S. HRG. 101-439

NOMINATION OF ERIC I. GARFINKEL, RUFUS H. YERXA, JOHN E. ROBSON, ROBERT R. GLAUBER, AND DAVID C. MULFORD

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON THE

NOMINATION OF

ERIC I. GARFINKEL TO BE AN ASSISTANT SECRETARY OF COMMERCE; RUFUS H. YERXA TO BE A DEPUTY U.S. TRADE REPRESENTATIVE WITH THE RANK OF AMBASSADOR; JOHN E. ROBSON TO BE DEPUTY SECRETARY OF THE TREASURY; ROBERT R. GLAUBER TO BE UNDER SECRETARY OF THE TREASURY; DAVID C. MULFORD TO BE UNDER SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS

MAY 4, 1989

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

22-132 WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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THURSDAY, MAY 4, 1989

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

The Committee met at 2:05 p.m. in Room SD-215 of the Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the Committee), presiding.

Present: Senators Packwood, Danforth, Chafee, Baucus, Riegle, Daschle, Dole, Symms, and Bradley.

[The press release announcing the hearing follows:]

[Press Release No. H-21, April 26, 1989]

SENATOR BENTSEN ANNOUNCES HEARING AND EXECUTIVE SESSION ON COMMERCE, TRADE, TREASURY AND HHS NOMINATIONS

WASHINGTON, DC—Senator Lloyd Bentsen (D., Texas), Chairman, announced today that the Finance Committee will hold a hearing and executive session on several nominations for the Departments cf Commerce, Treasury, Health and Human Services, and the U.S. Trade Representative.

The hearing and executive session will be held on *Thursday, May 4, 1989 at 2 p.m.* in Room SD-215 of the Dirksen Senate Office Building.

The Committee will consider the nominations of Eric I. Garfinkel, Vice President and General Counsel for the Overseas Private Investment Corporation, to be an Assistant Secretary of Commerce; and Rufus H. Yerxa, Assistant Chief Counsel of the House Committee on Ways and Means, to be a Deputy United States Trade Representative with the rank of Ambassador.

The nominees for the Department of the Treasury are Robert R. Glauber, a Professor at Harvard Business School, to be Under Secretary; David Campbell Mulford, Assistant Secretary of the Treasury for International Affairs, to be Under Secretary; and John E. Robson, Dean and Professor of Management for the School of Business Administration at Emory University in Atlanta, to be Deputy Secretary.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. This hearing will come to order.

As a matter of information for staff and members of the committee, we will delay the markup on the nominees until the end and handle them all as a group. So get the word to your members in order that we may have a quorum at that time. I would like to expedite as fast as possible and see if we can get them out if we can this afternoon.

Our first nomination is that of Mr. Eric Garfinkel, to be Assistant Secretary of Commerce. Mr. Garfinkel has been nominated to one of the most visible positions in the trade field. Ninety percent of the cases filed during the Reagan administration were anti-dumping, or countervailing duty cases.

If confirmed, your responsibility as Assistant Secretary in the Import Administration would be to oversee the implementation of these laws. American business has historically turned to these kinds of laws rather than to other trade laws. Why? Because they are free of political interference from an administration.

Under these laws, if the facts demonstrate that imports are dumped or subsidized and injuring U.S. producers, a duty must be applied to offset the unfair trade practice. Not even the President has the authority to overrule that technical finding, and that is the way we want to keep it.

If confirmed, Mr. Garfinkel will also have the primary responsibility for monitoring and enforcing the voluntary restraint agreements with respect to steel imports. That is a particularly sensitive area this year, as you know, as we consider the proposals to extend the enforcement authority that Congress granted the President in 1984.

I would like to now defer to Senator Packwood.

Senator Packwood. No opening statements.

The CHAIRMAN. If you have a statement, we would be prepared to receive it.

STATEMENT OF ERIC I. GARFINKEL, TO BE AN ASSISTANT SECRETARY OF COMMERCE

Mr. GARFINKEL. Thank you, Mr. Chairman. I do have a short opening statement.

Mr. Chairman, members of the committee, I am honored that President Bush has nominated me as Assistant Secretary for Import Administration. This position plays a critical role in ensuring that American firms can compete on a fair basis in domestic and international markets.

If my nomination is reported favorably by this committee and confirmed by the Senate, I will perform the responsibilities of this position to the best of my ability and in a manner consistent with the intent of the Congress.

Mr. Chairman, I will have but one priority, effective and vigorous enforcement of the law, for while I believe in free trade, Mr. Chairman, trade must also be fair.

In the Trade Act of 1984 and in the Omnibus Trade Act of 1988, the Congress provided the Executive Branch with a number of tools in the countervailing duty and anti-dumping area, such as the anti-circumvention and persistent injurious dumping monitoring provisions.

I intend to use these tools where necessary to ensure that the anti-dumping and countervailing duty laws provide both a timely and meaningful response to unfair imports.

I will also aggressively and vigorously enforce the various sectoral agreements under my responsibility, including the steel VRAs, the United States–Japan semiconductor agreement, and the United States–Canada lumber agreement.

Mr. Chairman, I believe my various professional experiences will enable me to perform effectively in this position. I have served previously in government as an attorney in the Office of the U.S. Trade Representative, with the Office of Policy Development at the White House, and as General Counsel and Vice President of the Overseas Private Investment Corporation.

I have also practiced law in the international trade area as both petitioners and respondents' counsel. Having seen the law in the trade area from both sides, I have a good feel for what it will take to enforce it firmly, decisively, and fairly.

While I enjoyed my experiences in the private sector, I have continually been attracted to government because I believe that, along with other public servants, we can make a difference. We can chart a path that will enable America to continue to play a leadership role among nations.

I will be supported in my efforts by my wife Diane and our two children, Daniel and Jamie.

The staff of the Office of Import Administration is a very talented group of professionals and support staff. I look forward to joining them and earning their respect and trust and, if confirmed, I will work closely with you, members of the committee and staff and other members of the Congress.

Thank you. I am prepared to answer any questions you may have.

The CHAIRMAN. Mr. Garfinkel, I note that in private practice that you advised domestic producers and foreign producers. So I have a couple of questions in mind on that.

First, do you have any ongoing relationship with your former clients that presents a conflict for you in performing in a fair and impartial manner those duties required of the Assistant Secretary for Import Administration?

Mr. GARFINKEL. Senator, I have no such conflicts.

The CHAIRMAN. Second, in what circumstances do you believe it appropriate to recuse yourself from decisionmaking in cases that involve your former clients? For example, do you believe it appropriate to make a decision regarding the administrative review of anti-dumping orders if you were the petitioner's counselor in the original investigation?

Mr. GARFINKEL. I will recuse myself in that circumstance, Senator.

The CHAIRMAN. I noted further that there have been times when the Commerce Department, with its heavy caseload, has decided to revoke certain anti-dumping orders where there have been no shipments in the last few years. That is in direct contradiction to Commerce's recently announced policy with respect to such cases.

It seems to me that Commerce in those cases is compromising a policy for the sake of lightening its administrative burden.

If confirmed, can you assure us that policy objectives won't take a back seat to administrative convenience?

Mr. GARFINKEL. I can assure you of that, Senator, and I will enforce the law as intended by the Congress.

The CHAIRMAN. I defer to Senator Packwood for any questions he may have.

Senator PACKWOOD. What do you think about VRAs?

Mr. GARFINKEL. As you know, Senator, the President is committed to extending the VRAs, pending the negotiation of an international consensus governing distortions in the steel sector. The duration and nature of that agreement is still undecided. I am certain that the Cabinet and President will be making decisions shortly.

I think the administration will, however, balance in its decision-making process the needs of both producers and consumers. I also think that we will be making some changes in the short supply program taking into account the concerns of many of the consuming industries. By that, we would hope to make the program more responsive and more timely in terms of meeting short supply requests.

Senator PACKWOOD. What personal advice would you give to the President on what decision he should reach?

Mr. GARFINKEL. I believe that there are still many distortions in the steel sector, and we have a problem in terms of dealing with that. We can either move to a VRA or we can go back to a scenario where we have voluminous anti-dumping and countervailing duty filings.

I think the most important thing that I would advise the President is to construct a program that takes into account both the needs of consumers and producers.

Senator PACKWOOD. Consumers and producers. That about covers the waterfront. All right.

Now, let's go to something really important. Are you familiar with the Canadian-American softwood lumber agreement?

Mr. GARFINKEL. Yes, I am, Senator.

Senator PACKWOOD. The Canadians are sort of hinting they would like to undo it, which they cannot unilaterally do. I would hope you would stand very firm on that.

Mr. GARFINKEL. I intend to enforce that agreement to the letter of the understanding. I am concerned about some of the fraud and problems we have had in the enforcement area in this agreement.

Commerce Department officials recently consulted with their Canadian counterparts to try and improve the enforcement mechanism. We are not satisfied with the progress. This is something I intend to take a personal interest in.

Senator PACKWOOD. Good man. You can do whatever you want on the VRAs. [Laughter.]

Mr. GARFINKEL. Thank you, Senator.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. Mr. Garfinkel, in reference to a question that Senator Bentsen asked, with respect to revocation of outstanding orders and anti-dumping orders in the case of nonshipment, it is my understanding that in fact there are two such cases, one involving titanium sponge, where the anti-dumping orders are being revoked. The specific question I have is, why would you revoke outstanding orders in these two cases when it amounts to a contradiction of your own policy?

Mr. GARFINKEL. I think that is a good question, Senator. I have not been involved in this particular decision, or any decision for that matter, before the Department pending my confirmation. This is something I will look into, and I share your concern.

Senator DANFORTH. Could you get back to us and let us know your answer on that?

Mr. GARFINKEL. Absolutely, sure.

Senator DANFORTH. With respect to foreign trade zones, it is my understanding that they come within the jurisdiction of your office.

Mr. GARFINKEL. Correct.

Senator DANFORTH. Obviously, when there is an application for a foreign trade zone, it has to be answered on an expeditious basis because those who are interested in locating job opportunities in a community want an answer quickly.

Do you have a view on the adequacy of the foreign trade zones program, and do you have a view as to how you would handle applications?

Mr. GARFINKEL. First off, in terms of the timing, I think we should move as expeditiously as possible. I don't think these issues should be dragged out. They have an impact on commercial decisions.

As far as the efficacy of FTZs, I think this is something we need to look at. The administration has indicated a willingness to work with Congress in developing some new standards as to precisely what is in the public interest, which is basically what we look at in making these determinations.

I look forward to working with Congress and trying to develop more precise standards in this area.

Senator DANFORTH. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

I would like to pursue the foreign trade zone for a minute, if I might.

As I understand it, the proposed regulations for the foreign trade zones were released in 1983, but they have never been finalized.

Do you have any plans for getting these rules finally put into final shape?

If a company is going to operate, it has got to have some guidance, and for guidance it needs regulations.

Mr. GARFINKEL. I agree with you, Senator, and I would move promptly toward getting some regulations and rules in place, and I also think we have to look at the overall objectives of the program. That would be part of the process.

Senator CHAFEE. I agree with that. I have a couple of other questions I am going to submit to you in writing, but I think we ought to look at these foreign trade zones. Some people think they are the answer to everything in the world. I am not so sure they are, particularly when there is little potential for exporting out of the zone.

So I have about five questions, and if you could answer these in writing, I would appreciate it.

Mr. GARFINKEL. Certainly.

[The questions appear in the appendix.]

The CHAIRMAN. I have had some concern expressed to me about the steel companies and companies particularly in the energy industry as far as the adequacy of the VRAs. I am talking about tubular goods, where imports have been able to capture in excess of 50 percent of the market, yet we have not had a stable supply for that industry.

Do you anticipate any changes in the steel program to try to address those kinds of problems?

Mr. GARFINKEL. The Secretary of Commerce has met with many of the companies that are involved domestically in producing that product. We will definitely take into account their concerns in renegotiating these agreements, assuming that VRA is renewed.

The CHAIRMAN. Mr. Garfinkel, I will have some other written questions which I expect a response to.

Thank you very much.

[The questions appear in the appendix.]

Senator CHAFEE. Mr. Chairman, I have one more question I wanted to ask, but go ahead, Max.

Senator BAUCUS. Go ahead.

Senator CHAFEE. In your answer to Senator Danforth on the VRAs, you said you are going to take into consideration the steel industry and the consumers, but I think there is another group that should be thought about. That is fabricators of steel in the United States; in other words, those who are using imported steel in order to make a product so they can compete—frequently compete abroad, and I think they are the people that are forgotten in these VRAs.

It is all well and good to protect the steel workers' jobs, but there are a lot of people who are trying to make a product out of steel and sell that abroad, and when they are cut off from their low priced steel, they no longer can compete.

And I say this with some feeling because we have got some of those folks in my state who have lost out. So I hope you bear them in mind when you think about VRAs.

Mr. GARFINKEL. Absolutely, Senator.

Senator CHAFEE. Thank you.

The CHAIRMAN. Senator Baucus.

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

Senator BAUCUS. Mr. Garfinkel, I, also, along with Senator Packwood, urge you to very vigorously enforce the provisions of the Canadian-United States softwood agreement. I had a hearing on this subject not too long ago. It was frankly amazing the degree to which many American softwood consumers have documented how some Canadian suppliers would let plywood or softwood pass through one province levying the fee. Most of the lumber was passed off as originating from provinces with no levy fee.

That is just one example of fairly widespread abuse.

Second, as you know, with a lot of changes in Canadian paperwork, it is almost impossible to identify the origin as to which province the Canadian softwood came from. There are lots of abuses.

I know you are looking at this, but I want to urge you to very vigorously follow up on it.

Mr. GARFINKEL. It will be a high priority, Senator.

Senator BAUCUS. Thank you. I thank the Chairman.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

I have a couple of questions that I would like to have Mr. Garfinkel respond to for the record. They are rather technical questions that relate to some issues that are before the Department that companies in my state have had to deal with, but they are important questions. I think I would just as soon submit those for the record, with the understanding that they will get a response from Mr. Garfinkel.

Mr. GARFINKEL. Absolutely.

The CHAIRMAN. Without objection.

[The questions appear in the appendix.]

The CHAIRMAN. Thank you, Mr. Garfinkel.

Mr. GARFINKEL. Thank you, Senator.

The CHAIRMAN. Our next nominee will be Mr. Rufus Yerxa.

Will you come forward, please?

I would like to note that we have the distinguished Chairman of the Ways and Means Committee, a very able and forceful member of the House, one that we have had long and great relations with.

Congressman Rostenkowski, please go ahead.

STATEMENT OF HON. DAN ROSTENKOWSKI, A U.S. REPRESENTATIVE FROM ILLINOIS, CHAIRMAN, HOUSE COMMITTEE ON WAYS AND MEANS

Representative ROSTENKOWSKI. Thank you, Mr. Chairman. It is nice to be here with you and your colleagues. It is always a pleasure to visit on this side of the Capitol, where on so many occasions we worked together toward pounding out legislation that in my opinion are truly hallmarks for the last 8 or 9 years, Mr. Chairman.

As Chairman of the Committee on Ways and Means, I want to suggest that it has been a pleasant experience to work with many members of this committee.

Mr. Chairman, I am pleased to present Rufus Yerxa to this distinguished committee as you consider his nomination to be Deputy United States Trade Representative. President Bush has selected an extremely capable person for this important position.

Mr. Yerxa really doesn't require an introduction to this committee. All of you have seen him before, and most of you have worked with him as part of our collective efforts to enact reasonable trade legislation over the last 8 years.

