

**NOMINATION OF KENNETH W. GIDEON,  
BRYCE L. HARLOW, GERALD L. OLSON,  
AND JOHN MICHAEL FARREN**

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**HEARING**

BEFORE THE

**COMMITTEE ON FINANCE  
UNITED STATES SENATE**

**ONE HUNDRED FIRST CONGRESS**

**FIRST SESSION**

ON THE

**NOMINATION OF**

**KENNETH W. GIDEON TO BE AN ASSISTANT SECRETARY OF THE  
TREASURY; BRYCE L. HARLOW TO BE A DEPUTY UNDER SECRETARY  
OF THE TREASURY; GERALD L. OLSON TO BE AN ASSISTANT SEC-  
RETARY OF HEALTH AND HUMAN SERVICES; AND JOHN MICHAEL  
FARREN TO BE UNDER SECRETARY OF COMMERCE**

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JUNE 7, 1989  
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**NOMINATION OF KENNETH W. GIDEON,  
BRYCE L. HARLOW, GERALD L. OLSON,  
AND JOHN MICHAEL FARREN**

WEDNESDAY, JUNE 7, 1989

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

The hearing was convened, pursuant to notice, at 9:30 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Matsunaga, Moynihan, Boren, Bradley, Rockefeller, Daschle, Packwood, Danforth, Chafee, Heinz, Durenberger, Armstrong, Symms, Warner, Boschwitz, Lugar, and Dodd. [The press release announcing the hearing follows:]

[Press Release No. H-32, May 30, 1989]

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

WASHINGTON, DC—Senator Lloyd Bentsen (D., Texas), Chairman, announced Friday that the Finance Committee will hold a hearing and executive session on nominations for the Departments of Treasury, Commerce, and Health and Human Services, on *Wednesday, June 7, 1989 at 9:30 a.m.* in Room SD-215 of the Dirksen Senate Office Building.

The Treasury nominations are Kenneth W. Gideon to be Assistant Secretary for Tax Policy, and Bryce L. Harlow to be Deputy Under Secretary for Legislative Affairs. John Michael Farren has been nominated to be Under Secretary of Commerce for International Trade, and Gerald L. Olson was nominated to be Assistant Secretary for Legislation of Health and Human Services.

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

The CHAIRMAN. This hearing will come to order. Mr. Gideon has been nominated to be Assistant Secretary of the Treasury for tax policy, the Treasury Secretary's principle advisor on tax issues. I doubt there is any other Treasury official that has more communication with this committee. The person in that job has to have extensive background in tax law.

Mr. Gideon, you certainly appear to meet that criteria, with 16 years of private practice. You were also chief counsel of the Internal Revenue Service for a couple of years so you are no stranger to this committee or to the issues with which you will be involved.

You have also taken an active role, I understand, in professional organizations in law, including the American Bar Association's, section on taxation and the American Law Institute. We are very

pleased to have you. We look forward to your work and relationship with this committee.

I would like to now defer to the ranking member of the committee.

Senator Packwood.

Senator PACKWOOD. I have no opening statement, Mr. Chairman. I will have a couple questions of Mr. Gideon.

The CHAIRMAN. We are very pleased to have the distinguished senior Senator from Virginia, Senator Warner, here to introduce the nominee.

#### STATEMENT OF HON. JOHN W. WARNER, A U.S. SENATOR FROM VIRGINIA

Senator WARNER. Mr. Chairman, I thank you and the distinguished ranking member for the courtesy accorded me to briefly introduce these two very fine Virginians. It seems only it was a few hours ago when I saw both the chairman and the ranking member battling for the cause of freedom on the floor of the Senate and I commend you for your hard work last night and your punctuality of coming this morning and starting this morning.

The CHAIRMAN. Thank you.

Senator WARNER. Mr. Gideon is joined today, I believe, by his wife Carol and their four children. At least we discussed the probability of their being able to get through the traffic. Hopefully, they will get here before this hearing is concluded.

As the chairman said, Mr. Gideon has the ideal background for the position of Assistant Secretary of Treasury for tax policy, having served as a partner in the Washington law firm of Fried, Frank, et al., where he pursued a general tax practice, including corporate and partnership tax planning and litigation. Prior to joining his law firm he served as chief counsel for the Internal Revenue Service where he supervised its litigation, administrative appeals and technical functions.

Ken also worked with the tax writing committees of the House and Senate in drafting legislation and served as a member of the IRS Policy Committee to review significant tax regulation and ruling issues.

As the committee can easily determine from review of his background, he is eminently qualified to serve in this important position and he has the full confidence of the President of the United States as he appears today before this committee.

