R., and Armstrong, P.S. "Evaluation of Staff Attitudes Towards the Implementation of A Automated Hospital Information System", Proceedings of The Fourth Annual Symposium on Computer Applications in Medical Care, November, 1980.

Young, E.M., Hardy, D.R., Brian, E.W., and Kaplan, A. "Evaluation of Automated Hospital Data Management Systems (AHDMS)", Proceedings of The Fourth Annual Symposium on Computer Applications in Medical Care, November, 1980.

Ms. HARDY. Thank you, Mr. Chairman.

I am honored to be here today before you and to be nominated as the Assistant Secretary for Human Development Services.

I look forward to the prospect of being able to participate in the challenges offered by the new directions of this administration.

One of my priorities will be to restore States to a full and effective partnership in the management of human services.

In this time of reduced resources, difficult decisions will need to be made. I believe that these decisions can best be made by States acting on their priorities within a broad framework of Federal guidance.

The focus of the Federal role in human services should be to assist States to effectively plan for and manage their social services programs.

I believe this is an exciting time, one full of opportunity and expectation for the Government and our State and local counterparts.

It is also a time to challenge and involve members of each community to provide for the needs of that community, whether through the private or the public sector.

I am privileged to be nominated to serve at this time and in this capacity and hope to work closely with you individually and as a committee in the future to work on the pressing problems and issues before us.

I would be pleased to answer any questions you may have.

ADOPTION ASSISTANCE AND CHILD WELFARE ACT OF 1980, PUBLIC LAW 96-272

Question. How can we encourage the States to develop the foster care and adoption assistance provisions of the new law?

Answer. States historically have expended more funds for their foster care and adoption programs than has the Federal government. The Department believes such emphasis will continue. The provisions in the block grant permit States to expand the use of Federal funds for the delivery of services and the management of these programs, e.g., adoption assistance. The legislation (Public Law 96-272) will serve as a model and States will be encouraged, by the Department, to implement these provisions. The Department will assist States in providing information on effective management practices and facilities the exchange of information on such practices across States.

CHILD CARE STANDARDS

Question. What is your view of the proposed Federal Day Care Regulations scheduled to go into effect this July?

Answer. We are in the process of analyzing assessments States have conducted of their abilities to meet proposed day care standards and of day care providers' abilities to provide the services required by the proposed regulations. Although this is a voluntary effort, 46 States participated in the assessment. The results of the assessment are due to Congress June 1. While analyzing the results, we are keeping an eye to providing flexibility to the States to accommodate local circumstances and personal choice for parents. We are concerned that we not issue standards which would result in a decrease in the availability of inexpensive day care. Our recommendations, based on the State assessments, will be sent to Congress June 1.

Question. Since the Administration is proposing a shift away from Federal standard setting and compliance monitoring activities, how will program standards be developed and implemented?

Answer. Program standards will continue to be developed and shared as model standards which States will be encouraged to use. An example of a product of this type of effort is the recently released Residential Child Care Guidebook. This Guidebook was prepared by a 14 State consortium of residential child care providers, regulators and consumers. It covers model standards for children's residential facilities including administration and organization, physical environment and safety, services, education, etc.

HHS is distributing this material widely and encouraging States to share effective practices in this area.

Senator GRASSLEY. Well, thank you. Obviously, I like your desire to work with State and local communities. That impresses me very much.

I would like to welcome our esteemed chairman, Senator Dole, who is here.

Would you have any opening statements you would like to make, Senator Dole?

Senator DOLE. No. I apologize for being late. I appreciate both of you and Senator Bentsen being here. We are in the process of marking up the farm bill this morning. I will have to leave again.

Senator GRASSLEY. I would like to be the first to question you. Have you discussed possible conflicts of interest with the committee's chief counsel, Bob Lighthizer?

Ms. HARDY. Yes, I have.

Senator GRASSLEY. Is there any reason that you know of that you cannot responsibly serve in the office to which you have been nominated?

Ms. HARDY. No sir, there is no reason.

Senator GRASSLEY. The administration's legislative proposals, especially those relating to the block grant concept seems to restore the States to a full partnership in designing and administering programs. The Federal role will become one of support and consultation in response to State and local needs. How, and try to be specific, will these needs be identified and met?

Ms. HARDY. Well, I think we have given quite a bit of thought to putting together this new human services partnership with the Federal and State and the local government. One of the primary ways will be to share information from the States and assist them in the development of the priorities primarily through our research and development funds, training funds and technical assistance.