Mr. Yerxa is a dedicated public servant who has served as my righthand man on trade issues since I became Chairman of the Committee on Ways and Means in 1981. During that time, he made only one decision that I questioned, and that was his decision to accept this appointment. [Laughter.]

I think he should have served as Staff Director of the Ways and Means Trade Subcommittee for life. [Laughter.]

Nonetheless, there is something very appropriate in his appointment as Deputy Trade Representative, since he will be asked to implement key aspects of the trade legislation he played such a key role in developing.

Rufus understands both how the law should work and what the political pressures are, both in the United States and other nations. He knows how to meld the competing interests of the two. I am confident that the same technical and political skills he used in helping us write effective trade legislation will serve the President, Ambassador Hills, and our Nation well in the difficult months ahead.

I endorse Mr. Yerxa's nomination strongly and without qualification. As he continues to serve our country in his new capacity, I am confident that he will distinguish himself and bring credit and esteem to the administration and the Nation.

The CHAIRMAN. Thank you, Mr. Chairman, for one of the most objective introductions we have ever had. [Laughter.]

It is good to have you. I know you have many other responsibilities, and if you would leave him to our tender mercies.

Representative ROSTENKOWSKI. Thank you very much, Mr. Chairman.

Senator DANFORTH. Can I ask Chairman Rostenkowski if he knows whether Mr. Yerxa has a position on the completed contract method? [Laughter.]

The CHAIRMAN. As the Chairman said, Mr. Yerxa has been nominated to head the U.S. Commission on the General Agreement on Tariffs and Trade. In that position he will be in Geneva managing that mission where the day-to-day negotiations of the Uruguay Round are taking place. I think the negotiations of this round are the toughest and most complex negotiations that this Nation has seen on trade since World War II. It is terribly important that we have someone in that position who is well-versed in all of the problems of trade and in what it means to try to turn this trade deficit around for the United States.

I think he is a good choice for the job. We are looking toward having those negotiations end in 1990. That means we have to have someone who can hit the ground running.

He also is a man who knows where we are coming from because in that job of his for the Ways and Means Committee he has been the lead staff man for the House of Representatives and has been eminently involved in the negotiations between the two houses, the two bodies, and with this distinguished committee.

We have always thought of the Office of U.S. Trade Representative as working for the Congress as well as for the President. We are hiring a top staff man away from Ways and Means for this new job, and we expect you to serve this committee well, as well as the President and both bodies of Congress.

So I plan to support this nomination strongly. We have been aware that this nomination was coming for some time. I am not sure it was solely the President's idea, but you should have strong support on both sides of the Capitol.

So I will be asking for a favorable vote on this nomination at the markup scheduled for later this afternoon.

I defer to the Ranking Minority Member, Senator Packwood.

Senator PACKWOOD. Mr. Yerxa, we have worked together. We worked mostly for Joshua Bolton when he was here and we are working closely with him again. I should ask you if you have seen a psychiatrist. You are leaving Dan, who is the best natural political leader I have ever met, and you are going to that cockpit in Geneva, which is the center of Europe '92 and next to the center of the Uruguay Round, where half the complaints about Super 301 seem to emanate from. You are certifiably insane. [Laughter.]

One advantage you are going to get is a wonderful house in Geneva. [Laughter.]

With an immense backyard, which I assume you don't have to mow. That in and of itself, as far as I am concerned, is a great advantage.

I have no questions, Mr. Chairman.

The CHAIRMAN. Let's have your statement, and then we will let each of these members question Mr. Yerxa.

STATEMENT OF RUFUS H. YERXA, TO BE A DEPUTY U.S. TRADE REPRESENTATIVE WITH THE RANK OF AMBASSADOR

Mr. YERXA. Thank you, Mr. Chairman.

I want to thank Chairman Rostenkowski for his very gracious statement, and also, want to express my appreciation to the President for nominating me to this important position.

I think I, more than most, Mr. Chairman, recognize that there is a very critical relationship which exists between Congress and the Executive Branch in trying to pursue a sensible, unified national trade policy. I recognize more than some the frustrations and difficulties this relationship sometimes creates for the Congress, and I want to pledge to you my very best efforts in seeking to bring about a degree of consensus and bipartisanship in implementing our negotiating strategy in Geneva.

I think we are much stronger as a Nation if we speak with one voice at the negotiating table, and I will do everything within my power to bring that about, including frequent consultations with members of the committee and your staffs as you deem appropriate.

Other than that, I don't have any opening remarks. I am at your disposal for any questions you might want to ask.

The CHAIRMAN. I think you are going to see an increasing frequency of visits from members of this committee and from staff as the negotiations progress and as they accelerate. You will also see that we complete them definitely within the next year. Normally, these things don't come to a head unless the Congress moves to try to put a deadline on them because otherwise major offers are not made until you see the pressure of the deadline.

So we would ask that you do keep us fully informed as the major decisions progress.

I think it is also important that what happens in Europe 1992 be kept in mind as you work on the Uruguay Round. We don't want a situation where in completing the Europe 1992 plan some of the people try to put things in place, thinking that they can be grandfathered into the Uruguay Round. That is another reason for not delaying the conclusion of that particular round of negotiations.

Are there other questions?

Senator Danforth.

Senator DANFORTH. Mr. Chairman, let me first say that I have worked with Mr. Yerxa and my staff has worked with him very, very long, hard hours. He is excellent. I really think it is a great appointment, and I am delighted that the administration has selected you for this important position.

Clearly, agriculture is the hardest single subject that we have to address in Geneva. Clearly, with the Europeans it was the big sticking point in the midpoint review. After the April meeting in Geneva, Secretary Hills came before us. She was very pleased at having resolved the issue. She thought the April agreement was a resolution of this issue.

As you know, the agreement was for a substantial progressive reduction in the level of the subsidies. Ambassador Hills believed that that meant that the subsidies were going to be reduced to zero. She said that if you keep reducing progressively and substantially, eventually the zero point has been met and that that continues to be the long-term goal of the United States.

However, last week Senator Chafee and I were in Brussels. We met with Commissioner MacSharry. It is clear to me that the Europeans' interpretation of what happened in Geneva is not the interpretation of Ambassador Hills. They do not believe that there was any agreement that could remotely be considered as one of reducing the subsidy level to zero.

This is going to continue to be tough. It is my understanding, based on the representation of Ambassador Hills, that we did not concede our right to use the tools that were created in the 1988 trade legislation; namely, triggered marketing loans and the export enhancement program.

I just wanted to know if you had any comment on this at all. I think it is going to be very, very tough for you. My own hope would be that you would continue to press for the ultimate goal of elimination of subsidies and elimination of barriers and that the United States would be willing and ready to use the tools that were made available under the 1988 law.

Mr. YERXA. Senator Danforth, you are absolutely correct when you characterize this administration's position with regard to the language of the midterm agreement. We maintain very strongly that the language calls not only for the substantial progressive reduction of barriers and distortions to agricultural trade, but ultimately for correcting and preventing the distortions and imbalances. It is a little difficult to see how we can correct and present distortions to trade unless we eliminate the causes which lead to those distortions.

All that being said, I think it is very clear in these negotiations that we have yet to see the color of the Community's money on agriculture. If we are to have a successful Uruguay Round agreement on agriculture, the European Community will have to recognize that it will require fundamental reform in its Common Agricultural Policy. The C.A.P. is certainly one of the most distorting factors in world agricultural trade.

I don't think there is any way that I could, with a straight face, support or endorse to Ambassador Hills an agreement which does not bring about fundamental structural reform in the C.A.P. Certainly it would be someone else besides me who would want to come back before this committee and propose changes in our own domestic agricultural policy if we had not reached an agreement that brought about binding fundamental reform in the trade distorting policies of the European Community.

Senator DANFORTH. Thank you, Mr. Chairman.

The CHAIRMAN. Let me state the sequence of arrival. Senators Packwood, Danforth, Chafee, Baucus, Riegle, and Daschle.

Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Yerxa, Senator Packwood questioned your sanity. I would like to disagree with that. I understand you married a young lady from Rhode Island—it seems to me that clarifies your mental status right away. [Laughter.]

Yesterday we had a hearing here with a packed hall. The place was jammed. 10 television cameras, five of them from Japan, most all the Senators here dealing with Super 301. That is an important matter, and I don't want to slight that at all, but in my judgment what you are dealing with in Geneva in the Uruguay Round is the most important single trade matter that this country faces. If we can get something good out of that for all the nations, we have really done a marvelous thing for the future of the world in every respect, economic and peacewise as well.

I just want to wish you well on that challenging task, and I think the President chose well in getting you to enroll in this campaign and in this effort.

Mr. YERXA. Thank you, Senator. My wife Barbara, who is here with me today, is a lifelong Cranstonian and certainly appreciates the comment.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Yerxa, the Chairman said that this Uruguay Round agreement is probably the most important agreement since the war, and I share his assessment. In fact, I think this probably is our last chance in this century to reach a meaningful multi-lateral agreement.

The world is changing very dramatically. This change is accelerating, and the task before us as Americans is persuading other countries to reach an agreement that includes and encompasses a dramatic increase in the world's goods and services. There is a herculean task before us.

The problem I have, though, is that generally in international negotiations there is a built-in bias to agree for the sake of agreeing. That is particularly a problem for America because we as the largest country in the world and the most important—so far the most important— country in the world have an additional bias to agree for the sake of agreeing, and I am hoping that you as our chief negotiator in Geneva are prepared to recommend to the administration that, if necessary, we walk away from the imposed agreement; that is, sometimes no agreement is better than an agreed to bad agreement.

That is hard for America to do, but I think if we are going to exercise the leverage that we sometimes have to exercise to stand up for our rights and not let other countries take advantage of us, we must be prepared to walk away from a bad agreement.

So I am asking you, are you prepared to recommend to the administration, depending upon the circumstances, that we in fact do walk away from that agreement?

Mr. YERXA. Senator Baucus, I think you put your finger on a very important consideration here. The United States has been the driving force in bringing about a very ambitious agenda for the Uruguay Round, largely because we do not believe that the GATT in its present form adequately serves our interests. We are seeking to expand the discipline of GATT and the principles of the GATT, many of which are valid principles but simply don't cover a sufficient scope of economic activity to protect American interests.

So we are seeking to expand the rules in areas, as you know, such as services, investment, and strengthen agricultural policy. If our trading partners in the GATT balk at the idea of binding enforceable rules in these areas and we end up with some papered over agreement that really doesn't provide us with any effective discipline or rights in the ensuing structure, I certainly would not want to recommend that we sign an agreement merely for the sake of an agreement. I think it is more important to have a good agreement with which to protect our interest's in the trade system.

Senator BAUCUS. That is an important point to make. If we are likely to achieve an agreement that makes the best sense for us and the world, it is important for other countries to know that the United States is prepared, if necessary, to not agree to an agreement.

Thank you.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

First of all, let me say that I am very pleased that you are willing to accept this assignment. I think you have done very fine work on the House side, which we all admired. It is a difficult job and it is an important one, and I think you are ready to do it. So I am pleased to see you stepping forward.

With reference to the hearing that was just cited a moment ago, were you by chance present yesterday for that hearing with Ambassador Hills?

Mr. YERXA. Yes, Senator I was.

Senator RIEGLE. Were you doing other things or were you able to focus on it?

Mr. YERXA. I listened very carefully to your remarks, Senator. [Laughter.]

Senator RIEGLE. I am pleased that you did. I raise the question not just with respect to the points that I was raising yesterday, but I think that hearing record, the entire hearing record yesterday, is a very important one, and I wanted to suggest to you that if you had not had a chance to take it all in from start to finish that you make it a point soon to get hold of that hearing record, and hopefully prior to the time that we finish this month and implement the Super 301 process with respect to listing countries, and so forth, and other issues, that you have a chance to take a look and take stock of the views of the committee as a whole.

I thought there were a number of very important points made by all the members present and speaking, and I just wanted to make sure that you would get that record, go through it, and have the value of what I think was positive thinking yesterday.

Mr. YERXA. I will do that, and in all seriousness, I did listen carefully yesterday. I sensed the enormous degree of interest and concern from the membership about the effective implementation of the mandate of the 1988 Trade Act. I feel some small degree of proprietary interest in that legislation myself. I know the committee expressed a very real and very genuine concern that the implementation of Section 301 and other mechanisms in the act would be carried out by the administration in a purposeful manner and would lead to the opening of markets and the expansion of trade which, as the Chairman said several times yesterday, are the ultimate objectives of that legislation.

So I will listen again—I will read the record again, I should say.

Senator RIEGLE. I appreciate that. I think Senator Bentsen's comments to that effect yesterday and others and, very specifically, also, the comments of Senator Danforth I think emphasize what often is lost in the debate; that is, the trade bill and the Super 301 section are designed to create an open and fair trading system. It is not to shut it down. It is not to crimp the system. It is to open the system up and make sure that it is truly reciprocal and that the world commercial system can function on some kind of equitable basis.

So I think it is very essential that we not miss this opportunity. I don't think we are going to get another chance at it. You worked very hard on that trade bill, as did many of the rest of us, and I think it is essential that we make it work, and should we fail to do that for whatever the reason, foreign policy considerations or whatever ad hoc reasons that somebody throws into the mix, I think we may miss the chance to make the adjustments that will really preserve an open and fair trading system. I just don't want to see that happen.

Thank you.

The CHAIRMAN. Senator Daschle.

OPENING STATEMENT OF HON. TOM DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator DASCHLE. Thank you, Mr. Chairman.

I would like to say, just for the record, that I share the enthusiasm of so many of our predecessors who have spoken today, the enthusiasm that we hold for this nomination.

Mr. Yerxa, if your handling of each one of us is any indication, you obviously excel not only in trade, Super 301, and the Uruguay Round, but in the diplomacy it is going to take to deal with each one of those matters.

It also takes someone experienced in chicago-style politics, I think, to handle what you are about to deal with in Geneva. You bring very well-rounded experience and capability to your new assignments.

Now, I want to make two points. The first is that there seems to be a misunderstanding on the part of some about why we have come to depend upon agricultural subsidy. Government to a large extent has been involved in the shaping of the agricultural economy. For good or for not, it has directed a large measure of agricultural economic decisionmaking.

As a result of that involvement, we have found that subsidy has been there to substitute for what is oftentimes not found in the marketplace. That is an adequate income. To the degree that we would remove the subsidy, the insurance fund, is the degree to which we must then again rely upon the marketplace, free of government interference, to come up with the kind of compensation and economic viability that we find in other industry.

I think it is very important that we tie the two together. Market viability is only related to subsidy to the extent the government is involved. They have to go hand in hand.

The second point is a definition of the agricultural subsidy itself. There are those in this administration—and certainly I haven't heard you indicate this—but there are those who indicate that if we are going to deal with the subsidy we had better look at the REAs, we had better look at extension of research, at taxes. That is a far different definition of agricultural subsidy than what others might apply with regard to the direct subsidization of a commodity, be it wheat or corn.

I think it is very important that we define our terminology early on and that everyone understands what we are talking about here. A lot of farmers are very concerned about what is going to happen ultimately in REA to the extension of the research and to their taxes. It is not just a question of resolving the matter of the direct subsidy we often associate with farming, but all the other issues as well that relate to it, and communicating as well with our constituency as we do with the EEC and others is critical as we go through these delicate negotiations in the months ahead.

That is my only message.

Mr. YERXA. I appreciate those comments. The only response I would like to make is to note that I think there is a genuine concern on the part of American agriculture that somehow our negotiators would propose unilateral disarmament, if I can use that term, without obtaining equivalent concessions on the other side.