It is also my pleasure, Mr. Chairman and distinguished ranking member, to introduce Bryce L. Harlow whom the President has nominated to be Deputy Under Secretary of the Treasury for Legislative Affairs. Mr. Harlow has served as special assistant to the President for legislative affairs at the White House since 1986. Prior to that service he was the associate director for legislative affairs for the Office of Management and Budget.

He has become well known here in the Senate and indeed throughout Capitol Hill for holding a number of congressional affairs positions at the White House, the Federal Trade Commission and, prior to these, positions at the Grocery Manufacturers of America, Inc.

Mr. Chairman, it appears that Mr. Harlow is ideally suited for this position. He has both the expertise and also the confidence of the President and many, many members of the Congress.

I would like to add, Mr. Chairman and Senator Packwood, it gives me particular pleasure to introduce Mr. Harlow for his father had a very profound impact on my early career. His father was a modest man but he was one of the closest personal advisers to President Eisenhower, President Nixon, President Ford. I suppose if the Republicans had a Bob Strauss it was Bryce Harlow, Sr., less some of the more rye bold humor that Mr. Strauss has. But young Bryce learned at the feet of a true master and I know his father would take great pride in knowing that he appeared today before this committee being nominated by the President of the United States for this important position.

I thank the chairman and I thank the ranking member.

The CHAIRMAN. Senator Warner, we are very pleased to have your contribution and your introduction of these two distinguished prospective public servants. I will leave it to Mr. Strauss to respond to your comment concerning him.

Senator WARNER. Thank you very much.

The CHAIRMAN. Thank you very much.

Mr. Gideon, we are talking about \$5.3 billion in net additional revenue in the reconciliation bill. If we are going to raise that, the Treasury Department is going to have to be an active participant in that. But, I have not seen that. I think reconciliation is a bit off track. I have not seen any constructive, new ideas being presented by Treasury on how we raise that money.

One of my concerns is how we pay for child care, extension of R&D, and the corrections in Section 89, which I understand the administration supports. Are they going to be a part of that process? Are we going to get some contributions from them on how we raise additional revenue to take care of these changes? Are you going to be in a position to speak with some authority for the administration?

Most of the things we have heard thus far on taxes have come from OMB. Would you like to comment on that?

Mr. GIDEON. Well, I think that I am going to be in a position to speak with the members of this committee. I think that it is important that that dialogue commence. Obviously, from my unconfirmed state, it was not possible to have those discussions. But if these proceedings go well for me today, I can assure you that one of my first orders of business will be to consult with you and the other members of this committee, the members of the House, Ways and Means Committee, toward addressing those very issues.

We have a proposal on the table. We need to get responses to that proposal. If alternatives are necessary, we need to hear ideas for alternatives; but we are ready to begin that dialogue.

The CHAIRMAN. Well, I think there is no question but that you are going to have to have alternatives and we are ready to hear alternatives from you. We want to hear what other avenues you think we ought to pursue. One of the things we have heard from Secretary Brady is that he thinks we can raise a billion dollars from closing loopholes. Well, that is always an attractive opportunity if we can find them. But we would like to know which ones he

is talking about. We would like to see a list of them. We have not seen that and that should be forthcoming.

I understand that you have been very active in tax litigation with the Internal Revenue Service. I suppose some of those cases are ongoing. So, they pose a problem—a possible conflict of interest. Do you intend to recuse yourself from tax matters that you have been involved in before that might have a direct impact on previous clients?

Mr. GIDEON. Yes, Senator Bentsen, I have executed recusal memos with respect to my client list already and have put it in its own file and circulated it to my office.

The CHAIRMAN. One of the other problems that we have, following changes in the tax law, is getting the regulations out. This is an ongoing, continuing problem for us. We have had some very significant delays in providing guidance for the private sector on some very complex changes in the tax law. Recent examples of that would be the passive loss rules and the calendar year requirement for common trust funds.

What do you intend to do as Assistant Secretary to streamline that process.

Mr. GIDEON. Well, I think that some very significant new ways of doing business in that area have been developed. I would hope to continue to work in that manner. The idea of writing regulations so that the simpler, basic rules are at the beginning and the more complicated rules are toward the back, so that basically a taxpayer with a simple transaction can read the front and know how his transaction will be treated, and only if he has a more complex transaction, he has to go on, is one that I think we intend to pursue.

I think the practice of trying to——

The CHAIRMAN. The back pages have not been filled in, from what I have seen thus far, when it gets to the passive loss rules.