I also see it as a technology transfer and information sharing effort. We will be able to look to successful approaches that have been used by some States and be able to transfer them to other States. We have done that, or currently HDS is doing that, in the transportation area; assessing transportation needs and coordinating client ride-sharing and also establishing agreements with the insurance industry.

So, I think there is a precedent for that and we will continue in that vein.

Senator GRASSLEY. I am also a member of the Special Committee on Aging. I have some questions that relate to the matters of aging. Many of us would like to see the Commissioner on Aging reporting directly to the Secretary of Health and Human Services. I would like to know your view on that matter.

Ms. HARDY. Yes, sir.

Senator GRASSLEY. I could also follow it up, I suppose, with a question. Do you have any specific objections to a return to a direct relationship between the Secretary and the Administration on Aging?

Ms. HARDY. I am aware of the section in the Older Americans Act that discusses the Commissioner on Aging reporting to the Office of the Secretary. It has been interpreted that Human Devel-

opment Services and my particular position is within the Office of the Secretary.

That, combined with some GAO reports we are looking into and from our General Counsel's standpoint, is the best way to deal with this.

The Commissioner on Aging certainly will report directly to me and certainly can have access to the Secretary. I feel for management purposes that we are interpreting HDS Assistant Secretary as the Office of the Secretary.

Senator GRASSLEY. I appreciate your opinion. I am not sure I agree with it totally. I am not prepared to cause you any trouble at this point. But, I would like to remind you of an amendment that was adopted by Congressman Biaggi in the House within the last 2 years in which there was a further delineation of congressional intent with regard to the relationship of the Commissioner on Aging with the Secretary of HHS.

I would ask you, as I asked one of your counterparts before the hearing on aging yesterday, for them to take a particular close look at that. I would assume you would do your utmost to follow congressional intent in that regard.

Ms. HARDY. Absolutely.

Senator GRASSLEY. This is in addition to the question I just asked you. It is not an attempt to disagree with you on what you said, but regardless of your point of view, what steps will you take to insure that the Commissioner has access to the Secretary of HHS, and is involved in White House and departmental decisionmaking about the elderly?

Ms. HARDY. I am not in the saddle quite yet. I am just getting used to where people fit. But, I would like to see no problem with the Commissioner on Aging having access to the Secretary. I am aware that there are staff people in the White House who are involved with the aging issues. They certainly have been in contact with the Acting Commissioner. I would see that that could very easily continue.

I think the Commissioner on Aging is an important position in the administration.

Senator GRASSLEY. Well, it would be very satisfying to me if I could get you to say that in no way would you try to impede the desire of the Commissioner on Aging to make his or her point of view known directly to the Secretary and/or the White House.

Ms. HARDY. I would want to work closely with that person and feel we could go forward as a management team to the Secretary and the White House.

Senator GRASSLEY. The Commissioner on Aging would be a part of that team?

Ms. HARDY. Absolutely.

Senator GRASSLEY. Thank you.

What if any role are you or have you performed in recruiting, interviewing, recommending, and/or selecting the Commissioner on Aging.

Ms. HARDY. I have been involved in the interview process. There have been several candidates who have been interviewed. No decision has been made at this particular point in time.

Senator GRASSLEY. You have been involved in that process?

Ms. HARDY. Yes, I have.

Senator GRASSLEY. Senator Bentsen, it is now time for your questions.

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

Ms. Hardy, I am very pleased to see you have management experience. You are going to need every bit of it, that job you are going in.

Ms. HARDY. Thank you, Senator Bentsen.

Senator BENTSEN. I am also pleased to see that you have apparently a very deep and abiding interest in the welfare of children. I feel that some of the other political constituencies have a bit more muscle and sometimes get a bit more attention. I am pleased to see that you have been involved for a period of time in children's concerns.

I have no questions.

Ms. HARDY. Thank you.

Senator GRASSLEY. Thank you, Senator Bentsen.

Of course, as you heard me say with regard to the previous person who was here, there are other members who are not available, who will probably want to ask you questions. Those questions will be sent to you as part of the record, and we would appreciate your response in writing.

Ms. HARDY. Yes, Senator.

Senator GRASSLEY. Good luck.

Ms. HARDY. Thank you, Senator.

Senator GRASSLEY. Thank you very much for your time.

The last nominee today is John A. Svahn, who has been nominated to be Commissioner of Social Security.

I would like to welcome John and his wife, Jill and his children, Kirsten and John. You can be very proud of your father and your husband.