Obviously, American farmers can compete in world markets free of subsidy, but only if other countries are bound by the same rules. I will do everything I can to see that that comes about.

Senator DASCHLE. Thank you, Mr. Chairman.

The CHAIRMAN. Further questions?

Mr. YERXA. I would just like to say one other thing, Mr. Chairman.

I want to assure Senator Packwood that I will also support the enforcement of the softwood lumber agreement. [Laughter.]

The CHAIRMAN. Mr. Yerxa, you have everything going for you. I wouldn't over-commit. [Laughter.]

Thank you very much.

Our next nominee will be Mr. Robson. He has been chosen by the President to fill the number two spot at the Treasury. That means that he will have the day-to-day responsibility for implementing the administration's financial and economic policies.

Mr. Robson has been before Congress many times. As the first Chairman of the Civil Aeronautics Board, he oversaw deregulation of the airlines. I suspect that some of the problems that you will run into at Treasury these days with the budget deficit will be as complex and as difficult to resolve.

Mr. Robson was the Dean of the Emory University Business School. For 9 years, he was the president of a major pharmaceutical company, G.D. Searle. We are counting on his experience from running a large and profitable company to run a large and profitable country.

It is good to have a man of your capabilities in public service, and we are very pleased to have two distinguished Senators, faced with the problem of deciding which one will go first.

Senator Nunn, I believe you have seniority.

STATEMENT OF HON. SAM NUNN, A U.S. SENATOR FROM GEORGIA

Senator NUNN. It depends on whether we are going by age or seniority, Mr. Chairman.

Mr. Chairman, I am pleased today to be here with the committee, you and Senator Packwood and the other members of this distinguished committee. I am particularly pleased to be able to introduce to the committee a relatively new citizen, but a very distinguished citizen of the State of Georgia, Mr. John E. Robson.

John is before you today as the President's nominee for Deputy Secretary of the Treasury. John joins a growing list of Georgians who have come to Washington to serve in the Bush administration, and I am convinced that he is well qualified and will serve with competence and with distinction.

I must confess that I have mixed feelings about his coming to Washington because he does come, as you already mentioned, Mr. Chairman, from Emory University in Atlanta. Emory is my law school alma mater, my son is a freshman there this year, a number of people in my family have gone to school there, and I am on the Board of Trustees. My brother-in-law in fact attended the Business School where John was the Dean.

So I have a big stake in Emory, and we always hate to lose faculty members of this caliber, because he has been outstanding as Dean of the School of Business administration at Emory for 3 years. He has been instrumental in recruiting a very distinguished faculty and making the Emory Business School into one of the finest in the country.

But Emory's loss is clearly the administration's and the country's gain.

Before serving at Emory, John was the President and Chief Executive Officer of G.D. Searle & Company. He held that position, Mr. Chairman, as you said, for a period of years, from 1977 to 1985. Obviously, he has had extensive business and economic experience, which will serve him well in the Treasury Department, assuming he is confirmed, which I do, by the U.S. Senate.

He is no stranger. From 1975 to 1977, he was Chairman of the Civil Aeronautics Board. In the late 1960s, he was Under Secretary and General Counsel to the Department of Transportation. Now, he has returned to Washington as the President's choice for the number two slot in the Treasury Department, a very important position. I just hope, John, that—assuming you are confirmed—that after you and Nick Brady have eliminated the budget deficit and the trade deficit and the Third World debt problem and the savings and loan problem, that you will be ready to come back to Emory, and we will welcome you when you come back.

So I am pleased to recommend John Robson to the members of this committee and to the Senate for confirmation.

The CHAIRMAN. Senator Dole?

Senator DOLE. I will yield to Paul.

STATEMENT OF HON. PAUL SIMON, A U.S. SENATOR FROM ILLINOIS

The CHAIRMAN. Senator Simon.

Senator SIMON. Thank you. I am very pleased to join in in putting in a good word for John Robson, whose roots are in the State of Illinois.

Let me also note that David Mulford, who is here as a nominee for Assistant Secretary, was born in Rockford, Illinois.

You have already heard about John's business experience, his experience in government. He has had it. He is a person who provides distinguished leadership wherever he has worked.

I don't want to get John into trouble, but I first met John Robson back in 1960—we may get in trouble here now with three of the members of the committee—in the John Kennedy for President campaign. But, I have to add, it was his wife who was the active one in that campaign and not John.

But in addition to an impressive resume, frankly, what John brings is quality and real ability. I have no question at all that this Nation is going to be served well with John Robson there as Deputy Secretary of the Treasury.

Thank you.

The CHAIRMAN. Senator Dole.

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. Mr. Chairman, if I could just add a word. I have a statement which, in effect, repeats many of the good things that have been said by Senator Nunn and Senator Simon.

I have known John for a long time. So has my wife Elizabeth. In fact, he has been very helpful to her when she was Secretary of Transportation.

I certainly share the views expressed by my colleagues. I am very pleased that John is back in public service. I know there are sacrifices in public service. Many people don't believe that, but I know that to be a fact in some cases.

I am very happy to be here just to indicate my strong support for the nomination and ask that my statement be made a part of the record.

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

The CHAIRMAN. Mr. Robson, we would be glad to receive your opening statement.

STATEMENT OF JOHN E. ROBSON, TO BE DEPUTY SECRETARY OF THE TREASURY

Mr. ROBSON. I have a statement, Mr. Chairman, which I will be happy to read or put in the record in the interest of time, whichever you choose.

The CHAIRMAN. Why don't you summarize it for us.

Mr. ROBSON. Very quickly, to summarize it, it says, first, that I am delighted to have been nominated by the President for the post of Deputy Secretary of the Treasury. I am also delighted to be here before this distinguished committee today.

I have been privileged in the past to have had three confirmations by the U.S. Senate and three different jobs. I have found each of them to present a set of new challenges and opportunities.

In each case the environment changes. Certainly today it is very different than it was when I was last in government 12 or 13 years ago. Certainly Treasury has many of the problems that should keep me busy, and I look forward to that.

I have been the Deputy of a Cabinet agency before. I think I have some sense of what that role ought to be. One of the things that I have always pursued is a close relationship with the committees that have jurisdiction over those departments that I have been affiliated with. I certainly don't intend to change that recipe, and if I am confirmed, I look forward to working with you and the members of this committee and your colleagues in the Congress.

The CHAIRMAN. I would like to get your views about how the American economy is doing in the world economy today, our competitive position and whether it is improving or deteriorating, and on what we ought to be doing to improve our Nation's savings rate.

Mr. ROBSON. I think it is very clear that in terms of the American position in the worldwide economy that things have gotten a heck of a lot tougher for us than they were in the golden years following World War II.

We are no longer the dominant player in the field. We are certainly one of the big ones, but we do not have the absolute kind of dominance that we once enjoyed. We have tough trading partners. We are battling not only in markets outside of the United States, but in our own markets for shares that once were assumed to be owned by us.

We have seen our competition harden wherever you look, and it is very clear to me that the American competitive position, certainly if you compare it to some time past, has waned.

I don't know that that is a matter for despair. The pie is a lot bigger. There is certainly opportunity for intelligent, vigorous American business to compete successfully, and there are countless examples of where it does. But there isn't any question in my mind—and, indeed, at the Emory Business School we have just put in a new mandatory course for our MBA students called International Perspectives to cure what I think is the significant problem in this country. That is simply a lack on the part of young people coming up through the educational system in getting a sense that there is a world market place around us that affects them in many ways.

I think we need to change sensitivity to that and raise the level of awareness that we have to deal with the matters. Certainly the people in business are getting that awareness.

The question of inducing a greater level of savings is a knotty question. I think it is tied in part to what I have seen as a focus on short-term activity in the business world. I speak to it with some feeling because I was guilty of it. I ran a large public company, and every quarter you look at how you have done, and you want to do better than you did the last quarter, and the financial community around you scrutinizes your performance quarter to quarter, not so much year to year or half decade to half decade, but on a very short leash, and when you get your temperature taken every 3 months, it affects your behavior.

I think in the long pull the inducements to savings are going to be financial ones, and selling the spiritual value in saving is probably going to be a tough sell. The thing that is going to convince people to save is going to be the perception that they are going to be better off financially for having done so.

The CHAIRMAN. The big debate, of course, is over how much incentives in the tax law encourage savings; Congress is arguing both sides of that question.

Mr. ROBSON. I think that argument has gone on for a long time, although I would certainly—my personal belief is—that a lower capital gains rate does help pull people in the direction of a longer term focus. I speak of my own behavior, which I guess is the only one I can speak to with authority.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. Mr. Robson, I will make you this bet, that a high personal savings rate in this country would be 9 percent. We hit it for a couple of years in the early '70s. 7, 7.5 percent was the average. For some reason we have gone from roughly 3.2 to 5 percent on the savings rate in the last 9 months of the year for reasons I don't know. We got rid of the IRAs and the savings rate goes up. We put in the IRAs and the savings rate went down.

I don't understand, but I will make you this bet. If the Federal Government changes no laws at all, by the mid- '90s the savings rate will be back to its historic level if we don't foul it up, which we might do by some ill thought out incentives which we hope will work, but backfire.

I have no questions, Mr. Chairman.

The CHAIRMAN. You can see the position of Senator Packwood on that issue.

Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. Just two things I would like to raise.

I think the number of important experiences that you have had, both in the public sector and the private sector, I think really give you the kind of perspective that we profoundly need at the top of our government right now, and I would like to pose two subjects to you just briefly.

One is Secretary Brady, when he has appeared here, has expressed concern that he feels there is too much leveraged buyout activity, that we are impacting too many balance sheets—this is my phrase, not his now—too many balance sheets in a way where we are replacing equity with debt. He is frank to say that he is not quite sure that he knows what we ought to do about it, but he clearly expressed on more than one occasion here an uneasiness about it and a concern about it.

What is your view on the overall level of leveraged buyout activity in the country in the last 2 or 3 years?

Mr. ROBSON. I think the issues that it presents—I must say I have mixed emotions. I think on the one hand there is some value, and I think it helps our competitiveness, when the ownership of businesses are in the hands of the management, which is most often the case in leveraged buyouts. You dare not take the ownership from broad public ownership into the hands of management. I think there isn't any question in the LBO world that you get balance sheets that are hugely leveraged. Your margin for error diminishes tremendously, and you expose yourselves to catastrophe when the economy or competitive conditions shave away the edge that you have. It is very hard when you have got to service a big debt to plan for the long term. It is just a lot harder when you get up in the morning and worry about paying your interest and principal off.

I think the hard question is what do you do about the acquisition syndrome in this country? How can you separate the good acquisitions from the bad? What are loans that are made for a good purpose? If they highly leverage a company, how do you distinguish those from loans that are made in the course of the purchase of an interest in a company?

I think those are very hard questions to sort out. But I can't tell you that I do not feel that the high leverage of a corporation is an element of risk in the future because it does so make the margin of error so skinny.

Senator RIEGLE. Are you likely to be working in that area?

Mr. ROBSON. It is very possible that I will be, and as the Deputy, I suppose I will find myself involved in most of the significant policy issues that come up.

Senator RIEGLE. I hope you have the opportunity to initiate as well. I mean, you have some freedom of initiation as well as response, I take it?

Mr. ROBSON. I get the implication of that remark, sir.

Senator RIEGLE. With your experience and your contacts, you are talking to the same CEOs I am, and it is a mixed picture, but I think it is fair to say that if you talk to a very large number of top business leaders there are more people who are now concerned about it and think it is excessive than there are those on the other side that think everything is fine and dandy, and I hope that you will take some initiative in that area to try to get past the obvious ambiguities and the questions and take a hard look at whether or not we are really building a stronger future for ourselves.

You have been in a company where it has had to be planning ahead, investing ahead, going into the pharmaceutical and drug business. It is a long lead-time business. I get the sense that those kinds of longer lead- time, higher value-added activities are beginning to be impacted by—maybe it is not quite an epidemic—but the burst of leveraged buyout activity and the secondary effects of it.

I want tough, alert, disciplined management, but I don't want everybody operating on a 90-day time frame if we are going to have a good future 20 years from now. So I would like to urge you to take a good look at that one.

I am going to submit another question for the record. If I may just read it into the record and have you respond to it, and that is I would like your opinion as to the seriousness of the obstacles and the barriers that U.S. goods and services face today in Japan specifically.

Mr. ROBSON. I will be happy to respond.
[The questions appear in the appendix.]
Senator RIEGLE. Very good.
The CHAIRMAN. Thank you, Mr. Robson.
Mr. ROBSON. Thank you, Mr. Chairman and members.
The CHAIRMAN. Our next nominee is Mr. Robert Glauber. If you would come forward, please, sir.

Mr. Glauber has been nominated for the post of Under Secretary of the Treasury for Finance. He has served in an acting capacity since October of last year. In that position, he will be the administration's chief voice on financial and monetary issues, which include monetary affairs, management of the public debt, and oversight of financial institutions.

The Under Secretary will be at the center of some very difficult issues over the next few years. He will oversee implementation of legislation recapitalizing the savings and loan industry and also oversee management of the government's massive debt, which is approaching some $3 trillion. Because of its sheer magnitude, it is crucial that the national debt be managed most prudently.

Mr. Glauber brings to the job an extensive background in business and economic issues to fulfill this difficult assignment. He has been a professor at the Harvard Business School for the last 23 years. He has lectured and written extensively on monetary issues and provided his expertise to Fortune 500 companies. Mr. Glauber, I expect we will be seeing a lot of you before this committee as we look at the government's economic policies.

We welcome you here.
I would defer to Senator Packwood.
Senator PACKWOOD. I have no opening statement.
The CHAIRMAN. Senator Riegle.
Senator RIEGLE. Mr. Chairman, I do have a comment or two which I want to make, but I will reserve it until my question period.
The CHAIRMAN. You may proceed, Mr. Glauber.

STATEMENT OF ROBERT R. GLAUBER, TO BE AN UNDER SECRETARY OF THE TREASURY

Mr. GLAUBER. Thank you, Mr. Chairman. I intend to make a set of remarks which are considerably briefer than my full statement, of which you have a copy, and I ask that my full statement be placed in the record.
The CHAIRMAN. We will do that.
Mr. GLAUBER. Thank you.

Mr. Chairman, Senator Packwood, distinguished members of the Finance Committee, I have the honor of being nominated by the President for the position of Under Secretary for Finance at the U.S. Treasury. It is an honor as well to appear before this committee, and I appreciate your taking the time.

The responsibilities of my position include the Office of Economic Policy, Domestic Finance and Fiscal Management.

Domestic Finance has primary responsibility for development of policies to deal with the capital and securities markets, financial institutions, and financial aspects of corporations.

Economic Policy acts as economic adviser to the Secretary of the Treasury, participates in producing the administration's economic forecasts, and provides primary staff support on economic issues.

Fiscal Management acts as the government's financial manager.

If I could, I would like to just take a few minutes to outline some of the major policy issues with which I would like to deal if confirmed, apart from the current thrift crisis with which I have spent a good deal of time until now.

Internationalization of competition is one of the strongest forces confronting U.S. corporations, financial institutions, and financial markets. If these institutions are to maintain and extend their competitive position and economic leadership, we must frame policies which will take explicit account of these goals and give due consideration to the international arena in which these institutions must compete.

Let me focus today just briefly on three issues— leveraged buyouts, financial institutions, and securities markets.

This committee held hearings on LBOs earlier this year. As you mentioned a few minutes ago with Mr. Robson, it is an issue that has important implications for the competitiveness of U.S. corporations. Contrary to forecasts that the 1986 tax rate reductions would sharply reduce the LBO business, the amount of such transactions has been rising. Is the trend a healthy one for U.S. corporations? In my view, judgment should be based primarily on whether or not LBOs contribute to the competitive position of U.S. corporations themselves.