Mr. GIDEON. Well, we now have two tranches of the passive loss regulations out. I think that completing the job will be a high priority. I think that the major items of guidance in that area are out there now. Obviously, there is more to be done and I am very aware of the need to do it.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. Mr. Gideon, when we first met the reports had just come out on the increased revenues we appear to be collecting. That increase appears to be going along even a little better than you and I thought at the time we met. We had about, what, \$10 billion more in April than we had projected for April. April is a good month anyway. May appears to be good. Why?

Mr. GIDEON. It will be difficult to know why, Senator, until we have tax return data which we will have later in the year. We are also trying to analyze those receipts by type in order to formulate some understanding on our own part of what they represent. A large part of them are increased tax collections. But it is not clear whether those simply represent kind of one-time speedups or whether they represent something more permanent that will go into the future.



Obviously we have a great deal of interest in that topic and as soon as we know answers we are going to be interested in sharing them.

Senator PACKWOOD. What are Treasury's—and if you do not know, maybe Larry may—what are Treasury's projections now for the deficit for fiscal year 1989?

Mr. GIDEON. I do not know the answer to that, Senator Packwood, but we can get it for you.

Senator PACKWOOD. As a top of the head guess, it would appear our revenues are going to run \$20 billion to \$30 billion more for 1989—fiscal year 1989—than we thought.

Mr. GIDEON. It is pretty clear that we are going to have more money in 1989 than we thought.

Senator PACKWOOD. And fortunately, it is coming late enough in the fiscal year that we cannot spend it all. I would have hated for us to have had this information last December because we would succeed in spending it. We would not narrow the deficit. We would succeed in spending it.

But what we have now is in essence what those who have wanted a tax increase wanted. There are more revenues coming in. It just so happens it is coming in faster than we thought without having to change the tax laws and putting in a tax increase.

In your judgment, will the revenues for next year be somewhat higher than we had initially projected?

Mr. GIDEON. It is simply too early to say. We do not have enough data yet to be able to formulate the answer to that. I can assure you, though, that there probably is no topic that interests us more than finding out the answer to that question.

Senator PACKWOOD. You have to come to one of two conclusions. If it is \$20 or \$30 billion more, but there is no rough equivalent next year, then it has to come from lots of people simply realizing gain in calendar year 1987 and saying we better get it—I mean, 1988, we better get it now because who knows what is going to happen and it will not repeat itself. Or if there is anything that stems from tax reform or the economy or something that we do not sense, then there ought to be \$10 or \$20 or \$30 billion more next year than we originally thought when the budget was presented last January.

It has to be one of two, it seems. Either it is one shot—

Mr. GIDEON. Or something in between. In other words, you could have both effects.

Senator PACKWOOD. You could have both. But there is no question but what we are—barring some incredible circumstance—we are going to have \$20 to \$30 billion more this year. Those trends are pretty well fixed.

Mr. GIDEON. Well, I would not want to agree based on my current state of knowledge with your figure. But I think that more is safe.

Senator PACKWOOD. Okay. Thank you. I have no other questions.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

First of all I want to say how glad it is to see Mr. Gideon. I think usually people in your position are named Chapoton. So it is a

please to meet somebody else, although you have big shoes to fill. [Laughter.]

The job you have is certainly—except for the job for which Larry Harlow is nominated for—the position in Treasury that we see the most. You will spend a lot of time up here, as you know, and you will take a certain amount of good-nature abuse and I presume you are hardened to that. So we want to say how nice it is to see you.

I also have to leave, Mr. Chairman, but I want to say how glad I am that Larry Harlow has been nominated to this job of Deputy Under Secretary. He has had a wonderful career in government, as we all know. I had the privilege of serving with and knowing his father well. I will just give you a little anecdote.

In 1968 Everett Dirksen was chairman of the Platform Committee and I was named as co-chairman. If there was ever an equal co-chairmanship, that was it. But the platform committee met in Miami and Bryce Harlow was a close advisor at the time to Everett Dirksen and so I saw a lot of Larry's father, who did a wonderful job there. And, of course, Larry has followed on in that tradition and has truly given a magnificent service to our Government and I am glad we are able to—this administration was able to entice him back into service again.

So I want to say how nice it is to see you, Larry; and, Mr. Gideon, we will look forward to seeing plenty of you.

Thank you, Mr. Chairman.

Mr. GIDEON. Thank you, Senator.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. Mr. Chairman, I do not have any questions but I certainly welcome Mr. Gideon as an ally in our common effort to save and indeed restore the completed contract method of—[Laughter.]

The CHAIRMAN. Well, if you have recovered from that, Mr. Gideon.