Your statement will be made part of the record, as is our usual custom. You may read excerpts from your statement, or comment, however you desire.

[The biographical sketch of Mr. John A. Svahn follows:]

JOHN A. SVAHN

292 Oak Court
Severna Park, Maryland
21146

Telephone: (301) 647-5052

1979 - Present
Private Consultant

As the head of his own consulting firm, Mr. Svahn has been engaged by both public and private concerns to provide expert assistance in resolving management problems and advising in areas of public policy.

Mr. Svahn serves in a consultant capacity to a big eight accounting Firm in the area of health policy. In addition he provides technical assistance to the firm in the area of the Medicaid program and assists in engagements relating to state Medicaid operations. Recently, Mr. Svahn completed a study of a large state medicaid program which assessed state agency policies and performance vis-a-vis institutional providers. Another engagement involved a review of a major state's cost related reimbursement system for long term care facilities under Title XIX. He has written several policy papers for the firm's internal consumption on health and cost containment.

Mr. Svahn completed a series of engagements for the Secretary of a major state's Department of Human Resources in which he served as a top level policy advisor in reducing the level of erroneous payments in the AFDC program and the Medical Assistance program. In addition, he advised the department on matters of program management and organization. In these engagements, he developed a statewide plan for management improvement which includes a case action management system for determining eligibility in Medicaid and AFDC.

He recently completed an engagement for a large foreign agricultural corporation in which he assisted the corporation in dealing with the United States government and large U.S. multinational corporations.

In addition, he has contracted for a two year period to serve on the National Advisory Panel for the Health, Education, and Welfare sponsored evaluation of the Child Support Enforcement Program.

Mr. Svahn also serves several water districts in Southern California, advising on activities which might affect them in Washington and on potential for federal funding of local projects.

1976 - 1979

Deloitte Haskins & Sells
Manager, Government
Services

Responsible for developing new service opportunities for the International firm of Certified Public Accountants and Management Consultants, based in Washington, D.C. Developed marketing plan and product line packages which at the same time participated in direct marketing and engagement execution.

JOHN A. SVAHN

Mr. Svahn served DH+S as a certified specialist in the areas of government, health, and economics. He was a nationwide spokesman for the Firm in the area of government, health, and wage and price controls. While with the Firm he participated in a wide variety of engagements in the area of health and public administration including an assessment of the Utah Long Term Care payment system; an investigation into the cause of the rapid increase in the cost of the Iowa Medicaid program; review of several aspects of the Illinois social services and Rehabilitation programs and a review of the MMIS potential for the State of Tennessee.

He maintained liaison with Federal agencies, the Congress, and its key committees.

1975 - 1976
Administrator, U.S. Social and
Rehabilitation Service

Administered the Welfare, Medicaid and Social Services Programs for the United States. Extensive involvement with the Congress; other executive branch departments, state and local governments, the health care industry and the human resources community. Budget approximately \$30 billion annually.

1975 - 1976
Director, U.S. Office of Child
Support Enforcement

Developed, Implemented and directed the nation's Child Support (absent parent) Program from enactment of legislation through full operation. Budget approximately \$46 million annually.

1974 - 1975
Deputy Administrator,
U.S. Social and Rehabilitation
Service

Served as sole deputy with full line authority in administration of nation's Welfare, Medicaid, Social Services and Rehabilitation Programs. Budget approximately \$30 billion annually.

1973 - 1975
Commissioner, Assistance
Payments Administration

Administered nation's welfare payment program, Aid to Families with Dependent Children. Budget approximately \$10 billion annually.

1973 - 1974
Acting Commissioner,
Community Services
Administration

JOHN A. SVAHN

Administered the nation's Social Service Programs, including services to the aged, blind, and disabled. Instrumental in the enactment and implementation of Title XX. Budget approximately \$3 billion.

1972 - 1973

Consultant
Executive Office of the President,
Office of Management and Budget

Served as an Intermittent advisor to OMB in the areas of income maintenance, social services, and medical assistance.

1971 - 1973

Chief Deputy Director // and Director
Department of Social Welfare, State
of California

Administered the nations largest state public welfare programs. Responsible for dramatic changes in the state's approach to public assistance.

