

**NOMINATIONS OF ABRAHAM KATZ,  
WILLIAM J. DRIVER, AND JOHN L. PALMER**

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**HEARING**  
**BEFORE THE**  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**

**NINETY-SIXTH CONGRESS**

**SECOND SESSION**

**ON**

**THE NOMINATIONS OF**

**ABRAHAM KATZ TO BE AN ASSISTANT SECRETARY OF  
COMMERCE FOR INTERNATIONAL ECONOMIC POLICY; WIL-  
LIAM J. DRIVER TO BE COMMISSIONER, SOCIAL SECURITY  
ADMINISTRATION; AND JOHN L. PALMER TO BE AN AS-  
SISTANT SECRETARY OF HEALTH, EDUCATION, AND WEL-  
FARE FOR PLANNING AND EVALUATION**

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**MARCH 19, 1980**

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**WEDNESDAY, MARCH 19, 1980**

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

The committee met, pursuant to notice, at 10:20 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long, (chairman of the committee) presiding.

Present: Senators Long, Ribicoff, Byrd, Dole, Packwood, Chafee, Heinz, and Wallop.

The CHAIRMAN. Let me call this meeting to order, hoping that the other Senators will be along shortly. I believe that we have Senator Warner here wanting to testify on behalf of one of these nominations. I would like to call the Senator and hear his statement.

**STATEMENT OF HON. JOHN WARNER, A U.S. SENATOR FROM  
THE STATE OF VIRGINIA**

Senator WARNER. Mr. Chairman, I appreciate the opportunity to appear early here this morning. I am preparing myself to join you for luncheon today. That is a major event in the U.S. Senate this year.

The CHAIRMAN. We expect to have some good Virginia seafood along with Louisiana seafood. We are not leaving Virginia off.

Senator WARNER. We appreciate that recognition.

It is a distinct pleasure to introduce the committee this morning to my fellow Virginians. One is nominated for the position of Commissioner of the Social Security Administration and the second is to be Assistant Secretary for the Department of Health, Education, and Welfare.

In this period of history when there is abroad in our land so much distress and cynicism about government and public officials, it is imperative that we give special scrutiny to the character and qualification of those singled out for positions of important public trust.

Both of these nominees that I introduced this morning have something in common beyond the fact that they have the good judgment to make their homes in Virginia. Both of them have compiled impressive public service records.

Mr. William J. Driver, who is acquainted with the chairman, and who is accompanied this morning by his wife, comes before us as the President's nominee as the Commissioner of the Social Security Administration. I know of no other position in Government that is more important really to the retired persons who have served so well and long.

He has experience which includes private enterprise as well as dedicated public and military service to our Nation. Mr. Driver was educated at Niagara University and George Washington University, receiving a bachelor of science degree and a law degree and a masters of public administration. He served for 10 years in the Veterans' Administration and another 10 as president of the Manufacturing Chemists Association.

Mr. Driver has received many honors during his distinguished career, among them, Mr. Chairman, is quite a recognition for his military service.

Dr. John Palmer has been nominated as Assistant Secretary for the Department of Health, Education, and Welfare. I understand that name will continue here through perhaps June, when it will change to the Department of Health and Human Services. He likewise has had a varied and noteworthy career.

He received his bachelor of arts from Williams College in Massachusetts with a major concentration in mathematics and a minor in English. Dr. Palmer then went on to earn his doctorate in economics from Stanford University with fields of specialization in labor economics and public finance. In addition, he has performed research on low-wage labor markets under an OEO grant.

In the early seventies, Dr. Palmer was an associate professor of economics at Stanford University teaching courses, again, in economics public finance and public policy. Since that time, except for a brief interlude as a senior fellow at Brookings, he has served in various capacities with the Department of HEW, these positions including work in the Office of Planning and Evaluation where he served as Deputy Assistant and now he is Acting Assistant Secretary.

It seems to me that throughout his years of service he has discharged his responsibilities with complete honor and integrity.

Mr. Chairman, I thank you for the opportunity to appear on behalf of my fellow Virginians this morning. I hope this committee acts favorably on the President's nomination.

The CHAIRMAN. Thank you very much, gentlemen. Any questions, gentlemen?

Thank you.

I am going to call on the nominees in the order that we have them listed on the agenda here.

First, I am going to call on Mr. Abraham Katz, nominated to be Assistant Secretary of Commerce.

Mr. Katz, you have a very impressive background to qualify you for this job. You have been Assistant Secretary for International Economic Policy in the Department of Commerce responsible for

polymaking implementation, economic analysis and research in international trade.

You have served as Deputy Secretary for International Economic Policy for research in the Department, responsible for developing policies in international trade, finance and investment for economic research in these fields.

You have served as deputy chief of the U.S. mission to the Organization of Economic Cooperation and Development in Paris, OECD. I believe I ran into you there on occasion when you were serving in that capacity.

So far as I know, you were doing a good job over there for the United States. At least, nobody told me you were not doing a good job at that point.

You served as Director of OECD for the European Community and Atlantic Political Economic Affairs. You were with the Department of State. As a matter of fact, I think you had enough experience that you might even be able to show the committee how to find its way around Europe and find out some of the things that it needs to know over there.

We are impressed with your background and I would take it that any potential conflict of interest has been considered and cleared as far as the committee and staff and the White House is concerned.

Mr. KATZ. Yes, sir.

The CHAIRMAN. Can you give me some idea as to what you think the problems will be in seeking to do business with the committee, and the House committee, and your new responsibility?