The evidence of course is ambiguous and incomplete. The arguments are many. I know you have all heard them before. Mr. Robson outlined some of them a few minutes ago, but the evidence, as I said, is ambiguous and incomplete. While aggregate debt levels are not beyond historical bounds, levels in certain industries and specific transactions can be cause for concern. Moreover, the recent LBO trend has gone on against a background of healthy economic expansion. How well will these highly leveraged firms perform in a period of economic decline is hard to judge from past history of economic expansion.

My view is that any legislative initiatives at this stage should be limited, reflecting the inconclusive nature of the evidence. Some steps proposed by the administration, though, would be a useful first start—the capital gains tax reductions to encourage long-term investment decisions and clarification of the ERISA laws to indicate that pension fund trustees are not obligated to take a bid higher than current market price for fear of litigation.

A more sweeping and potentially more effective proposal would be to make dividends tax deductible so that companies do not have tax incentives to replace equity with debt. The tax codes of virtually all other major industrial countries exempt dividends in whole or in part, but given the current size of the Federal budget deficit, to which you referred, Mr. Chairman, such a revenue reduction is going to be difficult to achieve at this time.

The elimination of the tax deduction for some or all interest payments is an equally sweeping legislative initiative but, in my view, is overreaching. It would adversely affect the competitive position of U.S. corporations by raising their cost of capital and by favoring foreign companies, which can use the tax deductible debt in acquisition contests. Moreover, any attempt to eliminate the deduction for "bad" debt; for example, debt raised by "excessively" leveraged firms, has and would produce definitional and administrative nightmares.

On the issue of financial institutions, recent legislative initiatives have had important implications for the competitive position of these institutions.

Let me just make one comment, though, about that. As the financial service industry continues to evolve, it may well become clear that the distinction between commercial banks and thrifts has less economic meaning than one between smaller community institutions and larger, wholesale institutions; that is, there may be more in common among most thrifts and the great majority of banks, all directed toward serving community, retail financial needs, than between those banks and their multinational counterparts whose major focus is on the wholesale banking needs of corporations and similar institutions. If this does become the pattern of evolution, I believe it will simplify the development of legislation dealing with such issues as permitted banking activities and deposit insurance.

Finally, on the issue of the markets for securities and related financial instruments, here again there have been a number of important competitive developments and developments which have, I think, very grave implications for the competitive positions of these institutions. The October 1987 market break revealed an important weakness in both the institutional structure and the regulation of these markets. Competition among the marketplace for stocks, options, and financial futures is essential to continued capital market innovation in the face of increased pressure of global competition. But to operate efficiently and safely, these separate marketplaces must be a part of a system which reflects, both in institutional structure and regulation, the economic functioning of one market.

Mr. Chairman, in the interest of time, let me defer any further comments. I will be happy to answer any questions you may have.

[The prepared statement of Mr. Glauber appears in the appendix.]

The CHAIRMAN. Mr. Glauber, we have seen no initiatives on the part of the Treasury Department on leveraged buyouts. I would hope that we would. I, for one, have a deep concern about what appears to me to be a major move toward debt. You quite rightly said that we are trying to get it with the dividends and that we can't handle it budgetwise these days, In other countries my studies show that a credit is generally given to the recipient of the dividends. When we considered that approach here in years past the enthusiasm lessened substantially on the part of corporate managers. So I am not sure what kind of a political base you have to enact that change.

I am deeply concerned that, if we have a recession, we are going to have a free fall.

I have received new figures indicating that leveraged buyouts cause a lessening of R&D. I understand that most of these companies didn't have a lot of R&D in the first place.

But, I am still continuing to seek a way to cool this thing off in a way that isn't Draconian or too disruptive to the marketplace. I would be very interested if you could develop such a proposal.

Mr. GLAUBER. I certainly agree very much with what you have said. I think the issue of dealing with the taxation of dividends is the general issue of the integration of the tax system as far as individuals and corporations, and we are providing ways to deal with that. Absent being able to do very much of that very quickly, I am concerned that we not take steps that would make our corporations less competitive and would have the effect of raising their cost of capital. I think we have to guard against that.

On the issue of R&D, the evidence I have looked at is mixed, but the pattern seems to be that for the first year or two R&D goes down in some of these firms and then builds up again as the cash flow starts to move up. And once again, as you suggested, to know how it will play out in a world in which cash flow is less strong would be very difficult to forecast from the existing data.

So I share your concern. I think we have to be careful not to do things which will make matters worse rather than better.

But I think, also, we can't take our eye off the problem.

The CHAIRMAN. Further questions?

Senator PACKWOOD. No questions.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you Mr. Chairman.

As you know I have raised with you the issue of a sequential referral of Mr. Glauber's nomination to the Banking Committee when he finishes here, and like you, I am very sensitive to moving along with these nominations. So if we work that out, it would be my intention to complete that next week.

Let me just indicate along that line that Mr. Glauber's testimony sounds very familiar to my ears because the thrift plan, the financial services reform, you mentioned monetary policy oversight, the stock market reform, these are all issues, of course, that we are very heavily involved in the Senate Banking Committee.

When Mr. Gould last year took this position, in recognition of the very points I am making, there was a sequential referral. I would hope we would see that here.

Senator Garn joins me in that request. I know in the past when he was Chairman, I think he probably discussed that with Senator Packwood with respect to Mr. Gould, but in any event, I think it is important that we take a look and discuss some of those policy issues in that other setting.

I want to raise just one issue off those topics which I hope we will be able to deal with later. Under the budget agreement there is a specification that we achieve a net revenue increase of $5.3 billion.

What do you have in mind?

Mr. GLAUBER. I have in mind the capital gains tax reductions. I think it is useful if the capital gains tax reduction produces revenue that goes a long way toward filling that gap. I think the reduction is important for other reasons, obviously. I think, as I suggested, that we have to do something to make the choice of equity more attractive or the cost of equity lower than it currently is. I think we have to do something to get industrial corporations to focus on the longer term horizons in their decisionmaking and to get investors to do the same, and I think a capital gains reduction could have that effect.

Senator PACKWOOD. Don, could I ask a question on that subject? At the present 28 percent rate, do you think 15 percent will produce roughly $4.8 billion?

Mr. GLAUBER. I have not been party to the mechanics.

Senator PACKWOOD. Do you think if we cut it to 10 percent it would produce even more money?

Mr. GLAUBER. The question, of course, is how much unlocking and what would be the unlocking effect. Those estimates are very hard to come by. We have relied on experts.

Senator PACKWOOD. There is no particular magic in the 15 percent as the optimum figure?

Mr. GLAUBER. I don't believe anyone suggests that it would be the optimum figure.

Senator PACKWOOD. Thank you.

Senator RIEGLE. Am I correct in recalling that the Joint Tax Committee, in looking at the same question, forecast a revenue loss and a very substantial one?

The CHAIRMAN. Over the first year, I think all agree that there is a substantial increase in revenue.

Senator RIEGLE. For at least a front-end shot?

The CHAIRMAN. Over the 5-year period, the Joint Tax Committee projects a substantial loss of some $15 billion. Even Treasury predicts a revenue loss in the out years.

Senator RIEGLE. Beyond the first year, Mr. Glauber, most people seem to feel that if we were to lower it you do get some additional revenue that comes in because people make transactions, let's say, over 5 years.

Is it your theory that it is a net gain each year for 5 years out or 10 years out? What do you foresee over the longer time period?

Mr. GLAUBER. Senator Riegle, I have not been party nor have I made any detailed study of how to make these calculations. They turn, obviously, on both the unlocking effects up front and any kind of dynamic effects, any time there is an increase of productivity and profitability in the future.

Most of the estimates, I believe, have been made on what amounts to static assumptions and how we count these as dynamic effects. How large they are is going to be something which would make any estimates differ.

Frankly, I can't at this point parade myself as an expert on that subject.

Senator RIEGLE. Let me just ask you as a follow-up to that, is the list a list of one item, then, or are there other items on the list as revenue raisers?

Mr. GLAUBER. I think we would like to stick with that item if we could, sir.

Senator RIEGLE. But assuming that we may have to go beyond that, do you have any other thoughts?

Mr. GLAUBER. I have never turned my attention to what would be the best of those. I really do believe very strongly that the first one is the right one.

Senator RIEGLE. I will just finish by saying that you get different estimates on the size of the deficit if you take out the Social Security and some of the other accounting assistance that we give to the effort to reduce the reported size of the deficit. People like Fritz Hollings see the deficit right now, the true operational deficit, as up around $300 billion.

We are going to need some revenue, and I don't think that we can all dance around this issue indefinitely. It is one thing in this setting today, but I think, you know, you bring the kind of creative thinking and experience and brain power. Somebody is going to have to get serious about the revenue side of this puzzle. I would certainly hope you would see that as part of your work.

Mr. GLAUBER. Yes, sir.

Senator RIEGLE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Symms.

Senator SYMMS. I will be very brief. I just have one question, which arises out of the last conversation between Senator Packwood and Senator Riegle.

If in fact there is a 1-year revenue benefit from reducing the capital gains rate, and if Congress is just looking for money and it wants to get the money from wealthy people, as it were to "shear the wealthy sheep," what would you think of the proposition to just give a 1-year reduction in the capital gains rate, starting this year and going through December 31st of 1990?

One economic forecasting company here in town did an analysis that says it would raise $12 billion.

Mr. GLAUBER. It is an interesting idea. As I said a moment ago, Senator Symms, I think the reason to do this is more than simply to raise the revenue at the front end. I think this is an important structural change.

Senator SYMMS. I would propose we index the capital gains tax rate as a tradeoff for that; in other words, the people whose sheep are shorn would pay the $12 billion and in exchange they would get future indexing on capital gains rates for the long haul because, as you know, taxing capital gains based on inflation is outright confiscation of capital from the private sector by the government. There is no other explanation for it, and with no benefit done. I mean, price increases due to inflation are just purely a matter of false value enhancement, and to tax it just provides a vehicle for government to acquire more money, at the expense of private savings.

Mr. GLAUBER. Senator Symms, I think indexing is an interesting concept and one well worth studying as part of the capital gains treatment.

The other reason, of course, to do this is to try and engage people's interest in the longer term and away from the shorter term, and a capital gains tax is one way of doing that.

So I think the reason for doing it extend beyond simply revenue raising, and I think we have to take that into consideration.

Senator SYMMS. I appreciate the fact that you spoke generally in favor of the lower capital gains rate, and also in favor of a dividend deduction for business. In the long haul wouldn't that generate more savings, more capital growth, more equity, more jobs, and more revenue for the Treasury?

Mr. GLAUBER. I believe if properly structured it would. That is why I suggested to Senator Riegle that there are these dynamic effects, feedback effects that are very difficult to take into account in any forecast and usually are in fact left out of any forecast because they are dynamic.

Senator SYMMS. The problem we face on this committee is that we have to go by a set of rules that doesn't account for the dynamics of the economy, and oftentimes it drives us into policies that aren't as good for the Nation as we otherwise would come up with, I think.

So thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Thank you, Mr. Glauber.

Our next nominee is David Mulford, who has been nominated to be Under Secretary of the Treasury for International Affairs. That is an area you have been associated with for the last 5 years or so.

This is an important job to the committee. You will be a key deputy to the President when he attends economic summit meetings. You will be responsible for our national policy on debt exchange and market policies. Each of these responsibilities—the economic summit, the debt crisis, and the exchange rate policy—is linked with our trade policies. What we did in the Trade Act was introduce some coordination into our trade policy.

Over the years we have had some tough interagency turf wars rather than policy formulation on trade. What we look forward to from Mr. Mulford is a productive and close working relationship on international economic issues with the USTR, which has the lead responsibility on trade under the Trade Act.

So I look on Mr. Mulford's nomination as extremely important to the long-term objectives of the committee in both trade and international economic relations.

Would you proceed, Mr. Mulford?

STATEMENT OF DAVID C. MULFORD, TO BE AN UNDER SECRETARY OF THE TREASURY

Mr. MULFORD. Thank you, Mr. Chairman. I would like a very brief statement.

First of all, I would like to express my appreciation to this committee for the opportunity to appear before you this afternoon to seek confirmation of the United States Senate for my nomination as Under Secretary of Treasury for International Affairs.

I have submitted in advance a statement of my views on several major areas of international economic policy and would be happy to expound on questions you may have on my role in these areas at Treasury.

I would be grateful if this statement could be submitted for the record.

The CHAIRMAN. That will be done.

Mr. MULFORD. In my brief oral remarks this afternoon, I would like to express my gratitude to three people for their confidence and support.

First, I am deeply honored to have been nominated by President George Bush to the position of Under Secretary of the Treasury for

International Affairs and will seek with all my energy to fulfill his expectations.

Second, I want to say how much I have enjoyed working with Secretary of the Treasury Nicholas Brady since his arrival at Treasury in September last year. I admire the important job Secretary Brady has done in the early months of the administration and wish to express here my thanks to him and my full support for his efforts.

Finally, Mr. Chairman, I would like to introduce you to my wife, Jeannie Simmons Mulford, sitting to my right, who is, incidentally, from the State of Nebraska and who, in addition to the outstanding job she has done for the past 17 years as a flight attendant for United Airlines, gives me the support and affection so essential in public life.

The CHAIRMAN. We are very pleased to have you with us, Mrs. Mulford.

Mr. MULFORD. As you know, Mr. Chairman, I have served as Assistant Secretary of the Treasury for International Affairs for the past 5 years, working closely with three Secretaries of the Treasury. During that time, I have concentrated my energy on developing strategies for several specific areas of international economic policy. These are elaborated in my statement.

My experience has confirmed one very important principle; namely, that the United States cannot solve international economic problems alone in the complex and interdependent world we are faced with today. We must first determine our primary interests, know our principal objectives, and develop our particular strategies—and consultation with Congress, of course, is essential to this task—but in the end it is only through close cooperation with other nations that we can hope to generate an international economic environment conducive to our success.

If confirmed, in the coming months I will focus my attention on three main policy areas; namely, economic policy coordination between the major industrial nations, the international debt strategy, and issues concerning international trade and investment.

I believe we have seen significant accomplishments in these areas in recent years, more reflective perhaps of Congressional concerns than when I first arrived in Washington 5 years ago. I have found it deeply satisfying to have played a part in these past few years in our country's international economic policies, and I look forward to making a further contribution as Under Secretary.

Finally, Mr. Chairman, I would like to conclude by reaffirming my strong commitment to work closely with Members of Congress in general, with this committee in particular, and with other committees in the Senate and the House which have jurisdiction over international economic policy.

Thank you very much.

[The prepared statement of Mr. Mulford appears in the appendix.]

The CHAIRMAN. Thank you Mr. Mulford.

In looking at your resume I see that you have some 10 years of business relations with the Saudi Arabians handling some of their excess revenues from their oil income.

Do you currently have any obligations to the Saudi Government that would prevent you from exercising the responsibilities of the Under Secretary's job in the interests of the United States?

Mr. MULFORD. No, I do not, Mr. Chairman.

The CHAIRMAN. Does your role in helping the Saudis invest their funds through the '70s in any way affect your judgment about resolving the debt crisis today? For example, would you have any reluctance to consider plans that would allow easier terms for a developing country such as Mexico?

Mr. MULFORD. My experience in Saudi Arabia in its recycling process would have no effect on my thinking with regard to U.S. policy on the debt strategy.