Awards and Recognition

Who's Who in Government - 1975-76-77-78

Secretary's Special Citation - Department of Health, Education and Welfare - Highest Departmental Award

National Reciprocal Family Support and Enforcement Association - Commendation

National Welfare Fraud Association - Commendation

Administrator's Award of Achievement - Department of Health, Education and Welfare

Los Angeles County Board of Supervisors - Commendation

Nominated for Most Outstanding Young Man in the Nation - Jaycee National Award, 1974

Named Most Outstanding Young Man in HEW - 1974

Invited Participant - White House Economic Summit, 1974

Wests Publishing Award - Most Outstanding Contribution to Legal Scholarship

American Jurisprudence Awards for Excellence in the Study of: Torts, Criminal Law, Agency, Civil Procedure

Roger G. Trayner Legal Honor Society

Professional Organizations, Committees,
Commissions, Councils, Etc.

National Association of Manufacturers - Member, Taxation Committee - Subcommittee on International Taxation and Corporate Taxation, 1978 - current

United States Chamber of Commerce - Welfare Panel, 1977-78-79

Steering Committee - Congressional Task Force on Welfare Reform, 1977

Direct Relief International - Washington, D.C. - Board of Directors and Treasurer, 1977 - current

National Reciprocal and Family Support Enforcement Association, 1974 - current

Direct Relief Foundation - Board of Advisory Trustees, 1976 - current

National Advisory Council on Developmental Disabilities, 1975-76

U.S. Committee, International Conference of Social Welfare, 1974-76

National Council of State Welfare Administrators, 1971-73

California Health Care Commission, 1972-73

JOHN-A. SVAHN

State Developmental Disabilities Planning and Advisory Council, 1972-73
Task Force for National Governor's Conference, Human Resources Committee, 1972
California Manpower Planning Council, 1971-73
American Public Welfare Association, 1971 - current
Governor's Public Assistance Reform Task Force, 1970

Other

Extensive testimony before Congressional Committees and State Legislative bodies.
Extensive public speaking experience. Guest lecturer at several universities.
Several published articles and papers. Extensive exposure to the press and broadcast media.

Personal

Born: May 13, 1943, New London, Connecticut
Marital Status: Married, two children
USAF - 1966-68

Education

1973 - 1974 Georgetown University, School of Law
1969 - 1973 University of the Pacific, McGeorge School of Law
1960 - 1966 University of Washington, B.A., Political Science

Senator GRASSLEY. You may proceed.

Mr. SVAHN. Thank you, Mr. Chairman, and members of the Senate Committee on Finance.

It is a pleasure to be here and come before you as a President's nominee to become the Commissioner of Social Security.

First, I would like to just take a moment to say a personal word about my past and I hope my future relationship with the members of this committee and your able staff.

In several years of working with the committee from the many sides of the Federal, State, and private sector table that I have been privileged to sit on, I have never failed to be impressed with this committee's approach to the business of the people.

Circumstances may have put us at odds on a given issue from time to time, and I am sure such times will occur in the future, but if the committee and the full Senate permit me to serve as the Commissioner of Social Security, you can be sure that I and the people who make up the Social Security Administration will do our best to develop the best possible relationship with this committee as we work in the interests of the people we all serve.

Social security affects the lives of all of us. Over 36 million beneficiaries and over 100 million taxpayers are involved in the program. It faces significant problems in financing and management at the present time. The agenda of priorities for our system of social security has been written for us by the accidents of history, by the mistakes of our predecessors, by the state of our economy and most importantly of all, by the demands of the people for a fair, well-managed, equitable system that makes good on the promise implicit in its very existence.

There is no more pressing priority before us and for me than the need to restore and strengthen public confidence in this most basic program.

I need not remind the members of this committee that all of us, this administration, this Congress, this generation of the American people are faced with some hard choices on the ways we finance and manage this program.

Indeed, some of the choices we must make will have to do with the very direction we want social security and the other programs administered by the agency to take in the future, lest they take us as a nation in directions we do not want and cannot afford to go.

If I am privileged to serve, I pledge that I and others in this administration will work with you and your colleagues on both sides of the Capitol and both sides of the aisle to make those choices work for the people whose lives are touched by these programs, as beneficiaries of them and as taxpayers whose dollars pay for them.

I thank the committee and stand ready to answer any questions.

[Questions submitted by Senator Dole and answers by John A. Svahn:]

Question. In the Old-Age and Survivors' Insurance (OSAI) Trust Fund, current and projected outlays are estimated to exceed income under current law in 1982. Secretary Schweiker has told us that the administration believes a comprehensive reform of Social Security financing is necessary to insure adequate payments. How far along are you in developing this legislation? As you know, Chairman Pickle of the House Social Security Subcommittee has already introduced a fairly comprehensive bill.