[The biographical data of Abraham Katz follows:]

ABRAHAM KATZ

FOREIGN SERVICE OFFICER, CLASS 1

*Professional experience*

January 9, 1980 to present: Assistant Secretary for International Economic Policy, U.S. Department of Commerce, as provided for in Sec. 8(b) of Reorganization Plan No. 3 of 1979; responsible for policy making, implementation and economic analysis and research in international trade, finance, and investment, including the textiles program.

October 1978-January 9, 1980: Deputy Assistant Secretary for International Economic Policy and Research, U.S. Department of Commerce. Responsible for developing policies in international trade, finance and investment and for economic research in these fields.

1974-78: Deputy Chief of U.S. Mission to the Organization of Economic Cooperation and Development (OECD) in Paris with the diplomatic rank of Minister Counselor.

1967-74: Director, Office of OECD, European Communities and Atlantic Political Economic Affairs, Bureau of European Affairs, Department of State, Washington, D.C. (In 1974 was detailed to head the International Energy Task Force charged with preparations for the Washington Energy Conference, and to negotiate the US-USSR Agreement on Energy of 1974.)

1966-67: Fellow, Center for International Affairs, Harvard University.

1964-66: Counselor for Economic Affairs, American Embassy, Moscow, USSR.

1959-64: First Secretary, U.S. Mission to NATO and European Regional Organizations (USRO); Secretary of Delegation, U.S. Mission to OECD.

1957-59: Chief, Foreign Economic Section, Soviet Union and Eastern Europe Division, Bureau of Intelligence Research, Department of State. (In 1958-59 detailed by the Under Secretary of State to the staff of President Eisenhower's Committee on World Economic Practices—a committee of leading businessmen. Later detailed to negotiate development finance issues in "Operation Pan America".)

1956-57: Graduate studies in Soviet Affairs, Harvard University.  
 1956: Russian language training, Foreign Service Institute.  
 1953-55: Second Secretary, Economic Officer, American Embassy Mexico D.F., Mexico.  
 1951-53: Vice Consul and Principal Officer, American Consulate, Merida, Yucatan.  
 1950-51: Officer-in-charge reimbursable military assistance, Office of the Special Assistant for Mutual Defense Assistance, Department of State.

*Education*

Harvard University, Ph.D., Political Science (Soviet Government, international law, international relations, political theory, Russian history, Soviet economics), 1968.

Columbia University, School of International Affairs, M.I.A., (international relations, Latin American Affairs), 1950.

Brooklyn College, A.B. (Cum Laude), (political science, international relations, law and organization), 1948.

*Honors and awards*

Department of State Commendable Service Award, 1953; Meritorious Service Award, 1963.

*Professional societies*

American Political Science Association; American Comparative Economics Society; American Association for the Advancement of Slavic Studies; American Foreign Service Association.

*Publications*

"The Politics of Economic Reform in the Soviet Union," Praeger, 1972; "The 'Atlantic Community' Reappraised, A Washington Perspective." Proceedings of the Academy of Political Science, XXIX, 2, 1968.

**STATEMENT OF ABRAHAM KATZ, ASSISTANT SECRETARY FOR  
INTERNATIONAL ECONOMIC POLICY, U.S. DEPARTMENT OF  
COMMERCE**

Mr. KATZ. Senator, it is an honor to be here before you as the President's nominee for this very, very important job. As you know, this is the first job that you will be considering as part of the President's trade reorganization—at least the first position in the Commerce Department team.

Our assignment is awesome in scope. It is to turn the trade situation of the United States around. Obviously, we are not going to turn it around tomorrow, but we have to begin working on this in a very consistent, coherent manner.

We have started. We have laid our plans. In the short run, we have to implement the MTN and assert our rights very vigorously under those trade agreements. We have to go into a clear-out export policy which means tackling the very nasty issue of incentives and disincentives to trade.

I have already spoken to some of the Senators about that and they have some important ideas on this. Beyond that, we have to move to deal with some very specific industry trade and investment issues. They are all wrapped up, as you well know.

We hope to work very closely with you, Senator, and with your colleagues on this committee, because this is not a job that any one person or any one department can do by himself or itself. We have to work as a team on this, and with private enterprise obviously. They are the ones who are going to make it work.

Thank you, Senator.

The CHAIRMAN. Let me tell you one thing that is troubling me right now, Mr. Katz.

The Japanese are paying their farmers about \$1,200 a metric ton for rice. Then they are proceeding to take that rice and dump it on the world market for whatever they can get, which would have to be somewhere between \$300 and \$400 a ton.

We are trying to compete, and every time they dump on that market, it means that there is just that much less market for our rice producers. We can produce rice to meet the world market price, but we cannot compete with the Japanese when they are just dumping it for whatever it will bring, and when they are paying their farmers three times, or four times, the cost of production to produce it.

Something ought to be done about that.

My reaction is that to go through all these procedures that we have got spelled out and trade laws that we passed awhile back, and which you will have some responsibility in administering, will be a long, frustrating procedure. It might not accomplish one blessed thing, but under the General Agreement on Tariff and Trade, with the kind of deficit we have right now, we have the right to put quotas on imports and put fees on imports and I think we have some discretion as to how we do it.

It seems to me that if we just invoked that authority, whoever that Japanese Ambassador is, we will have a new one. And I am not here to take issue with the person, I am just talking about the policy.

Whoever their Economic Minister is, Trade Minister, Foreign Minister, they will all be coming to see us the minute we do that. That would be a good time to talk to them about that rice and say, Look, we are sorry about that.

Senator DOLE. Talk about the wheat.

The CHAIRMAN. Senator Dole says we should go down and talk about the wheat, too.