The CHAIRMAN. I made an earlier reference to some of the turf battles that we have seen. There are a number of new issues in the Uruguay Round of trade negotiations that relate to financial markets.

In the Bush administration who has the lead on these GATT issues, Treasury or the USTR?

Mr. MULFORD. USTR.

The CHAIRMAN. Are there U.S. financial programs or businesses that might have to change their practices as a result of accomplishing U.S. objectives in this area?

Mr. MULFORD. That might have to change their objectives or strategies?

The CHAIRMAN. Yes.

Mr. MULFORD. As a result of the negotiations?

The CHAIRMAN. Correct.

Mr. MULFORD. Well, I think it is always possible there could be an outcome that would cause businesses to change their strategies, certainly.

The CHAIRMAN. But you haven't anticipated such an event?

Mr. MULFORD. I don't have any particular issue or set of circumstances in mind for that.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

I want to indicate, also, in the case of Mr. Mulford that in the Banking Committee we also deal very directly and have primary jurisdiction over a number of policy areas in which Mr. Mulford will be the lead player at Treasury. Certainly, the international debt issue falls into that category, the exchange rate issues, negotiation on trade and financial services with the European Community and the GATT, which are specifically in our area.

We have the International Monetary Fund, the Exim Bank, international banking regulations and monetary affairs, and East/West economic and trade relationships that all fall within our jurisdiction, in addition to one other. That is the review of foreign investment. This came up just tangentially yesterday at the end of our hearing, but the increasing pattern of foreign investment as it relates to national security falls under the Defense Production Act. The Defense Production Act is a matter before the Senate Banking Committee which has to be reauthorized this year, and it is going to be a very major issue as it arises.

So again there, Mr. Chairman, while you and I haven't had much opportunity yet to discuss this with all the other things that have been going on, I am very much hopeful that we can work out an arrangement whereby Mr. Mulford as well can come in and address these issues before the members of the Banking Committee.

Senator Garn and I—and I speak for both of us—feel that because so much of the major thrust of the job here relates directly to items in our committee that we need to review those prior to confirmation occurring. But we will have to talk about that a little bit further to try to see if we can work that out.

We do not, I might say, have a precedent established there in the same way that we did with Mr. Gould, who was the subject of sequential referral previously. We did take that step with respect to the Banking Committee addressing it in a direct fashion.

I do want to raise one issue over and beyond that which I think is clearly here within the jurisdiction, of the Senate Finance Committee. That is the Brady debt plan. We have already had one hearing. We see each other across the table at the Banking Committee under the leadership of Senator Sarbanes conducting, but the issue I want to raise with you—and it helps illustrate, Mr. Chairman, this question of the cross-connection to the Banking Committee—and that is I want to understand more clearly how you intend to get the full participation of the banks in any debt reduction program.

It seems to me that anything that directly or indirectly reaches for taxpayer money through multilateral organizations, any other kind of approach that actually ends up using some part of the U.S. taxpayers' money, has to be considered in the light of the degree to which the banks themselves intend to participate in any kind of a package deal.

By "participate," I mean not just how we deal with old loans that are not performing, but new money, in addition to new money that comes from other sources.

I am wondering if you have had any indication so far that the banks in large numbers are willing to participate. If so, how?

In other words, what has been their response and how do we envision what the banking response will be as you try to craft this new plan, the Brady initiative, which I applaud, by the way, as I have said before? But where are we with respect to what the banks are going to be expected to do?

I want to assure myself that we have got a bank role here that is something other than the taxpayers stepping in and taking the place of the banks.

Mr. MULFORD. The answer, I think, to the question of how the banks will participate is, first of all, that they will approach each country individually on a case-by-case basis for specific negotiations.

Second, we are hoping the banks will agree to engage in the granting of sufficient waivers to the specific sections of their agreements that would allow the markets to open up so that transactions could occur which would have the effect of reducing debt or debt service.

The fact that the banks might agree to give that waiver does not then mean that each of those banks would necessarily participate in that activity. It would simply allow those activities to proceed. Then the banks would look at a particular menu of options with which they were presented. Some of them might agree to engage in debt reduction activities. Some might agree to look at restructuring that involved a reduction in interest rates, and others might decide to put up new money.

So there could be a variety of different ways for them to participate.

We do believe that by and large the bulk of banks will participate one way or another in these financing operations.

Senator RIEGLE. Is that the same thing as saying that they have given you an affirmative response?

Mr. MULFORD. We have had from some of the leading banks a generally supportive reaction to the concepts that we have put on the table. They will have to look at the way in which those concepts are put together in the International Monetary Fund and the World Bank in terms of providing these resources. They will have to look at what is brought to the table by the debtor countries, to see whether the kind of proposals that are being advanced are in the banks' views realistic, and when they have surveyed all that and made judgments and entered into negotiations, then I think that they will make their specific determinations about how to participate.

Much of what the banks will do in the future they are already doing—with regard to taking losses, for example, which you mentioned in your question. At the moment, when a bank takes a loss, by selling at 30 or 40 cents for a piece of paper into the market, they get whatever tax benefit derives from that under the present system, but there is no benefit to the debtor country. Under our proposals, if there was a market in that type of transaction being utilized in the way we have suggested, there would be a flow-through benefit from that type of willingness on the part of a bank that would go to the benefit of the debtor country without any further adverse consequences for the bank.

So what we have tried to do here is to support techniques that take advantage of what is already happening in the financial markets.

Senator BRADLEY [presiding]. Senator Riegle, do you have any other questions?

Senator RIEGLE. Not at this time.

Senator BRADLEY. Mr. Mulford, what is your assessment of what has happened in the last 24 hours with regard to the private banks in the Mexican negotiations?

Mr. MULFORD. In the last 24 hours?

My understanding is that the chairmen of the major banks that form the Bank Advisory Committee for Mexico have met in New York. My last word was that there were still meetings going on, but that in general they felt that Mexico had advanced proposals for debt reduction and new financing that were perhaps too aggressive.

The banks also, I think, were not willing to entertain a request which had been made from Mexico for short-term or interim financing, but they have indicated their willingness to engage in negotiations that include the debt reduction techniques that we have put on the table, and I have no doubt that the position taken by the banks is the first visible negotiating position to be expressed by them.

Senator BRADLEY. Are you satisfied with what the World Bank and the IMF have stated they were prepared to do with Mexico?

Mr. MULFORD. Both the IMF and the World Bank I think should be congratulated for moving very quickly since the spring meetings in early April to produce policy papers on the proposals for discussion in their boards and to have distributed those and set board meeting dates for May 5th in the case of the Fund and I think May 10th for the World Bank for an informal discussion of the proposals. I think at that point we will begin to get a rather specific idea of how these general concepts that have been proposed by Secretary Brady will in fact be worked out in each case. Both institutions have been very constructive so far.

Senator BRADLEY. Would you say they have expressed a willingness to move ahead on the Mexican question, notwithstanding the position of the private banks at this moment? That is a new development, wouldn't you say?

Mr. MULFORD. They have expressed a willingness in the case of the Fund to go ahead and bring the Mexican program to the Board and to consider when that time comes the first disbursement under the program. That is right.

Senator BRADLEY. And the World Bank?

Mr. MULFORD. The World Bank negotiations with Mexico are not completed yet, but when they are completed, which we think will be fairly soon, I expect you will begin to see over the next 6 weeks some flows of funds.

Senator BRADLEY. So that we have a situation which is different than any that has transpired before, and I think it is largely in response to the Brady effort; that is, the World Bank and the IMF have come forward and the one remaining puzzle here, the one remaining part is the private banking sector.

Wouldn't you say it would be a shame if the private banks didn't come along in this process?

Mr. MULFORD. Well, I think it would be a great shame if they didn't come along and come along fairly quickly, but on the other hand, I think one also has to look to the Mexican Government to make proposals to the banks that are seen as relatively realistic and can form a basis for negotiations. So I think it takes two to tango in that case.

Senator BRADLEY. The private banks really do have to be a part of this, though; wouldn't you agree?

Mr. MULFORD. It is essential that the private banks are a part of this and that they engage in market-based, voluntary transactions that either have the effect of reducing debt, reducing interest, or providing new money.

Senator BRADLEY. So you agree with the menu that has been established in terms of debt reduction, debt service reduction, interest capitalization, or new money; those are the parts of the menu that you think the banks have to deal with?

Mr. MULFORD. I agree with that menu as you stated it. I have some reservations about capitalization of interest because I have some concerns about how that would work and what sort of incentives that might create, but apart from that one element I am in agreement with what you have said.

Senator BRADLEY. Would you agree, also, that there is a time factor here?

I mean, this can't drag on. The banks can't drag this out for a month or two; they really have to make a decision and act.

Wouldn't you agree?

Mr. MULFORD. Well, we have stated from the beginning that we feel very strongly that under the revised debt strategy it is important to reduce the long period that characterized bank negotiations in the past. A country would take tough decisions to reform its policies, it would create an IMF program, it would attempt to pursue its program, but often it was also engaged in negotiations of enormous duration that had the effect of disrupting progress because financial flows were not forthcoming. We are very anxious to cure that problem and change the time and the way in which the various sources of funds are put together.

It is therefore important that the banks look into their position and that the two parties, the country and the banks, negotiate quickly and that the whole package moves forward in less time than in the past.

Senator BRADLEY. And are you the person in the administration who is charged with the responsibility of making this happen?

Mr. MULFORD. I am charged with the responsibility of managing the debt strategy, and to that extent I will be engaged in that process.

Senator BRADLEY. So that we should look to you to make it happen?

Mr. MULFORD. Well, you should certainly look to me, but whether I can make the private market happen or not is another thing. It is a private market. These are voluntary transactions, so that we have to respect that fact. But certainly we are going to press all parties, the Fund and the World Bank and the countries and the commercial banks, to move quickly.

Senator BRADLEY. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

To follow on this line of questioning, where do the incentive factors come in for a country to denationalize or privatize its economy?

I guess I can be a little more specific. Look at Latin America. They have really had to manage some of those economies well to become as poor as they are considering all the blessings they have in terms of resources. When you look at Brazil and Argentina and others, you want to weep, yet in Chile, where they are privatizing things, things seem to be working.

How do we get the other countries to do that? What is the incentive?

Mr. MULFORD. We have placed a strong emphasis on countries' policies and under the present new proposals we have reemphasized our interest in policy reforms being undertaken by the countries. These will include a greater emphasis on privatization, on encouraging foreign direct investment, and on getting on top of the capital flight problem.

Senator SYMMS. Is that part of the idea behind the Brady plan? If the debt load is less, there might be more private investment made?

Mr. MULFORD. One of the ideas is certainly that one outstanding option that a country has, rather than increasing its stock of debt, is to attract foreign and private capital for equity investment which does not contribute to the debt burden or the interest service burden.

So we have pushed countries very hard to open their regimes to foreign investment, and we think we have had some success. We think we are going to see more of this, and in these new programs there will be a stronger emphasis on opening economies, encouraging debt/equity swaps, for example, with the banks, which will be used to help finance privatization.

Senator SYMMS. If in fact they don't privatize, though, there isn't much hope of anybody logically wanting to invest much money in there, is there?

Mr. MULFORD. I think it is a question of the country's attitude toward encouraging foreign investment. It is possible that a country could encourage foreign investment and still take, as Mexico does for example, a rather restrictive view about its energy sector.

So I don't think the two things necessarily are mutually exclusive, but obviously it would be very, very helpful to the countries if they could open their markets and encourage foreign investment. They would of course improve efficiency if they were to privatize state-owned enterprises.

Senator SYMMS. Let me just ask this question on the other side. I appreciate your answer.

Look at it from the banks' point of view. What is the incentive for a bank that has made a loan, I assume in good faith, to write the loan down? What is their incentive?

Mr. MULFORD. Each bank's situation is different. At the moment banks are assessing their situations. Some of them are creating reserves, some are selling loans or taking a loss. Some are writing down loans, some are looking for debt/equity swaps that convert a loan at a loss into an equity investment.

So each bank's situation is different. We have taken note of that tendency in the market. What we are seeking is the opening of the bank loan agreements so that the market between the debtors and the banks—not managed by the government, but between them in the private market—can provide greater freedom for those transactions. We will take some of the official resources presently in use already as loans for these countries and redirect them to finance to some extent and to provide support for those transactions. Under these conditions we might be able to accelerate and broaden that area of activity, so that there could be a period where the stock of debt is reduced, debt service is reduced, the credit profile of the country improves, and it becomes a more attractive client for new money operations for banks to continue to have an interest.

Senator SYMMS. Thank you. Thank you, Mr. Chairman.

Senator BRADLEY. Thank you very much, Senator Symms.

If there are no further questions of Mr. Mulford—Senator Symms, do you have any further questions?

Senator SYMMS. Mr. Chairman, I am ready to vote.

[Whereupon, the committee proceeded to other business.]

APPENDIX

Alphabetical Listing and Material Submitted

Prepared Statement of Senator Bob Dole

Mr. Chairman and fellow members of the Finance Committee, it is my great pleasure to introduce John E. Robson, President Bush's choice to be Deputy Secretary of the Treasury.

I have known John Robson well over the years. His career has combined the highest achievements in business with a strong commitment to public service. Thus, even during the years when he was managing one of this country's largest pharmaceutical companies, John found the time to contribute his expertise as a commissioner on the U.S. Aviation Safety Commission. I know one secretary of transportation particularly appreciated his service.

As dean and professor of management at Emory University School of Business administration, John has drawn upon his expertise in the public and private sectors to consider the role of American business in a world economy. He has advised business leaders about increasing our competitiveness. But, most importantly he understands both broad economic policy and its specific impacts on private industry and society.

Mr. Chairman, I believe this special combination of talents is exactly what is needed at the highest levels of the treasury department. I am honored to recommend the confirmation of John Robson as deputy secretary.

Prepared Statement of Eric I. Garfinkel

Mr. Chairman and Members of the Committee:

I am honored that President Bush has nominated me as Assistant Secretary for Import Administration. This position plays a critical role in ensuring that American firms can compete on a fair basis in domestic and international markets. If my nomination is reported favorably by this Committee and confirmed by the Senate, I will perform the responsibilities of this position to the best of my ability and in a manner consistent with the intent of the Congress. Mr. Chairman, I will have but one priority—effective and vigorous enforcement of the law. For while I believe in free trade, trade must also be fair.

In the Trade Act of 1984 and the Omnibus Trade Act of 1988, the Congress provided the Executive Branch with a number of tools in the countervailing duty and antidumping area such as the "anti-circumvention, " and "persistent injurious dumping monitoring " provisions. I intend to use these and other tools, where necessary, to ensure that the antidumping and countervailing duty laws provide both a timely and meaningful response to unfair imports. I will also aggressively and vigorously enforce the various sectoral agreements under my responsibility including the Steel VRAs, the United States-Japan Semiconductor Agreement, and the United States-Canada Lumber Agreement.

Mr. Chairman, I believe my various professional experiences will enable me to perform effectively in this position. I have served previously in government in the Office of the U.S. Trade Representative, with the Office of Policy Development at the White House, and as General Counsel of the Overseas Private Investment Corporation. I have also practiced law in the international trade area as both petitioner's and respondent's counsel. Having seen the trade area from both sides of the trade bar, I have a good feel for what it will take to enforce the law firmly, decisively, and fairly. While I enjoyed my experiences in the private sector, I have continually been attracted to government because I believe that, along with other public servants, we can make a difference—we can chart a path that will enable America to continue to play a leadership role among nations. I will be supported in my efforts by my wife Diane and our two children, Daniel and Jamie.