Answer. The work group chaired by the Under Secretary of Health and Human Services (HHS) is diligently examining a wide range of alternatives to resolve the short- and long-range financing problems of the Social Security system. Because of the importance of the eventual legislation and the kinds of changes that are required to solve the problem—changes involving many billions of dollars in the next few years—and because of fundamental questions about the long-term structure of the system, the deliberations are time consuming. The Administration is firm in its commitment to the development of a set of legislative recommendations to deal with Social Security financing at the earliest possible date.

Question. As Commissioner of Social Security, you would also serve as director of the Office of Child Support Enforcement. Would you give us your views of this program and how you expect to handle that part of your job?

Answer. I had the privilege of serving as the first director of OCSE in 1975, so I am very familiar with that program. The Child Support Enforcement program is unusual in many ways among Federal social welfare programs in that it consistently generates savings for State and local governments as well as providing an important and helpful service to many families. Part of the Administration's overall welfare reform strategy is to increase family responsibility and I think the CSE program has an important role to play in that strategy. I think it is a good, sound program and I intend to support it and strengthen it. I recognize the major role this Committee has played in the CSE program and I hope to continue the close working relationship that has helped make the program successful in the past.

Question. Do you have any plans to deal with the serious deficiencies in the SSA computer systems for claims processing?

Answer. The Social Security Administration's computer systems play a vital role in the ability of the organization to perform the operational missions of the agency. These systems are severely taxed by current workloads. There are a variety of problems in SSA's computer systems for recording earnings credits, and for claims processing as a whole: significant delays in computer processing schedules; dependence upon time-consuming manual operations and semi-automated processes; and difficulties in pursuing an overall redesign of the title II processes. These are difficult problems to resolve because they have their roots in both inefficient systems design and outdated computer equipment. Thus, any solution to the systems problem is a long-term one and must involve improving both hardware capacity and software design.

I consider this to be one of the most serious problems confronting Social Security and action in this area is one of my major and immediate priorities.

Question. Would you comment on the likely magnitude or seriousness of computer fraud by Social Security employees?

Answer. In the last 4 years there have been seven cases discovered which could broadly be described as "computer fraud" in SSA. None of these cases involved interference with the proper operation of an automated system itself. These were not "programmer frauds." They were rather "input frauds" in which an employee caused incorrect data to be entered into the system to authorize a fraudulent payment—for example, by creating fictitious children to be paid on an existing beneficiary's account.

I believe that the state of the SSA system is such that it is at present vulnerable to fraud. The overall improvement of the EDP systems operation to increase its efficiency and the installation of necessary safeguards will be one of my top priorities as Commissioner. In order to accomplish this I will need the support of the Congress. I plan to work very closely with this Committee to bring about the improvements that are desperately needed.

Senator GRASSLEY. I will ask the first question. Have you discussed possible conflicts of interest with the committee chief counsel, Bob Lighthizer?

Mr. SVAHN. I have, Mr. Chairman.

Senator GRASSLEY. Is there any reason that you know of that you cannot responsibly serve in the office for which you have been nominated?

Mr. SVAHN. No; there is not.

Senator GRASSLEY. Do you feel you can be an effective Commissioner, with the basic administrative organization you have inherited and do you have in mind any changes in that organization?

Mr. SVAHN. Well, it would be dishonest to say that I am totally pleased with the organization of the Social Security Administra-

tion. It is at present a functionally organized unit with no one assigned responsibility for the specific programs that are involved.

But, I also recognize, Mr. Chairman, that over the past 5 years, the agency has been involved in a continuous reorganization. The organization has just been settled in the past year. People are in new jobs. They have new position descriptions. They are learning where to go from here and how to manage the program.

I have committed publicly that I do not intend to reorganize the agency at this time, nor can I say I would reorganize it in the foreseeable future. I would rather work with an imperfect organization and with people who are trying to do a job than to again disrupt the organization and continue the problems that have existed for the past 5 years.

Senator GRASSLEY. Senator Bentsen, would you please proceed with your questions?

Senator BENTSEN. Yes. Thank you, Mr. Chairman.

Mr. Svahn, you served as Secretary for Human Resources for some major States where you investigated erroneous payments under the AFDC program. Which State was that?

Mr. SVAHN. The State of California, Senator.

Senator BENTSEN. I guess I should have guessed that. [Laughter.]

One of the President's cost saving proposals is the elimination of the minimum payment under social security and for current beneficiaries as well as for future ones.