Rather than go through all these procedures, if we would do business on a somewhat different basis, we could wrap up some of these things in a hurry.

There is nothing new about that, as far as the union people in the United States are concerned. They are experts at getting somebody's attention when they are getting the worst of it by doing whatever needs to be done to attract those people's attention and then say, You know, we would be happy to do business with you.

All I am talking about is doing something that we have every right to do, to say that would be a good time to talk to them and see if we cannot work out our differences.

Can we really afford to run these huge deficits we are running right now?

Mr. KATZ. No, sir. We cannot afford it. We ran a deficit of \$24 billion on merchandise trade in 1979 while our current account was a lot smaller, under \$1 billion.

When you run a deficit like that it has a very bad effect on our inflation, it has a very bad effect on our employment situation. We have got to turn that around. That is the assignment. We have to turn it around in manufacturing and agriculture.

The rice issue is very much on our agenda, I can assure you, Senator.



The CHAIRMAN. All right. Senator Dole?

If you would pardon me, gentlemen. I am just going to go by seniority on the Republican side today. All of you showed up late. There was not that much difference in the time you showed up.

Senator Dole?

Senator DOLE. At least we showed up.

The CHAIRMAN. Looking at the Democratic side, I was here on time. I will protect the Democratic side.

Senator DOLE. They are next door trying to save the country.

The CHAIRMAN. And I will vote for them.

Senator DOLE. I have no questions. I think certainly the résumé looks even better than George Bush's. Besides, you went to Brooklyn College. I spent a little time there.

We have one thing in common. I share the view expressed by Senator Long, and I think it is widespread. We certainly want to cooperate.

Our trade expert, Senator Roth, was here earlier, but he is gone. I think you probably met with Bill.

Mr. KATZ. I have.

Senator DOLE. And Senator Ribicoff?

Mr. KATZ. Senator Ribicoff. Yes, sir.

Senator DOLE. They both have a direct interest, as chairman and ranking Republican, on the Trade Subcommittee.

I have no further questions.

The CHAIRMAN. Thank you.

Senator Packwood?

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

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. Yes, Mr. Chairman.

Mr. Katz and I met before the hearing. The point I would like to make Mr. Katz, is that your duties in the Department of Commerce, extend far beyond the MTN situation. If we are to achieve major improvements in our trade record, somebody has got to be a forceful spokesman for a whole series of legislative issues that the administration does not seem to be embarking on.

We are looking forward to things from Mr. Jones' Export Council. When are we going to hear from them?

Mr. KATZ. Well, Mr. Jones' committee will have its input into the administration's report to the Congress on July 15 under the Trade Agreements Act, we are supposed to give you a complete report on trade promotion and disincentives and we are going to try to come up with some actionable, doable things in the short run. Then his final report is due at the end of the year.

Senator CHAFEE. As you and I discussed earlier, I am deeply interested in this whole area. The MTN, the antidumping and countervailing duties issues are one problem, but on the other side of the equation is a whole series of things that this country can do to encourage increased exports by eliminating disincentives.

You and I discussed the taxation of Americans abroad, as well as doing something about the Foreign Corrupt Practices Act. Do you consider that within your jurisdiction as well, or do you consider that under the domain of Treasury and Justice?

Mr. KATZ. Within the Department of Commerce, my jurisdiction is to try to formulate policies on all of the incentives and disincentives

and after we spoke, Senator, my staff met with yours on the Foreign Corrupt Practices Act and what could be done to eliminate some of the ambiguities there.

That definitely will be part of our report and recommendations as a part of the President's report due on July 15.

Senator CHAFEE. July 15 is a long way away. What do you think about the taxation of American's abroad, the present law?

Mr. KATZ. My own view is that there will have to be a change in that legislation. I think that the legislation right now is hurting American business and hurting our ability to export.

The President, as you know, Senator, has said that he still would like to get a little bit more experience with the current bill before taking an administration position on any changes in the legislation because the legislation really is too recent to come to any definitive conclusions. But our preliminary evidence in the Commerce Department—and this is not an administration position yet—is that this is hurting and something will have to be done about it.

Senator CHAFEE. Suppose we get the legislation before us and you come up and testify.

Mr. KATZ. Yes, sir.

Senator CHAFEE. Are you going to testify as to what you know from your experience, or are you going to tell us what the administration says?

Mr. KATZ. When I testify, I will be bound, as you know, by the rules of the administration, but we will try within that framework to give you as much positive testimony as we can.

Senator CHAFEE. We certainly could use such testimony, because I think that the President's viewpoint really did not show much thought.

Anyone who has spent any time abroad as you have, and particularly in the lesser developed countries or the countries that are out of the OCEA area, knows that the Americans are not going there, and I suspect that it is true in London as well, or in the European Community. You have seen it there.

I hope we can make some progress in those areas of trade disincentives.

Mr. KATZ. I hope so too, Senator.

Senator CHAFEE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Heinz?

Senator HEINZ. Thank you, Mr. Chairman.

Mr. Katz, correct me if I am wrong, but I think, if confirmed, you will be the first confirmed appointee to the new Department of Commerce in its new role as International Trade Administrator. Is that correct?

Mr. KATZ. Yes.

Senator HEINZ. At this point, that would mean there would be two other Assistant Secretaryships, a Deputy Under Secretaryship and an Under Secretaryship vacant in terms of people nominated and confirmed, even though there may be some acting people in those jobs. Is that right?

Mr. KATZ. Senator, the Deputy Under Secretary position is not a Presidential appointee subject to confirmation by the Senate.

Senator HEINZ. Of the four positions that are subject to confirmation, three would be legally vacant, even if filled by acting?