The staff of the Office of Import Administration is a very talented group of professionals and support staff. I look forward to joining them, and earning their respect and trust. If confirmed, I will work closely with you and Members of the Committee and staff. Thank you very much.

BIOGRAPHICAL OF ERIC I. GARFINKEL

1. Name: Eric I. Garfinkel
2. Address: 3715 Thornapple Street Chevy Chase, Maryland 20815
3. DOB and place: July 11, 1954; Flushing, Queens County, New York
4. Marital status: Married; Diane Waranch
5. Names and ages of children: Daniel, age three and Jamie, age one
6. Education: Emory University Law School, Atlanta, Georgia; August 1976 to June 1979; J.D. June 1979

   University of Maryland, College Park, Maryland; August 1972 to June 1976; B.A. June 1976

   Bayside High School, Bayside, New York; September 1969 to June 1972; graduated June 1972
7. Employment record: December 1988 to January 20, 1989; Transition Contact for Trade, Office of President-Elect, 1825 Connecticut Avenue, N.W., Washington, D.C., supervisor: Richard English (202) 673-2810;

   July 1987 to December 1988; Vice President and General Counsel, Overseas Private Investment Corporation, 1615 M Street, N.W., Washington, D.C., supervisor: Craig Nalen (202) 457-7001;

   October 1983 to July 1987; attorney, Anderson, Hibey, Nauheim and Blair, 1708 New Hampshire Avenue, N.W., Washington, D.C. supervisor: Stanton Anderson, (202) 483-1900;

   July 1982 to October 1983; Deputy Assistant Director, White House Office of Policy Development; Old Executive Office Building, Washington, D.C.; supervisor: Roger Porter, (202) 456-1414;

   May 1981 to July 1982; attorney-adviser, Office of the U.S. Trade Representative, Executive Office of the President, 600 17th Street, N.W., Washington, D.C., supervisor: Don DeKieffer (202) 887-0300;

   July 1980 to May 1981; attorney, DeKieffer, Berg and Creskoff, 2033 M Street, N.W., Washington, D.C. supervisor: Don DeKieffer (202) 887-0300;

   February 1980 to July 1980; attorney, Collier, Shannon, Rill and Scott, 1055 Thomas Jefferson Street, N.W., Washington, D.C., supervisor: Don DeKieffer, (202) 887-0300;

   June 1979 to February 1980, attorney-adviser, Department of the Treasury, Treasury Building, Washington, D.C., supervisor: Ken Schmalzbach, (202) 566-8464.
8. Government experience: December 1988 to January 20, 1989; Transition Contact for Trade, Office of President-Elect, 1825 Connecticut Avenue, N.W., Washington, D.C.;

   July 1987 to December 1988; Vice President and General Counsel, Overseas Private Investment Corporation, 1615 M Street, N.W., Washington, D.C.;

   July 1982 to October 1983; Deputy Assistant Director, White House Office of Policy Development; Old Executive Office Building, Washington, D.C.;

   May 1981 to July 1982; attorney-advisor, Office of the U.S. Trade Representative, Executive Office of the President, 600 17th Street, N.W., Washington, D.C.;

   June 1979 to February 1980, attorney-advisor, Department of the Treasury, Treasury Building, Washington, D.C.
9. Memberships: Professional—

   District of Columbia Bar Association, Washington, D.C., member
   Georgia Bar Association, Atlanta, Georgia, member
   American Bar Association, Chicago, Illinois, member

Fraternal—None.

Scholarly—Phi Kappa Phi Academic Honor Society, 1976

Civic—Working Group on Trade Remedies, Chamber of Commerce of U.S., Washington, D.C., member 1985-1986

Task Force on Trade Laws and Agreements, Chamber of Commerce of U.S., Washington, D.C., member 1983-1986

Industry Sector Advisory Committee, Steel Policy Office of U.S. Trade Representative, Washington, D.C., member 1980-1981

Charitable—The Decade Society Washington, D.C., member, 1987-1988

Other—The George Town Club, Washington, D.C., member, 1986-1988

Columbia Country Club, Chevy Chase, Maryland, member, 1986-Present

10. Political affiliations and activities: Montgomery County Republican Committee, 1986-Present

Advisory Group on International Economic Policy, Fund for America's Future, 1985-1987

Campaign contribution to Bush for President Committee-1987

Republican National Lawyers Association, D.C. Area Chapter, Washington, D.C., General Counsel, 1985-1986

11. Honors and awards:

Scholarships—None.

Honorary degrees—None.

Honorary society memberships—None.

Other special recognitions for outstanding service or achievement: None.

12. Published writings:

a. "Export Subsidies: Zenith Radio Corp. v. United States" *Case Western Reserve Journal of International Law,* Vol. 11:1, 1979.
b. "Confidentiality Poses Problems for In-House Counsel in Antidumping Cases", *Legal Times of Washington,* Vol. III:15, 1980.
c. "Guide to Import Relief and Unfair Trade Practice Actions Available Under U.S. International Trade Law," *The International Lawyer,* Vol. 15:2, 1981.
d. "Disclosure of Confidential Documents Under the Trade Agreements Act of 1979—A Corporate Nightmare?". *Georgetown University Journal on Law and Policy in International Business,* Vol. 13:2, 1982.
e. "Moving Toward a More Credible Trade Policy", *Journal of Commerce,* December 12, 1984.
f. "Let's Avert a Protectionist Disaster," *Journal of Commerce,* August 23, 1985.

RESPONSES TO QUESTIONS SUBMITTED BY SENATOR BENTSEN

Question: I understand that the administration going through the internal process of developing its position on the extension of the steel VRAs. I would like to know where you see this policymaking process going from here. Is the administration going to send up legislation? When and how does it foresee taking Congressional concerns into account?

Answer: The policymaking process is underway. Interested parties, producers, and consumers, have had an opportunity to express their concerns to an interagency group about the steel VRAs. The Sub-Cabinet Trade Policy Review Group has been meeting to discuss and continue to formulate options which address the concerns of the steel manufacturers and steel users. I expect that the recommended alternatives will be raised before the Economic Policy Council in the next few weeks and am hopeful that the President will make a decision regarding the extension of the steel program in June.

I recognize that in order to continue a steel program, legislation is necessary to provide enforcement authority. Legislation is now pending that would provide the required authority. If such authority is required in the future, the administration Is likely to favor merely an extension of the existing law without modification. After the administration has concluded and formulated Its position, I fully expect to work closely with Congress to address the concerns of both steel producers and consumers.

Question: Do you believe that the steel program should take account of the need of such companies to receive the steel they need to produce highvalue products in the U.S. and employ Americans?

Answer: Yes. I believe the Department of Commerce should make every effort to accommodate the needs of steel consumers while achieving objectives of the steel program. I endorse the Departments current effort to improve the short-supply program, which will enable the Department to be more responsive to the needs of steel consumers.

Question: Are you aware that there are some U.S. companies that are wholly dependent on imported supplies from affiliated steel producers?

Answer: Yes. The current steel program contains provisions designed to address the needs of all U.S. consumers, not just those with overseas affiliates, that are dependent on imported steel. I understand that during the negotiation of the first U.S.-EC steel agreement in 1982, and the Voluntary Restraint Agreements (VRAs) of the current steel program, the administration recognized that there could be situations in which sufficient domestic supplies of certain types of steel might not be available to meet U.S. demand. The "short-supply" provisions included in the VRAs allow the Department of Commerce to authorize additional exports to the United States of steel products determined by the Department to be in short supply. Further, the VRAs contain measures that allow the foreign governments a limited degree of flexibility to adjust their exports to meet specific steel needs in the United States.

Question: One such company is Hoesch Tubular Products Company of Baytown, Texas. They were able to stay in business only because of a special arrangement to ally them to receive adequate supplies of raw material from their German affiliate. Will you review their situation as a part of your consideration of the proper policy on steel trade?

Answer: Yes. I understand that, in the past, Hoesch Tubular Products (HTP) has had considerable difficulty obtaining raw material from its parent firm in the Federal Republic of Germany. The Department of Commerce believes HTP's difficulties were caused to a large extent by the EC's not following through on its promise of an internal special allocation for Hoesch.

Nonetheless, in its decision on post-September steel policy, I believe that the administration should consider carefully the position of Hoesch Tubular Products and other companies which depend on a regular supply of raw material from other steelmaking facilities. I will review this situation carefully.

Responses to Questions Submitted by Senator Riegle

Question: In a Scope Ruling of April 12, 1988, the Department ruled that it would no longer accept certifications that imports of defective oil country tubular goods will not be used for drilling activity. Instead, importers are now required to post a cash deposit of estimated antidumping duties and submit within six months a certification from the ultimate end-user. I fully share the Department's desire to prevent circumvention of antidumping duties. However, it has been brought to my attention that the new requirements may in certain cases be unduly burdensome. Will you review the implementation of this ruling to ensure that it prevents circumvention and is commercially feasible?

Answer: I understand that this scope ruling has generated considerable concern among importers for its burdensome requirements and within the Customs Service because of the potential for, and allegations of, fraudulent certifications. I will review this ruling with an eye to firmly enforcing the outstanding order with a minimum of commercial disruption.

Question: It is my understanding that in a constructed value dumping case involving a country experiencing extreme or hyper-inflation, the Department of Commerce sometimes adjusts the constructed value of the merchandise to reflect any currency devaluation between the tide of export and the time of sale. Wouldn't this procedure disadvantage U.S. petitioners if the amount of devaluation exceeds the actual rate of inflation during this period? If so, will you consider changes in the Department's currency conversion procedure to reflect this problem?

Answer: I understand that this adjustment has been made in cases involving countries with high rates of inflation to ensure that the comparison between the foreign seller's constructed value and the United States prices is contemporaneous, and therefore to achieve an accurate measure of whether dumping is occurring. Without the adjustment, inflationary factors are built into constructed value without any recognition that the return to the seller on the export ~~sale~~, expressed in the home market currency, has also increased as a result of devaluation.

Where the rate of devaluation exceeds the rate of inflation, the downward adjustment to the constructed value is relatively larger than it would be where the rates of devaluation and inflation are the same. Hence, the dumping margin would be lower, to the disadvantage of U.S. petitioners.

The Department is currently developing substantive antidumping duty regulations. If confirmed, I will ensure that "circumstances of sale" adjustments, such as the one you describe, are fully reviewed in developing those regulations.

Responses to Questions Submitted by Senator Chafee

The questions you raise are central to the issue of whether proposed zone activity is in the public interest. I am answering them based upon current law and the position of the Foreign-Trade Zones Board reflected in its decisions of recent years. There appears to be an increasing interest in the use of zone procedures to help domestic plants compete against imports from abroad and in foreign markets, and there is concern about the adequacy of the existing "public interest" standard. As I stated at my confirmation hearing, the Department of Commerce is willing to work with the Congress with regard to a more precise standard that would define the public interest. I look forward to working with you toward the development of such a standard.

Question: Do you feel foreign-trade subzones should be granted if there is little potential for exporting out of the subzone?

Answer: Under current law, zones are intended to encourage foreign commerce generally, which includes both exports and imports. However, the Board's decisions indicate a recognition of the special interest expressed as to export and transshipment in the FTZ Act's legislative history. Many decisions on products subject to import control programs (e.g., steel, textiles, sugar) restrict the authority granted for manufacturing to export activity only.

Question: Do you feel foreign-trade subzones should be granted if the company receiving the subzone is in an extremely small but competitive industry?

Answer: The size of the industry is one of many factors that has been considered by the Board in the overall evaluation of subzone proposals and their effect on domestic industry.

Question: Do you feel foreign-trade subzones should be granted if the company receiving the subzone is in an industry with little or no foreign competition?

Answer: The existence or serious threat of foreign competition to the industry involved is one of the major factors considered in the evaluation of subzone proposals.

Question: Do you feel foreign-trade subzones should be granted if the company receiving the subzone would receive financial benefits that would upset the competitive balance in an industry?

Answer: The impact on competitive balance in the industry involved is an important factor considered in reviewing subzone proposals. The significance of the savings to the subzone user is considered in terms of its effect on sales of the product involved, both by domestic and foreign competitors.

Question: Do you feel foreign-trade subzones should be granted if domestic parts suppliers would be adversely impacted?

Answer: In evaluating the impact on domestic industry the effects on both the finished product and supplier industries are considered. Because it is the latter sector that is usually in direct competition with the foreign components and materials used at subzones, the impact on this sector is viewed in terms of the effects of zone procedures on tariff protection.

Responses to Questions Submitted by Senator Heinz

Question: In the case of 60" stainless steel sheet and coil, in 1983 and 1984 when the VRAs were negotiated, we had only one U.S. producer. Things were fine, and it did not need inclusion in the VRAs. Then in 1985 that producer went into bankruptcy. (The producer had to be divested when Republic merged with LTV, but the divested company could not make it.) Now it's back on its feet with 450 employees, but it cannot regain its market share of 60" material relative to imports because of dumping. What's your reaction to this U.S. company's problem, considering it's the only U.S. producer of this 60" specialty steel?

Answer: Every steel VRA, except that with Finland, includes 60 inch wide stainless steel flat-rolled products within their export ceilings. I understand that since 1986, the Department of Commerce has been working closely with the company in question, Mercury Stainless Corporation, to address their concerns regarding, in particular, U.S. imports of these products from Spain and Finland.

At the present time, there are no active antidumping cases against imports of 60 inch wide stainless flat-rolled products. If confirmed, I will look into this company's circumstances to ensure that the existing VRA's are effective and to explore other appropriate options the company may wish to pursue.

Question: While there are many positive things which can be said about the President's VRA program, one shortcoming is that since the VRAs were negotiated, we have seen individual cases in certain products of foreign countries dumping in the U.S. market. What is your attitude about addressing such problems?

Answer: I will support the continuation of VRAs combined with vigorous enforcement of our antidumping and countervailing duty laws with respect to imports from non-VRA countries. I believe that this is the best method for addressing unfair trade in steel—in the short term. I would hope that in the longer term an international consensus will be reached that would eliminate unfair trade and other trade distorting practices in steel.

Prepared Statement of Robert R. Glauber

Mr. Chairman, Senator Packwood, distinguished members of the Finance Committee, I have the honor of being nominated by the President for the position of Under Secretary for Finance of the U.S. Treasury. It is an honor as well to appear before this Committee. I appreciate your making the time in your busy schedules to hold this hearing.

The responsibilities of my position include the Offices of Domestic Finance, Economic Policy, and Fiscal Management. Domestic Finance has primary responsibility for developing policies to deal with the capital and securities markets, financial institutions, and financial aspects of corporations. Economic Policy acts as economic advisor to the Secretary of the Treasury, participates in producing the administration's economic forecast, and provides primary staff support on economic issues. These issues include the savings rate, retirement policy, and (together with the Office of Tax Policy) the impact of tax policy on corporate decisions. Fiscal Management acts as the government's financial manager, handling Federal collections and payments and overseeing its central accounting and reporting systems.

I believe my experience as a teacher and researcher on finance issues at the Harvard Business School, as a consultant to financial institutions and business corporations, and as Executive Director of the Presidential Task Force empaneled to study the 1987 stock market break provides useful preparation for the duties for which I have been nominated.

I would like to take just a few minutes to outline some of the major policy issues with which I would deal if confirmed, apart from the current thrift crisis.

INTERNATIONAL COMPETITIVENESS

It is perhaps stating the obvious to point out that the rapid internationalisation of competition is one of the strongest forces confronting U.S. corporations, financial institutions and financial markets. If these institutions are to maintain and extend their competitive position and economic leadership, we must frame policies which take explicit account of these goals and give due consideration to the international arena in which these institutions must compete. As you know, the Secretary in a number of statements has directed attention to these concerns and intends to play an active role.