Could you give me some idea of the magnitude of the administrative task involved in eliminating the minimum benefit for current and future beneficiaries, the magnitude of the job and why?

Mr. SVAHN. Well, by magnitude of the job, Senator, if you are referring to the—

Senator BENTSEN. The mechanical problem.

Mr. SVAHN. The mechanical process.

Senator BENTSEN. That is right.

Mr. SVAHN. Identifying people who are currently receiving the minimum benefits and then recalculating the benefit based on their earnings history and work history and earnings record is a substantial problem. There is no question about that.

It would be much easier if the automated systems of social security were in a condition that would allow us to search the file for individuals who are receiving the minimum benefit and then recalculate the benefit on an automated basis.

Unfortunately, the system there, even though it is one of the largest in the world, is not in a condition to be able to handle that type of search and recomputation on an automated basis.

So, a substantial part of it would have to be done manually and it would involve a considerable expenditure of man-years to do it.

Senator BENTSEN. Can you give me a feel for it?

Mr. SVAHN. At the absolute minimum several hundred, and that would be with maximum automation which we probably will not have.

Senator BENTSEN. Several hundred what?

Mr. SVAHN. Man-years.

Senator BENTSEN. Several hundred what?

Mr. SVAHN. Work-years. Excuse me.

Senator BENTSEN. Oh, man-years.

Mr. SVAHN. Work-years.

Senator BENTSEN. Work-years. I assume the problem is that minimum beneficiary recipients don't all end up with \$122 per month. Also, they are being keyed into the system over different periods of time and at different benefit levels. That complicates the records keeping, doesn't it?

Mr. SVAHN. That is correct. We speak of the minimum benefit of \$122, but it actually changes and it will change over time until its scheduled elimination some time in the next century.

Senator BENTSEN. Do you have a cost estimate?

Mr. SVAHN. I do not have it at my fingertips, Senator, but I can get it.

Senator BENTSON. Well, I want one. I would like to understand what we are talking about in the way of cost in the accomplishment of that objective.

Could you give me that for the record?

Mr. SVAHN. Yes; I would be glad to, Senator.

[The following material was subsequently submitted:]

The President's budget included an additional 3,180 Federal work-years in 1981 and an additional 7,302 work-years in 1982 to implement the legislative proposal to eliminate the minimum benefit. The budget estimate of Federal work-years assumes that manual processing will be necessary for the entire task—searching the records to identify affected beneficiaries, recomputing benefit amounts, and, responding to beneficiary requests for review of their records. If this process could be automated, the resources necessary to perform this function would be considerably lower. However, as I said in my testimony, the systems problems being faced by SSA are such that there will be little chance of efficiently automating this process in the near future. Therefore, the President's budget reflects a realistic management assessment of the situation.

To finance the Federal work-years for this proposal, as well as the other legislative proposals in the President's program for economic recovery that affect SSA, a 1981 supplemental appropriation of \$68 million has been requested and \$170 million has been added to the 1982 budget. Both requests are in the form of contingency funds to be drawn upon if the Congress approves the President's recommendations. These steps were taken to assure that HHS has the resources to implement the proposals. Most of the additional funds will be required to implement the proposal to eliminate the minimum benefit.

Senator BENTSEN. I have no further questions.

Senator GRASSLEY. Thank you, Senator Bentsen.

As is our usual procedure, other members may have questions that they want to ask you. Those questions would be submitted for the record, and your answers, in writing, would be appreciated.

Congratulations once again on your assuming a very important position in American Government. Obviously, the job is a great one. I wish you luck.

Mr. SVAHN. Thank you, Mr. Chairman.

Senator GRASSLEY. I would like at this time to move that the committee proceed to vote on the nominations of Lionel H. Olmer, Roger W. Mehle, Mark E. Leland, Raymond J. Waldmann, Dorcas R. Hardy and John A. Svahn.

Senator BENTSEN. Mr. Chairman, I second the motion.

Senator GRASSLEY. All those in favor signify by saying aye.

[Chorus of aye's.]

Senator GRASSLEY. All those opposed, signify by saying no.

[No response.]

Senator GRASSLEY. The aye's seem to have it. The aye's do have it. The nominees have been approved.