Mr. KATZ. Yes, sir.

Senator HEINZ. You would be the only one.

Mr. KATZ. Yes, sir.

Senator HEINZ. It seems to me that time is of the essence. Our trade balance was over \$4 billion in deficit in the month of January.

Do you anticipate from what you know—and I am sure you know a good deal of what you are getting into. You would not be getting into it if you did not—that these positions are going to be filled promptly?

Mr. KATZ. These positions will be filled promptly.

The designations are clear. It will be Bob Herzstein as Under Secretary for Trade and Herda Siedman as Assistant Secretary for Trade Development.

The one position not yet announced is Assistant Secretary for Trade Administration although we have two Deputy Assistant Secretaries aboard, one for imports and one for exports. But we are working as a team already, Senator. We just have not been able to wait for all of these procedures to be completed.

The reason I am up here first is that I am a Foreign Service officer who has been on board and therefore it was much easier to process me.

Senator HEINZ. One of the things you will be overseeing in addition to trade agreements, in addition to textiles and apparel, is policy, planning, and analysis?

Mr. KATZ. Yes, sir.

Senator HEINZ. The administration had, I believe, an interagency task force that had as its mission the quantification and critical analysis of export disincentives. That report has receded back into the woodwork.

I understand it was very embarrassing to the administration.

What will be your role in making available to this committee and to the other committees that deal with this issue, such as the International Finance Subcommittee of Banking, the substance of those interagency reports?

Mr. KATZ. Senator, the subject certainly has not receded into the background. I do not know if you recall, but recently the President issued a statement based on the completion of the first phase of our work.

Senator HEINZ. I read the statement very carefully.

Mr. KATZ. For my sins, I was responsible for putting that particular phase of the work together and reporting to the National Security Council which ordered the study and, as you may have noted from the statement and from the report itself, which is available, the President essentially reported progress on five major disincentives and how he intends to proceed on these five, the five being the Foreign Corrupt Practices Act, the boycott, the foreign policy controls and the Export Administration Act, nuclear nonproliferation controls and arms export controls.

On each of these there is some progress but much work remains to be done. This is not going to be done overnight and there will be further recommendations on both the disincentives and incentives in connection with the second phase of the work which will be the preparation of the report of the President to the Congress on July 15.

Senator HEINZ. Mr. Katz, I appreciate that answer. I know the position you are in. Nonetheless, I have to observe that you are right

to say that it is not going to be done overnight. It is probably something of an understatement, given the speed with which this administration seems to act on things.

In the language of the White House, there is no word which conveys the sense of urgency of the word *manana*. That was a joke. Nobody got it.

But I am very concerned, given the fact that it is an election year and given the fact that each of the issues are controversial, that there is a constituency on both sides of those issues and politicians have a habit of not wanting to get into controversy and challenge in an election year.

It seems to me that we in the Congress ought to know exactly what the raw material you are working with is and the raw material, as I understand it, is the interagency task force report on export disincentives. To repeat my first question—

Mr. KATZ. That report is available to you, sir.

Senator HEINZ. Will we be able to get that report in its entirety together with the studies that it is based on?

Mr. KATZ. We will give you the report. There are pieces of paper that underly some of the report which may or may not interest you, but some of these are agency documents and we will have to ask each of the agencies for them. And some are classified.

Senator HEINZ. Would you please do us this favor? Would you identify for us all of the documents that are relevant and we can tussle with the agencies independently, but we need at least disclosure of what was prepared?

Mr. KATZ. Yes, sir.

Senator HEINZ. I, myself, believe if anything is prepared by an agency, since we created the agency, we have a right to that.

Thank you, Mr. Chairman.

Mr. KATZ. Thank you, Senator.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Mr. Secretary, you mentioned that the Department would have an Assistant Secretary for Export and an Assistant Secretary for Import?

Mr. KATZ. Excuse me, Senator. Under the Assistant Secretary for Trade Administration there will be two Deputy Assistant Secretaries. There is already in place a Deputy Assistant Secretary for Import Administration and one for Export Administration.

The one for Import Administration handles such matters as subsidies, countervailing duties, antidumping. The Deputy Assistant Secretary for Export Administration handles the area that you know quite well, Senator, of export controls.

Senator BYRD: Who is that individual?

Mr. KATZ. Eric Hirschorn, formerly of OMB.

Senator BYRD. I beg your pardon?

Mr. KATZ. Eric Hirschorn, formerly of OMB.

Senator BYRD. What is the status of the proposal in regard to the export of technology and whatnot to Russia? What is the status of that ongoing report?

Mr. KATZ. Sir, I just wish to clarify that that is not my responsibility, but I understand that we are about ready to come out with this, the consultation with our allies and partners.

Senator BYRD. In other words, the Department has completed its deliberations?

Mr. KATZ. Yes, sir. We have done our work.

Senator BYRD. And has reached a conclusion?

Mr. KATZ. We are ready to go.

Senator BYRD. You are ready to submit to our allies, you say?

Mr. KATZ. That already has been done and it shall be announced very closely, any day now.

Senator BYRD. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator BYRD. One other question.

The CHAIRMAN. Senator Byrd?

Senator BYRD. With whom should I be in touch in that regard, Mr. Hirschorn?

Mr. KATZ. Mr. Hirschorn, yes, sir.

Senator BYRD. Thank you.

The CHAIRMAN. Senator Wallop?

Senator WALLOP. I have no questions.

The CHAIRMAN. Thank you very much.

Mr. KATZ. Thank you, Senator.

The CHAIRMAN. Let me call on Mr. William Driver, the nominee for Commissioner of Social Security, Department of Health, Education, and Welfare.