A. Leveraged Buyouts

At the beginning of this legislative session, this Committee held hearings on leveraged buyouts (LBOs), an issue which has important implications for the competitiveness of U.S. corporations. Contrary to forecasts that the 1986 tax rate reductions would sharply reduce the LBO business, the amount of such transactions has been rising. Is this trend a healthy one for U.S. corporations? In my view, judgment should be based primarily on whether or not LBOs contribute to the competitive position of U.S. corporations.

The arguments are many and are arrayed on both sides. On the positive side: management works harder when it owns a significant piece of the equity, high debt levels can act as an effective discipline on management, and private firms are not subject to the short-term performance demands of the stock market.

At the same time there are aspects of LBOs which are a basis for concern. First, more transactions are being done for companies in *cyclical* industries—chemicals, paper, etc. When the economy finally slows down, what will happen to these firms, not just their bond holders and stockholders, but also their workers and the communities in which the firms operate? Second, under pressure to service debt, heavily leveraged companies may cut back on R&D and capital expenditures—in short, they may become more short-term oriented when private than they were as public firms. Third, the level of LBO debt held by insured banks is growing, leading some to question whether sufficient due diligence has been performed. Finally, many of the brightest people coming out of college and business schools are spending more time recapitalizing old firms rather than rebuilding them or creating new ones.

The evidence on LBOs is ambiguous and incomplete. While aggregate debt levels are not beyond historical bounds, levels in certain industries and specific transactions can be cause for concern. Moreover, the recent LBO trend has gone on against a background of healthy economic expansion; how well will these highly leveraged firms perform in a period of economic decline, where past history cannot be the guide?

My view is that any legislative initiatives at this stage should be limited, reflecting the inconclusive nature of the evidence. Some steps proposed by the administration, though, would be useful to implement now—capital gains tax reductions, to encourage long-term investment decisions, and clarification of the ERISA laws, to indicate that pension fund trustees are not obligated to take a bid higher than current market price from fear of litigation.

A more sweeping and potentially more effective proposal would be to make dividends tax deductible, so that companies do not have tax incentives to replace equity with debt. The tax codes of virtually all other major industrial countries exempt dividends in whole or in part. But given the current size of the Federal budget deficit, such a revenue reduction would be difficult to achieve.

The elimination of the tax deduction for some or all interest payments is an equally sweeping legislative initiative but, in my view, is overreaching. It would adversely affect the competitive position of U.S. corporations, by raising their cost of capital and by favoring foreign companies, which can use tax-deductible debt, in acquisition battles. Moreover, any attempt to eliminate the deduction for "bad" debt—for example, debt involved in "hostile" takeovers or raised by "excessively" leveraged firms—has and would produce definitional and administrative nightmares.

B. Financial Institutions

Several recent legislation initiatives have important implications for the competitive position of U.S. financial institutions. The secular decline in the profitability of these firms during the 1980's—commercial banks as well as thrifts—can be traced in some considerable measure to the competition from insolvent S&Ls which have been permitted to remain in operation. Continuing to compete in the marketplace, these institutions have pushed up deposit costs and reduced profit margins for commercial banks as well as other thrifts. The S&L legislation, which was recently and expeditiously cleared by the Senate, will resolve these institutions and reduce the pressure.

In the broader international arena, the position of U.S. banks has declined over the last two decades. In 1970, 7 of the world's 10 largest commercial banks, as measured by total assets, were U.S. firms. That declined to 3 of 10 in 1980 and none today. Several forces are at work, including the change in exchange rates, especially that of the yen-dollar, and the more concentrated structure of banking abroad compared to the United States. But the restricted range of activities permitted to U.S. banks also has played a role. The broadening of permitted commercial bank activities would enhance the competitive position of U.S. banks by stabilizing and increasing their profitability. And it would allow U.S. banks to meet their foreign competitors on a more level playing field, since a number of foreign banks operating in the United States are today permitted to engage in activities prohibited by Glass-Steagall to their U.S. competitors. Moreover, the experience some U.S. banks have developed abroad in these activities could be used to good effect at home.

As the financial services industry continues to evolve, it may well become clear that the distinction between commercial banks and thrifts has less economic meaning than one between smaller, "community" institutions and larger, "wholesale" institutions. That is, there may be more in common among most thrifts and the great majority of banks, all directed toward serving community, retail financial needs than between these banks and their multinational counterparts whose major focus is on the wholesale banking needs of corporations and similar institutions. If this does become the pattern of evolution, I believe it will have important implications for, and simplify the development of, legislation dealing with such issues as permitted banking activities and deposit insurance.

C. Securities Markets

Finally, how the markets for securities and related financial instruments develop has important competitive implications. The October 1987 market break revealed important weakness in both the institutional structure and regulation of these markets. Competition among the marketplaces for stocks, options, and financial futures is essential to continued capital market innovation in the face of increased pressure of global competition. But to operate efficiently and safely, these separate marketplaces must be part of a system which reflects, both in institutional structure and regulation, the economic functioning of one market.

There have been over the last year some positive developments in this area. Both the circuit breaker mechanisms developed jointly by the Chicago Mercantile Exchange (CME) and the New York Stock Exchange and the cross-margining discussions between the CME and the Chicago Bard Options Exchange-initiatives of those private organizations themselves—enhance the integrity of the one market system. At the same time, little has been done to coordinate and integrate the clearing and settlement systems of these marketplaces. The October 1987 break demonstrated the brittleness of these systems and the damage to the broader financial system which could result from a rupture. An important agenda item must be work on clearance and settlement systems, to assure that the U.S. marketplaces relate effectively to one another and are integrated into the evolving global clearance and settlement system. This issue will be high on the agenda of the Working Group on Financial Markets.

I would be happy to answer any questions the Committee might have on these or other issues.

ROBERT R. GLAUBER

Robert Glauber is presently on leave from the Harvard Business School, where he is a member of the Finance Department and was chairman of the school's Advanced Management Program. He is currently acting as a consultant to the Department of the Treasury.

Mr. Glauber received his B.A. from Harvard College in economics, his doctorate in finance from the Harvard Business School, and joined the faculty in 1964. He became a full professor in 1973. While on the Harvard faculty, he has been a visiting professor at Stanford University's Graduate School of Business, and Keio University (Tokyo).

Mr. Glauber's research interests center on financing decisions of corporations and mergers and acquisitions. His publications include a co-authored book, *Investment Decisions, Economic forecasting, and Public Policy,* and articles in several journals.

Professor Glauber has served as a director of Circuit City Stores, Inc. (consumer electronics retailing), several of the Dreyfus group of mutual funds, Cooke Bieler, Inc. (Philadelphia investment counseling firm), and Sunbelt Coca-Cola, Inc. He was Executive Director of President Reagan's Task Force on Market Mechanisms to study the October 1987 stock market break. He has been as associate editor of Financial Management. *The Review of Economics and statistics,* and the *Financial Analysts Journal,* and has acted as consultant to a number of corporations, financial institutions, and the U.S. Government and has directed executive education programs for business firms.

PREPARED STATEMENT OF DAVID C. MULFORD

I appreciate having this opportunity in the confirmation process to appear before this Committee and respond to questions you may have with regard to my role in international economic policy in the Bush administration. I am also honored to have been nominated by President George Bush for the position of Under Secretary of the Treasury for International Affairs. I would like to say at the outset that I intend to continue working closely with Members of Congress in general and with this and other Committees in the Senate and House with jurisdiction over international economic policy. Many important international economic issues face the United States at this time. They will require close consultation between the administration, in particular the Treasury Department, and key Congressional Committees. I am committed to this cooperative process and look forward to the progress I feel sure we can make on these issues.

I have served as Assistant Secretary of the Treasury Department for International Affairs for the past 5 years, working closely with three Secretaries of the Treasury. During that time I have concentrated my energy on developing strategies for several specific areas of international economic policy. My experience has taught me one overriding lesson: the United States cannot solve international economic problems alone in the complex and interdependent world that we are faced with today. We must determine our primary interests, know our objectives, and develop our particular strategies; but, it is only through close cooperation with other nations that we can hope to generate an international economic environment conducive to our success.

This has been a guiding principle for me in the main areas of international economic policy: namely, economic policy coordination between the major industrial nations, the international debt strategy, and international trade. I believe we have seen significant accomplishments in these areas in recent years that will influence positively our work in the period ahead.

INTERNATIONAL ECONOMIC POLICY COORDINATION

Economic policy coordination, as practiced today, began with the Plaza Accord in September of 1985. By revitalizing the G-5 consultation process and conferring closely on both economic policies and the methods of more effective coordination, we were able to develop a unified view on the general policies required for adjustment. This included the need to realign the major currencies and to institute policies to reverse the rapid growth in our trade and current account deficits. In short, it was necessary to alter the fundamental economic conditions between surplus and deficit countries to promote global adjustment without undermining world growth and damaging world trade. The necessary currency adjustment was accomplished through several years of cooperative effort among the G-7 nations, without adversely affecting world growth. At the same time, we have made solid progress in the adjustment process in the form of substantial improvement in our trade and current account positions in 1988.

In 1986 and 1987, we negotiated a more formalized economic policy coordination process which was reflected at the Tokyo and Venice Summits. We have made important strides in using economic indicators to help focus discussion in the G-7 on developing medium-term objectives for our economies and helping to assess our progress. Our success these past few years has resulted in closer working relationships and greater regularity of consultations.

Obviously, further progress in adjusting external imbalances is essential for the long-term political and economic interests of the United States. All the major trading nations need to strengthen domestic policies to promote more openness and adjustment. Here in the United States our primary policy objective must be further reduction of our fiscal deficit.

NEWLY INDUSTRIALIZING ECONOMIES

During the 1980s new industrial players emerged on the world economic stage. The so-called newly industrializing economies (NIEs) of Asia grew rapidly and, through the pursuit of export-oriented policies, increased tremendously their share of world trade. By mid-1986—some nine months after the Plaza Accord, it was clear that we would face a major problem with the NIEs. In 1987, our bilateral trade deficit with the four most prominent NIEs reached nearly a quarter of our total trade deficit.

While recently there has been some reduction in their surpluses, the pace is very slow. This is due in part to their exchange rate policies which, in the case of Korea and Taiwan, we have sought through negotiations to change, so that their respective exchange rates reflect more accurately the underlying strength of their economies. Through frequent bilateral talks, speeches, and by focusing attention on these economies in two recent Treasury reports to Congress on international economic and exchange rate policy, I and my staff have worked to improve this situation. More intensive negotiations during the past six months have accomplished further movement. Nonetheless, additional efforts, I hope supported by this Committee, will be necessary to obtain greater cooperation and adjustment, in particular by Korea and Taiwan.

INTERNATIONAL DEBT STRATEGY

Turning to the international debt strategy, you are all familiar with the proposals put forward by Secretary Brady on March 10 to the Bretton Woods Committee. These proposals address what is perhaps the most complex international economic and political problem facing the United States today. Throughout the period I have been at Treasury, the international debt problems of developing nations have been a primary policy concern. Our objectives have been to promote economic policy reforms in debtor nations, to work with the IMF and World Bank in providing resources to support those reforms, and to stress the need for continued external financial support from all sources, including the commercial banks. We have approached debtors on a case by case basis, reflecting their great differences and seeking to fashion solutions tailored to each country's unique situation.

Although the principles cited above have consistently guided our efforts, the strategy has evolved significantly over the past 5 years. In early 1987, for example, Secretary Baker introduced the important concept for commercial banks of a "menu" of options for bank financing packages. This was designed to facilitate broader participation by banks in financing packages that recognized the banks' increasingly diverse interests and strategies. Commercial banks were encouraged to design more creative financial techniques which has helped to stimulate a range of instruments that can promote direct investment, restructure and reduce debt and debt service burdens. An important contribution to the development of debt reduction techniques was the Treasury's support of Mexico's 1987 debt swap transaction with commercial banks, collateralized by Treasury zero coupon bonds. I believe this transaction provided an important breakthrough in the debt reduction area which in various modified and improved forms will play a major role in future debt and debt service reduction developments. Several debtor nations have adopted debt/equity swap programs which we began advocating 3 years ago. This technique has also been further developed and supported in Treasury for debt-for-nature swaps to support environmental projects.

With the advent of a new administration, it was necessary to conduct a thorough review of the debt strategy. Serious problems needed to be addressed. Reforms in the major debtor nations were not sufficient to provide sustained low inflation growth. Commercial banks were withdrawing, while being for the most part fully serviced as to interest, often with funds flowing from international institutions. The stock of debt and thus the debt servicing burden continued to grow. These and a variety of other long-term problems led Secretary Brady to develop proposals for strengthening the debt strategy. The proposals placed greater emphasis on growth-oriented reforms that expanded the role of market forces in the debtor nations' economies, as well as on creating incentives to encourage a stronger focus on voluntary, market-based transactions between debtors and banks that reduce debt and debt service. When implemented by the various participants, these proposals will produce more manageable new financing requirements, reduce the stock of debt and debt service, and help encourage additional economic policy reforms. Of course, credible economic policies and strong performance by the debtors themselves will continue to be the most essential element for long term success.

Finally, Mr. Chairman, I have had a continuing responsibility for trade and investment issues at Treasury these past few years. Although Treasury does not have the lead on trade issues, we make an important contribution and sometimes play a strong leadership role. It is occasionally forgotten that the world's trade problems are intimately related to international macroeconomic policy issues. If these can be addressed successfully by the major industrial nations, our chances of maintaining constructive and successful trade policies will be greatly improved. The technical side of trade and trade dispute issues are important, but they are not decisive for long-term success in preserving the world's free trade system. The macroeconomic policies of major trading nations in the end are decisive. Our strategy should be heavily weighted towards accomplishing these broader changes.

As an example, Mr. Chairman, I would cite the Yen/Dollar talks with Japan, which began in 1984. This dialogue serves as a model for successful negotiation of major structural changes in Japan, changes that have had a significant and I believe lasting impact on Japan's economy and its performance. Major progress was made in internationalizing the Yen, opening Japan's financial markets to U.S. financial organizations, and liberalizing Japan's internal capital markets. The changes were fundamental and are continuing to unfold. The Yen/Dollar approach was later used as a model for the so-called MOSS talks with Japan, which though not presently in use, is I believe an approach to trade problems that is essential for sustained success.

I look forward, Mr. Chairman, to working together with this Committee. Thank you.

Enclosures.

DAVID C. MULFORD

Since 1984, Dr. Mulford has been an Assistant Secretary (International Affairs) of the Treasury. As Under Secretary for International Affairs, he will continue in his lead role for international economic policy formulation and implementation. In particular, he will be responsible for exchange market policies and will remain the U.S. G-7 Deputy with responsibility for coordinating economic policies with other industrial nations. In addition, he will maintain his key concentration on the international debt strategy and will continue to focus on economic relations with the newly industrializing economies, trade and investment matters and preparations for the annual Economic Summit.

Prior to serving at Treasury, Dr. Mulford spent 20 years in the international investment banking business. He served as Senior Advisor at the Saudi Arabian Monetary Agency in Riyadh, Saudi Arabia, as well as a Director of Merrill Lynch, Pierce, Fenner & Smith (1974-1984); and Director of White, Weld, & Co., Inc. (1966-1974) Dr. Mulford was a White House Fellow during 1965-66 and served as Special Assistant to the Secretary of the Treasury.