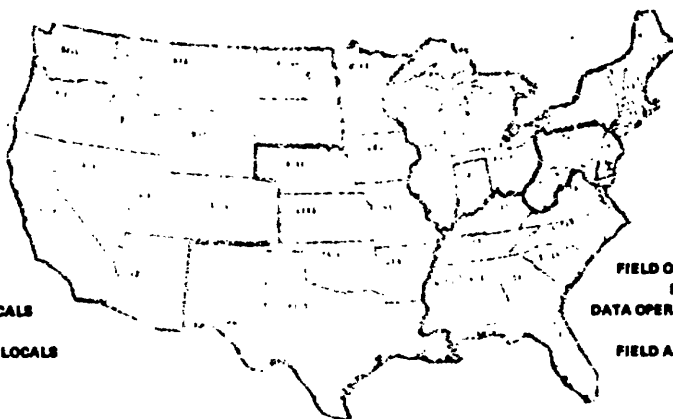
Senator BENTSEN. Mr. Svahn, this is your most popular moment.
[Laughter.]

Senator GRASSLEY. The meeting is adjourned.

[Whereupon, at 10:58 a.m., the committee adjourned, subject to the call of the Chair.]

[By direction of the chairman the following communication was made a part of the hearing record:]

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
AFFILIATED WITH THE AFL-CIO
SSA GENERAL COMMITTEE



Herold Roof
AFGE Local 1923
Donald Jones
PAYMENT CENTER LOCALS
Bruce Ransom
HEARINGS & APPEALS LOCALS

John Harris
FIELD OPERATIONS LOCALS
Robert Hubell
DATA OPERATION CENTER LOCALS
Earl Tisdler
FIELD ASSESSMENT LOCALS

Arthur B. Johnson
SPOKESPERSON SSA GENERAL COMMITTEE

STATEMENT

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
CONFIRMATION HEARINGS, APRIL 28, 1981
COMMISSIONER, SOCIAL SECURITY ADMINISTRATION
JOHN SVAHN, DESIGNEE

Submitted by:

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES,
AFL-CIO
GENERAL COMMITTEE OF SOCIAL SECURITY NATIONAL
COUNCILS AND LOCALS

TO DO FOR ALL THAT WHICH NONE CAN DO FOR HIMSELF
REPRESENTING OVER 72,000 EMPLOYEES

We thank the Committee for this opportunity to submit this statement for the record on the confirmation of John Svahn, for Commissioner of the Social Security Administration. The American Federation of Government Employees represents over 72,000 Social Security Employees, including all its major installations and over 1,300 Field Offices across the Nation, Puerto Rico and Pacific Islands. As the Union of this National bargaining unit, we are deeply troubled about the deterioration of the Social Security Administration -- its management and its programs, as well as the conditions of employment for its employees. Because of these concerns, we must reserve endorsement of Mr. Svahn for Commissioner of the Administration.

At one time the Social Security Administration was held to be a model agency; the genuine confidence of the public which we enjoyed was upheld by an excellence in the performance of our mission that Congress and the public alike readily perceived. Today that excellence is doubted and that confidence is eroded. As Senators you may have perceived this most by the growth of constituent services in your offices over the last decade. Many Congresspersons report to us a doubling and tripling of staff devoted solely to assistance of constituents in the advocacy of their Social Security and SSI benefit rights. Overdue benefits comprises the most frequent complaint and, as these complaints continue to grow, you must ask why is the Administration unable to deliver effective service?

Recently newspaper accounts have told of frightening predictions that the computer support system (which issues payment to over 40 million citizens) is poised on a calamitous failure. Other reports have revealed that millions of earnings records are lost, millions of earnings incorrectly credited, a malaise and a breakdown in morale sweeps the ranks of employees and managers alike, and a collapse of organizational integrity (caused by successive, ill-conceived reorganizations) has brought confusion and inertia to the Administration in their day-to-day operations.

We can affirm each of these, and we could add to these at length hosts of administrative and personnel problems, which compounding, has created a crisis in the mission of the Agency.

Several times we have been before Congress to testify to these problems. Our testimony before the House Appropriations and Civil Service Committees have highlighted our belief that

- service to the public is inadequate and mismanaged, and
- labor relations are worse than ever before and worsening.

While a Union's foremost activity is the advocacy of employee's rights and the improvement of conditions of employment, we are strongly committed to the mission of the Agency. The services which we deliver are compassionate and are essential to the well-being of our fellow citizens; this responsibility is deeply felt by our membership and we are proud of the good that we can do.

Because of this motivation we have time and again sought the attention of the Administration. But our efforts are repeatedly rebuffed. Just as labor relations have so declined that the fundamental rights of this Union and those we represent are brazenly and cynically defied, our advocacy of causes on behalf of the mission of the Agency is also defied.