Mr. Driver, some of us have known you for a long time in Government. I have known you ever since I have been here.

I had the privilege of meeting you when I came on the scene and you served as Administrator of the Veterans' Administration from 1965 to 1969. And you have served in a number of other important positions in this Government, as well as having a distinguished military record.

Your most recent job from which you came to us was in the Manufacturing Chemists Association. Are you still president of the Manufacturing Chemists Association, or have you resigned from that job?

[The biographical data of William Driver follows:]

#### DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

##### SOCIAL SECURITY ADMINISTRATION

Name: William Joseph Driver.

Position: Commissioner, Social Security Administration, Department of Health, Education, and Welfare, January 1980.

Former positions: President, Manufacturing Chemists Association, 1969-79; Administrator, Veterans Administration, 1965-69; Deputy Administrator, Veterans Administration, 1961-65; Chief Benefits Director, Veterans Administration, 1959-61; Director, Compensation and Pension Service, 1956-59.

Education: George Washington University, Washington, D.C. M.P.A., 1965, Public Administration; George Washington University, Washington, D.C., LL.B., 1952, Bachelor of Laws; Niagara University, New York, B.S., 1941, Business Administration.

Military experience: U.S. Army, 1952-53, 1941-46.

Honors: Legion of Merit, Bronze Star, Order of the British Empire, Croix de Guerre.

**STATEMENT OF WILLIAM DRIVER, COMMISSIONER OF SOCIAL SECURITY**

Mr. DRIVER. I have resigned. I haven't been with them for over a year.

The CHAIRMAN. What are you doing right now?

Mr. DRIVER. I am with the Social Security Administration on an interim appointment as Commissioner, going back and forth to Baltimore.

The CHAIRMAN. You are seeking appointment to the job you are filling right now, then?

Mr. DRIVER. Yes, sir.

The CHAIRMAN. That is, if you are confirmed?

Mr. DRIVER. Yes, sir.

The CHAIRMAN. I think you did a good job as Administrator of the Veterans' Administration.

You have cleared with the committee staff as well as with the administration any potential conflicts of interest in doing this job?

Mr. DRIVER. Yes, sir.

The CHAIRMAN. I really have no questions to ask you. Perhaps some of the other members may have some questions to ask you about this matter.

Senator Dole?

Senator DOLE. I yield to Senator Byrd from Virginia.

Senator BYRD. Thank you. I have no questions.

Senator DOLE. I share the views expressed by Senator Long. You have done an outstanding job in the Veterans' Administration and you still have an interest in veterans, as we all have.

Now and then they have little social security problems. It used to be that they got a decrease in social security when they got an increase in the veterans compensation. So you will be aware of that if that happens again.

I think we have taken care of that problem.

I think Senator Long is correct, we are fortunate in having someone like you willing to continue to work.

Thank you.

Mr. DRIVER. Thank you, Senator.

The CHAIRMAN. Mr. Chafee?

Senator CHAFEE. I just want to say, Mr. Chairman, I think Mr. Driver is taking on one of the three or four most challenging jobs in the U.S. Government and it is going to get more challenging and I just hope that you will give us your thoughts on what we might do to keep this in good shape as we go along.

It may be that we will not enact the suggestions, but I certainly hope the suggestions will come forward.

Apparently the latest round of increases, not only the one last January but the one next January, are not going to be sufficient to keep the funds solvent on the retirement side. Is that correct?

Mr. DRIVER. Yes, sir.

We would hope that we could persuade you to grant us the authority to borrow from the other funds so that in the short range the OASI

fund would be solvent. Standing alone the outgo will exceed the income, and it is in difficulty.

Senator CHAFEE. Your suggestion is that the borrowing will be tided over until the full effect of the raises, the increased taxes plus the increased base will produce the adequate revenue. Do you see the fund remaining solvent with the protections, the tax increases that have been enacted and the increased base for the future?

Mr. DRIVER. Yes, we do.

Senator CHAFEE. With what kind of inflation rate are you using?

Mr. DRIVER. We project it will come down from what it is now, and we certainly hope that is accurate.

Just at the moment for example, we are projecting a 13 percent cost-of-living benefit increase in June 1980. We project the benefit increase will be 9.9 percent next year and less in the future.

We are not predicting double digit inflation into the indefinite future.

Senator CHAFEE. I am not saying for the indefinite future, but for the next 3 years. Take the year 1990. What projection are you using?

Mr. DRIVER. This year we are projecting a 13-percent benefit increase.

Senator CHAFEE. Next year 9 percent?

Mr. DRIVER. 9.9 percent for 1981, yes, sir.

Senator CHAFEE. Less than 10 percent?

Mr. DRIVER. That is right. We project an 8.4-percent increase for 1982.

Senator CHAFEE. If you are wrong, then what happens?

Mr. DRIVER. Even if we are wrong, if we are not substantially wrong, we think we will weather the short-term storm, if we have interfund borrowing.

The disability fund and the hospital fund are substantially above the prior estimates now and into the near-term future and the three funds combined should give us a sufficient reserve so that the retirement fund would be adequate.

Senator CHAFEE. What is happening in the conference on the disability where the Senate approved that Bayh amendment? Is that in conference now?

Mr. DRIVER. It is awaiting the results of conference; yes, sir.

Senator CHAFEE. Is the administration against it, against the Bayh amendment?

Mr. DRIVER. Yes, sir.

Senator CHAFEE. Are you going to prevail in conference?

Mr. DRIVER. If I could poll the committee, I would have a better idea. I really do not know, sir. I would hope so.