Dr. Mulford earned his doctorate from Oxford University in 1965 and his Master's degree from Boston University in 1962, specializing in African Studies, and also attended the University of Cape Town. He graduated from Lawrence University with a B.A. (Cum Laude) in Economics in 1959. During his academic career, Dr. Mulford held several fellowships and wrote two books, both published by Oxford University Press.

He was born and raised in Rockford, Illinois. He is married, has two children, and resides in Alexandria, Virginia.

RESPONSES TO QUESTIONS SUBMITTED BY SENATOR MOYNIHAN

Question 1: On what basis were the projections in the Annual Trade Projection Report to Congress submitted on March 1, 1989 classified? At the time the legislation requiring such a report was drafted, Treasury did not want to be required to publicly project exchange rates—arguing that this would have an impact on the currency markets. Although I had some hesitation about agreeing to this request, I did so before I offered my amendment on the Senate floor. In the same spirit, the statute specifies that information related to the report may be submitted in confidence by Treasury and USTR. However, this authority has been used to classify every single projection about every single country or group of countries. By this logic the reports of OMB and CBO would have to be classified. Consequently, would you give the separate rationale for the classification of every projection (e.g., trade deficit, economic growth rates, fiscal balances, external indebtedness) in the report, and for each of the countries and group of countries contained therein?

Answer. Classification applies to the various projections for *foreign* countries for essentially one reason. Any projection (e.g., for the 1989 outcome when the estimate is made early in 1989) could well be at variance with a foreign country's own official projections. A publicly-available Treasury staff forecast will be viewed as an official U.S. Government view of the foreign country's prospects. The presentation of a seemingly official U.S. view which can differ from the country's own view may, particularly if it is less sanguine, be offensive to the foreign government in question and also could have an unsettling impact on foreign exchange markets. This clearly contains the potential for harm to our relations with the countries concerned.

According to Executive Order 12356 information, the unauthorized disclosure of which could reasonably be expected to cause damage to the national security—which includes the foreign relations of the United States—should be classified confidential. Our assessment was and is that, in light of the factors mentioned above, release to the public of various economic/financial projections for foreign countries could be detrimental to our relations as described above. Of course, the Congress may have access to these forecasts, but they are not for public use. We would note that Administration forecasts for the United States are unavailable prior to release, and much of the forecast detail is never released to the public. In addition, we understand that CBO never releases all the details of its forecasts.

Question 2. Do you consider the U.S. dollar exchange rates with the currencies of the following countries undervalued, overvalued, or appropriately valued given the relevant economic factors: (i) Thailand, (ii) Malaysia, (iii) Singapore and (iv) Hong Kong? Explain your rationale.

Answer. The Treasury Department is of the view that the U.S. dollar exchange rates with the currencies of the above economies are generally consistent with their economic fundamentals. There are no clear indications of exchange rate "manipulation," within the meaning of Section 3004 of the 1988 Trade Act. We continue to monitor their exchange rate and other economic developments closely.

Thailand—Thailand's global growing trade and current deficits were estimated at $2.1 billion and $2.0 billion, respectively, in 1989. According to Thai data, Thailand's trade surplus with the United States was only $470 million in 1989. Reserves provide about 6 months' import coverage. In real effective terms (i.e., trade-weighted and inflation-adjusted), the Thai baht is virtually the same as in 1987.

Malaysia—Malaysia's global trade surplus declined from $5.8 billion in 1987 to an estimated $4.4 billion in 1989. Its current account surplus declined from $2.6 billion in 1987 (8.8% of GNP) to only $400 million in 1989 (1.1% of GNP). The U.S. trade deficit with Malaysia was $1.7 billion through November 1989, little changed from the 1988 deficit. Total reserves minus gold are lower than in 1987 and provide about 4 months' import coverage. Despite the weakening of its external accounts, Malaysia's ringgit depreciated only by an estimated 0.4% in 1989 in real effective terms.

Singapore—Singapore's global trade deficit has increased steadily since 1986, reaching $6.7 billion in 1989. Its current account surplus declined somewhat in 1989 to $1.5 billion (5.3% of GNP) from $1.7 billion (6.3% of GNP) in 1988. The U.S. trade deficit with Singapore declined 28% through October this year to $1.3 billion. Although external reserves increased somewhat in absolute amount in 1989, they fell in terms of months of import coverage to 5.8 months from 8 months in 1986. In real effective terms, the Singapore dollar strengthened about 4% in 1989 and now stands roughly at its 1986 level. Singapore maintains no significant trade or capital controls.

Hong Kong—Hong Kong's global trade account is in rough balance. Its current account surplus is estimated at a modest $1.5 billion. The U.S. bilateral trade deficit with Hong Kong fell 24% through October this year to $2.8 billion. Information on Hong Kong's reserves is not available. The Hong Kong dollar remains pegged to the U.S. dollar at HK$7.8/U.S.$1. Accordingly, it has lost competitiveness as the U.S. dollar has strengthened this year. Like Singapore, Hong Kong maintains no significant trade or capital controls.

PREPARED STATEMENT OF JOHN E. ROBSON

Mr. Chairman, Members of the Committee, I am honored to have been nominated by President Bush for the post of Deputy Secretary of the Treasury and equally honored to appear before your Committee as you consider whether to recommend my confirmation.

If the Senate confirms me, it will be the fourth time I have been so privileged. Each of my previous experiences in public service has presented a distinct set of problems and opportunities and a different environment in which solutions were fashioned.

The issues on which the Treasury Department has lead responsibility—and of course they are the Nation's problems and not the province of any department or branch of government are not easily resolved. Matters such as the thrift institution crisis, Third World debt, the national budget, drug interdiction, and others, are not amenable to simple, tidy solutions. And, even when responsible solutions are hammered out, implementation often proves exceedingly difficult. In any event, it is my hope to play a constructive part at Treasury and in the Executive Branch in the development and implementation of solutions to various of our nation's problems.

Having previously served as deputy in a cabinet department (at the Department of Transportation), my concept of an effective deputy's role is to act as the chief operating officer of the agency, to marshal its resources so that policy decisions and implementation are orderly and draw upon all relevant opinions, to participate in all the Department's key policy deliberations and decisions, to play a regular role in our relations with Congress, and to temporarily assume the Secretary's responsibilities and authority when necessary.

I look forward enthusiastically to assuming the Deputy Secretary's role at Treasury and will do my best to discharge those responsibilities effectively.

Finally, Mr. Chairman, as I look back on my previous experiences in government, I have found it essential and valuable to work closely with Congress and the committees and staffs that have jurisdiction or interests in the areas of responsibility of the particular agency in which I served. I certainly intend to follow that formula and hope that I will have the opportunity to work constructively with your Committee and staff as well as with your colleagues in the Congress.

Thank you Mr. Chairman. I will be happy to respond to any questions.

Enclosures.

DEPUTY SECRETARY-DESIGNATE, DEPARTMENT OF THE TREASURY

JOHN E. ROBSON CAREER SUMMARY

1986-Present—DEAN and PROFESSOR OF MANAGEMENT, SCHOOL OF BUSINESS ADMINISTRATION, EMORY UNIVERSITY, Atlanta. Georgia

1977-1985—PRESIDENT and CHIEF EXECUTIVE OFFICER, G.D. SEARLE & CO., Skokie, Illinois, $1.4 billion pharmaceutical and Consumer products company. *Executive Vice President and Chief Operating Officer* (1983-84); *Executive Vice President* (1977-1982)

1975-1977—CHAIRMAN, U.S. CIVIL AERONAUTICS BOARD, Washington, D.C.

1970-1975—PARTNER and MEMBER OF EXECUTIVE COMMITTEE, SIDLEY AND AUSTIN, Chicago, Illinois and Washington, D.C. One of the largest U.S. law firms

1967-1969—UNDERSECRETARY and GENERAL COUNSEL, U.S. DEPARTMENT OF TRANSPORTATION, Washington, D.C.

1966-1967—MEMBER OF THE WHITE HOUSE STAFF, The White House, Washington, D.C.

1958-1966—PARTNER and ASSOCIATE, LEIBMAN, WILLIAMS, BENNETT, BAIRD & MINOW, Chicago, Illinois

EDUCATION, MILITARY AND PERSONAL

B.A. decree, Yale Universirsity
Served in the United States Army 1955-1957
J.D. degree, Harvard University Law School
Married, two children

RESPONSES TO QUESTIONS SUBMITTED BY SENATOR RIEGLE

TRADE BARRIERS IN JAPAN

Question: In your opinion, how serious are the obstacles and barriers that U.S. goods and services face today in Japan?

Answer: Despite substantial liberalization, serious barriers to U.S. goods and services do exist in Japan and warrant priority attention. The Japanese Government has made great progress in removing overt barriers to imports. Japan's average tariff rate is among the lowest in the industrialized nations. Many quantitative restrictions and other non-tariff barriers have been removed. Certain restrictions on foreign investment in Japan have been eased, as have once-strict controls on capital flows. In general, there is greater transparency in Japan's trading regime today than there was 10 or 15 years ago. The opening of the Japanese market is reflected in the substantial growth in exports of U.S. goods and services to Japan.

However, the Japanese market is clearly not as open as it could or should be. In cretin sectors, the government continues to impose measures, including discriminatory technical standards and exclusionary procurement practices, that work to keep out competitive imports. In addition, U.S. goods and services face certain structural impediments in the Japanese economy. These include exclusionary and anticompetitive business practices and a distribution system that stacks the odds against the newcomer.

The administration is addressing these issues on a broad front, including:

—designation of Japanese procurement practices for satellites and supercomputers and its discriminatory standards on forest products as priority practices under Super 301;
—a Structural Impediments Initiative that aims to reduce or eliminate structural impediments to balance of payments adjustment;
—efforts to achieve further liberalization and strengthened rules and disciplines on trade, investment, and intellectual property rights in the Uruguay Round of multilateral trade negotiations;
—achieving liberalization and deregulation of Japanese financial markets through the U.S.-Japan Yen/Dollar Talks beginning in 1984.

These efforts demonstrate the seriousness with which we view the remaining barriers to U.S. goods and services in Japan.

BIOGRAPHY OF RUFUS H. YERXA

Rufus Yerxa is the Assistant Chief Counsel of the Committee on Ways and Means, U.S. House of Representatives, and is also the Staff Director of its Subcommittee on Trade. He began his service with the Committee as a professional staff member in 1981, became the Trade Subcommittee's Staff Director 1984, and was appointed Assistant Chief Counsel by Chairman Rostenkowski in April, 1987.

In his present capacity, Mr. Yerxa serves as the principal advisor to the Committee on all trade and international economic policy issues and supervises a 10-member Subcommittee staff of trade experts. Since joining the Committee, he has played a major role in drafting and negotiating many of the most important trade laws enacted by Congress, including the Caribbean Basin Economic Recovery Act, the U.S. Canada and U.S.-Israel Free Trade Agreement Acts, and the Omnibus Trade Acts of 1984 and 1988. He was responsible for coordinating the staff work of 23 House and Senate Committees during the conference on the Omnibus Trade and Competitiveness Act of 1988.

From 1977 through 1981, Mr. Yerxa was with the U.S. International Trade Commission, where he served as legal advisor to the Chairman. In that capacity he was responsible for rendering decisions under various U.S. trade laws which affected many of the Nation's most important industries.

Mr. Yerxa received his undergraduate degree from the University of Washington, his law degree from the University of Puget Sound, and a Masters degree in international law from Cambridge University in England. He is a member of the Bar of Washington State and the District of Columbia.

Communications

United States Office of Government Ethics
Washington, DC, March 30, 1989

Hon. Lloyd Bentsen,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC

Dear Mr. Chairman: In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Mr. Eric I. Garfinkel, who has been nominated by President Bush for the position of Assistant Secretary for Import Administration, International Trade Administration, U.S. Department of Commerce.

We have reviewed the report and have also obtained advice from the Department of Commerce concerning any possible conflict in light of its functions and the nominee's proposed duties. Attached is a copy of a recusal agreement, whereby Mr. Garfinkel will disqualify himself from participating in any matter affecting his wife's business, Back to Basic Toys, or the toy sales industry sector generally.

Based on the foregoing, we believe that Mr. Garfinkel is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

Frank Q. Nebeker, Director

United States Office of Government Ethics
Washington, DC, March 30, 1989

Hon. Lloyd Bentsen,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC

Dear Mr. Chairman: In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Robert R. Glauber, who has been nominated by President Bush for the position of Under Secretary (Finance) of the Department of the Treasury.

The report has been reviewed and advice obtained from the Department of the Treasury concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Upon confirmation, the nominee has indicated his intent to create a qualified diversified trust in which he will place assets eligible for such treatment. He will also recuse himself from participating in any particular matter affecting his former employer, Harvard University. Additionally, he will recuse himself from particular matters involving a number of corporations with which he severed his relationships in 1988, as outlined in his letter to Jeanne Archibald dated April 7, 1989.

Subject to the fulfillment of these commitments, we believe that Mr. Glauber will be in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

Frank Q. Nebeker, Director

UNITED STATES OFFICE OF GOVERNMENT ETHICS
Washington, DC, April 14, 1989

Hon. LLOYD BENTSEN,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC

Dear MR. CHAIRMAN: In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Mr. David C. Mulford, who has been nominated by President Bush for the position of Under Secretary (International Affairs), Department of the Treasury.

We have reviewed the report and have also obtained advice from the Department of the Treasury concerning any possible conflict in light of its functions and the nominee's proposed duties. Because of his financial interests in Merrill Lynch & Co., Inc., Mr. Mulford has executed the enclosed recusal, by the terms of which he will not participate in any matter specifically involving Merrill Lynch. The Secretary of the Treasury has granted the enclosed waiver, pursuant to 18 U.S.C. 208(b)(1), so that Mr. Mulford may participate in policy and legislative matters that may generally affect all entities within the investment banking industry, including Merrill Lynch. Additionally, because of his financial interest in the steel industry, through Caterpillar, Inc., Mr. Mulford has agreed not to participate in matters concerning voluntary restraint agreements relating to exports of steel to the United States.

Based on the foregoing, we believe that Mr. Mulford is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

FRANK Q. NEBEKER, DIRECTOR

UNITED STATES OFFICE OF GOVERNMENT ETHICS
Washington, DC, April 13, 1989

Hon. LLOYD BENTSEN,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC

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 E. Robson, who has been nominated by President Bush for the position of Deputy Secretary of the Department of the Treasury.

The report has been reviewed and advice obtained from the Department of the Treasury concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Upon confirmation, the nominee has indicated his intent to create a qualified diversified trust in which he will place assets eligible for such treatment. He will also resign from a number of positions as outlined in the attachment to his disclosure form, a letter to Jeanne Archibald dated March 30, 1989. The letter also indicates steps being taken to eliminate his interest in Sidley & Austin and the JMD Limited Partnership. Other steps will be taken as outlined in this commitment letter in order to further remove Mr. Robson from any conflicting interests while in government service.

Subject to the fulfillment of these commitments, we believe that Mr. Robson will be in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

FRANK Q. NEBEKER, DIRECTOR

UNITED STATES OFFICE OF GOVERNMENT ETHICS
Washington, DC, April 17, 1989

Hon. LLOYD BENTSEN,
Chairman, Committee on Finance,
U.S. Senate, Washington, DC

Dear MR. CHAIRMAN: In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Rufus H. Yerxa, who has been nominated by President Bush for the position of Deputy United States Trade Representative.

The report has been reviewed and advice obtained from the Office of the United States Trade Representative concerning any possible conflict in light of the Office's functions and the nominee's proposed duties. Based thereon, it appears that Mr. Yerxa will be in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

FRANK Q. NEBEKER, DIRECTOR

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