For over two years, for example, this Union has sought to reckon with wide-spread fraud and waste in production practices which have developed in the result of arbitrary goals imposed by the Department of Health and Human Services. Though current management is well aware of the scope and magnitude of these things, largely because of our persistence, but also because of their own studies and reports which our actions prompted, they have utterly failed to act. A recent

Union newsletter highlighting this fraud and waste is ignored, and indeed top-level management would seem to condone these practices. Without remedy this fraud and waste will destroy the merit pay and other appraisal systems, undermines the validity of work measurement systems upon which appropriations and staffing is based, and results in thousands of unnecessary claims, at a cost of millions of dollars to the taxpayer. Offers on our part to join in labor-management committees to seek cooperative resolutions have been refused again and again, sometimes with a hostility which has belied the sincerity of their intent to resolve the problem.

We have come to the conclusion that the lack of leadership, courage and competence in management is the underlying cause of this and every other problem in the Administration. It frustrates and saddens us that this should be so when we see so many good employees working so hard for the cause which this current leadership fails to carry.

In view of this experience we have held much hope -- and perhaps unrealistic expectations -- that the new Administration and the new Commissioner would bring leadership and talent to restore the excellence of our Agency. But to date there has been none. Moreover, we now fear that the course of the Administration and the symptomatic labor relations will be unchanged.

We have written to Mr. Svahn to express these concerns and have once again been rebuffed by what seems an institutional attitude toward employees. Our letter detailed for him a number of features of the SSA crisis and suggested that there were many other features which we believe demand action. His reply was so brief and unspecific, and so similar to the current attitude of the Administration that we have come to doubt whether indeed his leadership will make any difference at all.* It is for this reason that we withhold our endorsement of his appointment.

*The correspondence was made a part of the official files of the Committee.

In conclusion, we must inform you that the administrative problems of Social Security -- what we call its "crisis" -- extend far and wide. Programs and services suffer but so too do the employees. Deplorable working conditions are all too common -- filthy restrooms, rats and vermine, crowded offices, staffing shortages, etc., are a rampant problem. The affect which these have on public service are most visible in offices where clients must wait an hour for an interview that is so close to another client that every word is overheard and is so hurried because of the waiting backlog that he does not feel courteously treated and does not understand his rights and responsibilities for benefits. It is visible too in the operations of the office of Disability where backlogs of up to 120,000 claims are stacked three foot deep in hundreds of laundry hampers and production standards are so unrealistically high that cheating must be condoned to get the work done.

In such an atmosphere is it any wonder that this Agency has the worst labor relations in the Federal Sector?

In 1976 it took our Union but six weeks to negotiate the most comprehensive labor management agreement in the history of the Federal Sector, an agreement which is acknowledged by many labor relations specialists in the field to be a model contract. Yet today after eleven months of constant negotiations not more than one-tenth of such an agreement has been accomplished, at a cost of untold millions of dollars. It is not and never will be in the interest of a Federal employee union to drag negotiations on so irresponsibly. But when the proposals of the employer are specifically written to take away the rights and benefits of employees which the employer has agreed to for dozens of years, the union cannot agree. We are hostage to an adamance that we cannot shake.

So too have we found that all of labor relations is deteriorating. Over 400 unfair labor practice charges have been brought against the Agency during this period -- a tripling of the historic numbers -- over 150 of these have been begged for guilt by the Agency and the Union has voluntarily settled to avoid the formal litigation. Yet dozens remain unsettled and go to hearings at a cost to the Federal Labor Relations Authority of as much as \$110,000 and at a cost per hearing of \$35,000 and more. Three hearings soon to be held may require as many as 100 witnesses (with travel and per diem charged to the Agency) and still SSA resists settlement.

In the current leadership of the Social Security Administration, there is no hope that labor relations will improve. We are informed that the circumstance is the express policy of the Administration which for reasons of their own are deemed to be in their best interest. We must question the wisdom of that leadership which would endorse and encourage such labor relations while the Administration also travels a course that corrupts the mission of the Agency. We must conclude that the incompetence which brings us to this crisis in Social Security is also responsible for these labor relations and that they lack the strength of purpose and mind to correct it.

Regretably we cannot hope that this state of the Agency will change. We would hope, however, that, by making public our concerns, the Congress and the new Commissioner will recognize that something must be done and that the employees and the union which represents them stands ready to help.

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