Senator CHAFEE. I hope so, too.

Thank you.

Senator DOLE. May I just ask one question because there has been some discussion around—maybe it has been discarded—that we change the CPI formula so that the increase in social security benefits due to indexing would not be as great.

Is that still under active consideration?

Mr. DRIVER. You hear a lot of conversation about it, but I do not know if there is any specific effort in that direction. There has been conversation as you indicated.

Senator DOLE. Do you think that the indexing does, in effect, overcompensate social security beneficiaries with the present formula?

Mr. DRIVER. Of course, Senator, it depends on what category of beneficiary you are looking at. If you were to adjust the index, for example, as has been suggested to attempt to offset what might be considered a heavy influence of mortgage rates and use that index for the aged or the retired population, I think that in some situations the results could turn out to be far from satisfactory.

The more you look at it, the present CPI does not look so bad for all categories and everything considered.

Senator DOLE. Right. I guess that would take some legislative expression.

Mr. DRIVER. Yes, sir.

Senator DOLE. It has occurred to some that we just give the President that authority. We give him the authority and he could lower those payments if he wanted to.

Mr. DRIVER. Yes, sir.

Senator DOLE. One word of assurance—as we travel around our States there are a lot of young people who are concerned about the future of the social security system. Could you give them some word of assurance that it is not hopeless, that the system is sound?

Mr. DRIVER. I think the system is very sound. The fact that it has survived as well as it has since 1935 when it was enacted indicates clearly, in my opinion, the support that it has from the American people and the Congress year after year. The courage that Congress exhibited in 1977 when they enacted the present tax rates that go into effect in the future indicated that support.

One further thought—and I think you would have experienced this abroad in the land—there is little appreciation of the other aspects of social security beside the retirement aspect.

The protection that a young worker has from disability or from death, especially for the survivors, is really an enormous benefit package that you find very difficult to replace in the private insurance market at the rates that are paid under social security. That does not come out when you talk to younger workers and I think that this is an area where we have a great deal of work to do to get that word out.

Senator DOLE. What about bringing Federal employees into the system. Is that a matter under active consideration?

Mr. DRIVER. This issue is before a study group that was established as a result of Congress interest. We expect a report in the very near future.

Senator DOLE. That would be given to the Congress, the recommendation?

Mr. DRIVER. Yes, sir.

Senator DOLE. Then there is another matter—some feel that the Social Security Administrator and the Members of Congress should be in the system.

Mr. DRIVER. Yes, that is clearly expressed. If Federal employees can administer this program, why can they not be part of it?

This is one aspect of it, and that is one of the things that will be explored in this study.

Senator DOLE. Thank you.

The CHAIRMAN. Senator Byrd?



Senator BYRD. Mr. Chairman, I am prompted to ask a question as a result of your reply to Senator Dole. You mentioned the courage of the Congress in increasing the social security tax in 1977.

I assume by that that you would feel it unwise to change or reduce that tax, as has been proposed in certain circles?

Mr. DRIVER. Yes, I would, Senator. I think that those increases in both the base and the rates projected into the future under the present law are essential to the integrity of the funds. I think that they represent long-term permanent solutions and to do other expedient things at the moment would be unwise.

Because of that, I would rather see the long-term solution stay with the program.

Senator BYRD. I would think that that would be the sound procedure. I think that social security program is probably more important to more people than any other government program and I think the Congress has an obligation to be certain that it is appropriately funded.

Mr. DRIVER. Yes, sir. There is enormous interest in it.

We are mailing out 36 million checks a month now all over the country.

And as you know, I am sure, from your own mail, it is a very active subject.

Senator DOLE. May I ask one more question?

The CHAIRMAN. Yes, sir.

Senator DOLE. There is another matter of controversy, taxation of social security benefits, that has been advocated by the advisory committee.

Mr. DRIVER. Yes, sir.

Senator DOLE. Maybe you do not pick up enough revenue—there are a lot of people who receive social security benefits who would not miss the check, the whole check, let alone a tax on the check.

Is there any information available on what income level recipients may be affected?

Mr. DRIVER. Yes.

Senator DOLE. Do you think that you could structure—I am not recommending it—but could a tax be structured where it would only impact on high-income Americans?

Mr. DRIVER. Of course, this presumably is in the tax structure now. If you would count social security as taxable income, it would fall within the general tax categories and the current revenue laws would govern the amount of tax to be paid.

I know from my own observation of the tax laws that there is a great deal that could be done in this area. But I would certainly defer to the Internal Revenue and Treasury people in that area.

You would be flying pretty hard in the face of a long-term tradition, as I know you realize.

Senator DOLE. I am not suggesting it. I do not suggest any more taxes, but you find people from time to time who say it is all right to tax my benefits. I do not need the check. In any event, there are a lot of people around like that. I do not know if it would be enough to make any difference.

Senator CHAFEE. I sure have not found them in my area.

Senator DOLE. I was visiting Louisiana—

The CHAIRMAN. It seems to me as though it is about time for me to come out courageously against taxing social security benefits. I just have not found any great amount of support for it anywhere.

Mr. DRIVER. I have heard a lot of antitaxation feeling.

The CHAIRMAN. If anybody here has found any substantial support for the idea of taxing social security benefits, I think he ought to speak now or forever hold his peace. I just have not found any support for that proposition.

You might find some somewhere around Washington, but with the people, I do not find any support. It really has not been sold to me at all.

I remember when President Johnson wanted me to lead the charge for him for a 10-percent surtax on income tax back at that time I was busy seeking reelection. I told the President I was sorry, I just could not help him with that, that the people just were not for it.

He might get a feeling around Washington that people favored a 10-percent add-on tax, but there was no support for it. If you happen to discuss this matter with the President and he hopes to balance the budget by taxing social security benefits, I hope you will tell him, Mr. Driver, that the reports that you get from those of us on the committee are that the people do not favor that; the rank and file of people in this country are just not in favor of taxing their social security benefits.

Mr. DRIVER. I will try to remember that.

Senator CHAFEE. Mr. Chairman?

The CHAIRMAN. Mr. Chafee?

Senator CHAFEE. Mr. Driver, I will tell you one thing that has always been helpful to me anyway when we sit up here on this committee, is when measures come up that deal with the social security fund, and particularly increasing the benefits which, in effect, constitutes a greater draw on the fund, I think that it has got to be very forcibly pronounced by those who deal with the fund on a daily basis the effect that those withdrawals are going to have.

In other words, I think that this fund has a lot of problems and just the inflation rates that you predicted, if we get a 13-percent inflation rate for 1980, I think that we will be doing very, very well and I do not see it in the cards myself, and when you go up a point or two points on the inflation rate, the withdrawals in the fund vastly are accelerated.

Is that no so?

Mr. DRIVER. That is right.

Senator CHAFEE. You, yourself, said that the retirement part of the fund is going to be empty except for the withdrawals for the disability share it would be broke, by what, 1981?

Mr. DRIVER. Under current estimates, the OASI fund would be exhausted in 1982. By late 1981 or early 1982, we would need to borrow funds.

Senator CHAFEE. That is an ominous situation, I believe. Therefore it is very popular for people to come in for increasing the benefits like the Bayh amendment, but I think that it is tremendously helpful for me—I do not know about the others—if those dealing with the funds, such as yourself, will forcibly say that the effect—and it is going to require an increased tax if we have more withdrawals.

I hope you will do that.

Mr. DRIVER. Thank you, sir.

Mr. CHAIRMAN. Mr. Driver, I have been trying to figure out some way we could help the President balance the budget, and the more I think about it the more I believe we need to get the Rules Committee to report something out where the committees can all make their share of recommendations on what we ought to have to balance the budget.

They would all have to be wrapped up in one package by somebody, the Budget Committee, or whoever, and then have a rule that you have to vote on the whole thing, up or down.

If we take something out there to balance the budget, I think we could get a majority of the votes to vote for it, provided that the Senate cannot pick it to pieces.

Otherwise they are going to pick the bone clean, based on our experience.

We went out there for a \$1 billion reduction of a program out of control, the program for disability insurance. The House had the courage to vote for \$1 billion for savings, but they had a closed rule, and I think the Senate has as much statesmanship and courage as the House Members, but we do not have that closed rule.

The Senate turned our economy proposal around and made a bill to increase spending.

If we are going to make any headway, we are going to have to have the benefit of a closed rule at some point. I have discussed it with the majority leader.

I guess he has served on the Rules Committee and he is not too excited about the idea, but it seems to me, one way or the other, we are going to have to find a way that we can vote on a package that will help balance the budget and economize rather than something where people will pick it to pieces by floor amendments.

If they do, well, I guess you saw what happened when we were out there last time trying to save money on the disability program, did you not?

Mr. DRIVER. Yes, sir. I am glad to hear you speak with such determination in this area. I hope you are successful.

The CHAIRMAN. Let me tell you, I was the one who voted with corpses left out there on the battlefield when the thing was all over, when the troops retreated from the scene, with half our troops going to the enemy.

There were 12 of us not there. Harry Byrd, I recall, was out there. I believe Bob Dole was, too.

On the final vote, there were not many. Just a few of us left out there on this committee. We were well represented by those who had the courage to stand there and do their reluctant duty and say that we cannot afford all of that. If you eliminate the waiting period for everybody, how much is it going to cost? Three billion dollars a year, is it not?

Mr. DRIVER. At least that much over the first 2 years. Our estimate for the first year alone is about \$1½ billion.

The CHAIRMAN. Do not a lot of paraplegics—goodness knows you worked with them when you were with the VA—

Mr. DRIVER. It is very hard to draw the line.

The CHAIRMAN. Do they not have just as pitiful cases as many of those people who have cancer?

Mr. DRIVER. Yes; they do. There are many people who, if you really know all the facts about their condition, would incur your sympathy. The fact that you cannot see the disability does not mean a thing, when you examine their medical and mental records, so it is difficult to draw the line.

The CHAIRMAN. Cancer is not the only fatal disease; is that not correct?

Mr. DRIVER. Unfortunately not. The medical books are full of them, as you well know.

Of course, in the Veterans' Administration, the most appealing cases often come in wheelchairs, but those are not necessarily the worst cases on the books, as I am sure you know.

They are just not.

The CHAIRMAN. At some point we have to decide how we are going to pay for all of this. Goodness knows, you have had that burden over there in the VA, have you not?

At some time, we have the burden of saying no, I am sorry. We only have so much money to work with. Is that not so?

Mr. DRIVER. Yes.

The CHAIRMAN. Is that not the way we are going to get that disability program in control, to say, I am sorry, this is all the money we have?

Mr. DRIVER. There is no doubt about that. The kind of determination that you are expressing here this morning is the kind you are going to have to convince your colleagues to bring to the table when you consider that bill.

It is difficult, I know.

The CHAIRMAN. Maybe there is some way we can communicate that to these people. During an election year, they all want to go out and vote for more benefits and they do not want to vote for the tax.

If you put it all together it is a little bit different.

Mr. DRIVER. It is an appealing thing and there is no question, it is very hard to resist.

The CHAIRMAN. Thank you very much.

Mr. DRIVER. Yes, sir. Thank you, sir.

The CHAIRMAN. We will hear from the other nominee before us today, John L. Palmer, presently serving as Acting Assistant Secretary for Planning and Evaluation. Mr. Palmer here is nominated to be Assistant Secretary for Planning and Evaluation of HEW.

Mr. Palmer, we are pleased to have you before us. I take it any potential conflict of interest has been cleared as far as you are concerned?

[The biographical data of John L. Palmer follows:]

#### JOHN L. PALMER

October 1979 to present: Acting Assistant Secretary for Planning and Evaluation, Department of Health, Education, and Welfare. Responsibility for the development of the Department's legislative program and other major policy initiatives. Oversight responsibility for the Department's evaluation activities and policy research program.

March 1979 to October 1979: Principal Deputy Assistant Secretary for Planning and Evaluation, HEW. Responsibility for management of the Office of Planning and Evaluation and leading the planning process for the development of the

Department's budget. Supported the Assistant Secretary in the development of the Department's legislative program and other major policy initiatives.

October 1975 to March 1979: Senior fellow, economic studies program, the Brookings Institution. Engaged in various research projects on domestic economic and social concerns, particularly with respect to federal budgetary processes and employment, tax, health care financing and income security policies. Director of study of labor market policies.

April 1973 to September 1975: Director, Office of Income Security Policy, Office of the Assistant Secretary for Planning and Evaluation, HEW. Oversight responsibilities for planning, policy development and evaluation of income security programs and for intramural and extramural policy analysis and research programs on issues relating to labor markets, poverty, income distribution, and income security programs.

August 1971-March 1973: Senior staff economist, office of the assistant secretary for planning and evaluation, HEW. Performed analyses of the Department's income security and employment related programs.

July 1969-July 1971: Assistant professor of economics, Stanford University. Taught courses on microeconomics, macroeconomics, public finance and public policy.

July 1969-July 1971: Research associate, Institute for Public Policy Analysis, Stanford University. Performed research on low wage labor markets under OEO grant.

1965-68: Stanford University Graduate Department of Economics. Pursued course of study leading to Ph. D. in Economics which was received in 1970. Fields of specialization were labor economics and public finance. Financial support from Woodrow Wilson Fellowship and NDEA Fellowship.

1961-65: Williams College, Williamstown, Massachusetts. Received B.A. in 1965 with major concentration in Mathematics and minor in English.

Personal background: Married to Nancy Hetenyi. One child. Born and raised in suburban Philadelphia area.

#### STATEMENT OF JOHN L. PALMER

Mr. PALMER. Yes, sir.

The CHAIRMAN. You served as Acting Assistant Secretary for Planning and Evaluation at HEW, also as Principal Deputy Assistant Secretary of Planning and Evaluation and senior fellow of the economic studies program, Brookings Institution, before you came to that job. Also Director of Income Security of the Office of the Assistant Secretary of Planning and Evaluation.

Are there any questions, Gentlemen?

Senator Dole?

Senator DOLE. No.

Right now you are in charge of the Department's legislative program development is that it?

Mr. PALMER. Yes. My office has the major responsibility for the development of legislative and other policy proposals. One they are transmitted to the Congress, the Assistant Secretary for Legislation assumes the lead responsibility.

Senator DOLE. Do you have any coming up?

Mr. PALMER. We have no significant legislative proposals that will be newly coming before this committee except for some minor medicare and medicaid amendments. There are of course several major ones already pending before the committee.

Senator DOLE. Hospital cost containment is that within your jurisdiction?

Mr. PALMER. Yes; it is.

Senator DOLE. Is the administration going to push cost containment this year?

Mr. PALMER. We certainly think it is very important. In light of the desire to balance the budget now, it takes on obvious increased significance. It is one of the areas where it is clearly possible to reduce expenditures in a way that will not cut back on needed services.

Senator DOLE. Will the administration pursue any other proposals to reduce expenditures?

Mr. PALMER. As you know, the President is still refining his proposals reducing the budget and bringing it into balance. There will be a package of proposals coming forward shortly and some will affect HEW authorities.

Senator DOLE. Are you involved in that refining process or is that Mr. Strauss' responsibility?

Mr. PALMER. I am personally not involved in that now.

Senator DOLE. That will be out next week?

Mr. PALMER. I believe that the expectation is to submit the proposed budget figures by the end of the month. I am not sure of the precise date.

Senator DOLE. Thank you.

Senator CHAFEE. What is that, the cuts?

Senator DOLE. After the New York primary.

Senator CHAFEE. I'm sure it's only a conclusion that they revolve around the New York primary.

Senator DOLE. You are not involved in that. You do not get into politics, really.

Mr. PALMER. I try not to, Senator.

Senator DOLE. Some of us do not, either.

The CHAIRMAN. Any further questions, gentlemen?

Senator Chafee? Senator Heinz?

Senator HEINZ. No, Mr. Chairman.

Senator CHAFEE. No, Mr. Chairman.

The CHAIRMAN. Senator Byrd?

Senator BYRD. No questions.

The CHAIRMAN. Who are you succeeding in this job, Mr. Palmer?

Mr. PALMER. Benjamin W. Heineman, Jr.

The CHAIRMAN. Thank you very much, Mr. Palmer. There are no further questions.

Senator DOLE. I move we report.

The CHAIRMAN. It has been moved that we report all three of these nominations. Is there any objection?

Without objection, these three nominees will be recommended for confirmation.

[Whereupon, at 11:10 a.m. the committee proceeded to the discussion of other business.]