Did you have anything further, Senator?

Senator DANFORTH. I do not have anything further.

The CHAIRMAN. Thank you.

Mr. Gideon, we are ahead of the game, but we will listen to your statement. Go ahead.

#### STATEMENT OF KENNETH W. GIDEON, NOMINEE TO BE AN ASSISTANT SECRETARY OF THE TREASURY

Mr. GIDEON. I have a very brief statement, Mr. Chairman. The President has honored me by nominating me for the position of Assistant Secretary of the Treasury for Tax Policy and it is an honor to appear here before this committee.

There is clearly much work to be done in tax policy and I am anxious to get on with it. I believe that I can work together with the members of this committee and the members of the House, Ways and Means Committee to fashion solutions that are consistent with the President's program but reflect the wisdom, insight and concerns of the Congress as well.

Achieving those solutions will not be easy. Budgetary constraints, of course, limit all of our freedom of action in this area. There are significant disagreements on how we ought to do it. But

solutions can be achieved and I pledge to you to work hard with you to achieve those solutions.

I would like to discuss very briefly a couple of those issues. First, capital gains taxation and then civil tax penalty reform.

I support the President's capital gains proposal. I believe that the impact of the American business tax system on the competitiveness of American business will increasingly become a focus of the tax policy debate. Capital gains proposals address an important aspect of that system in a positive way that I think will benefit the American economy and hence the American people. The revenues associated with the capital gains proposal I think would go far toward allowing Congress to meet the budget agreement.

Turning to the other topic, yesterday a subcommittee of the House, Ways and Means Committee considered important proposals to significantly reform the civil tax penalty system to make it simpler and fairer. This proposal enjoys bipartisan support in the House and I hope it will receive early consideration and similar support in this body.

Specifically, the Bill consolidates many existing penalties into a simplified structure. It provides for the first time continuing incentives to comply with information —reporting and return filing— even after the due date has passed. While the Treasury Department has made suggestions for the improvement of it, I believe that the bill deserves support and it has my personal support.

Finally, I wish to thank President Bush for nominating me, the Secretary Brady for his confidence in me, my wife Carol and our four children for their understanding and support and finally, Mr. Chairman, my thanks to this committee for my reception, both here today and in the courtesy calls that I have made. I look forward to working with all of you.

Thank you very much.

The CHAIRMAN. Thank you.

Senator Rockefeller, do you have any questions?

Senator ROCKEFELLER. No questions, Mr. Chairman.

The CHAIRMAN. Are there further questions?

Senator HEINZ. Yes, Mr. Chairman, I have a question.

The CHAIRMAN. Yes. Senator Heinz.

Senator HEINZ. Mr. Chairman, Ken Gideon has a tremendous background and not the least of which he served as both a Police Commissioner and then because he was so good he became Deputy Police Commissioner.

I was wondering though about his education. He went to Yale Law School and some of us think very highly of that. He went to another place before that, called Harvard. And I gather you were involved in your 20th reunion, gift committee, of Harvard. But I was curious, after you went to Harvard, what did you do for your other 2 years of undergraduate college?

Mr. GIDEON. Well, Senator, that's difficult to answer. But Harvard was a fulfilling experience and I thought that was enough in the undergraduate route.

Senator HEINZ. Let the record show that I tried a joke on him that didn't work. [Laughter.]

Mr. GIDEON. Well, tax types are always dour.

Senator HEINZ. Mr. Chairman, this was retribution for one that was tried on me when someone came up to me and said, "You went to Yale, huh? What did you do for the other two years?"

Thank you.

The CHAIRMAN. I think I understand that, sir. [Laughter.]

Mr. GIDEON. I hope I do.

Senator ROCKEFELLER. Mr. Chairman.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. It is just another telling example of the grass roots nature of this committee. [Laughter.]

The CHAIRMAN. Mr. Gideon, I think you ought to leave while you can. [Laughter.]

Mr. GIDEON. I think there is no point in going further. Thank you. [Laughter.]

The CHAIRMAN. We have—just a minute, Mr. Harlow, we have—Senator Boschwitz is here and has asked that he be given the privilege of introducing one of the nominees this morning. And we will let him do that now.

We have Mr. Gerald Olson who has been nominated to be Assistant Secretary of the Department of Health and Human Services, and we are very pleased to have him before the committee to consider his nomination for this very important post..

#### STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. Thank you, Mr. Chairman. Jerry Olson really embodies what all of us like to see in Government service. He is a man of very broad reputation in Minnesota; a man of many achievements; a man of moderation; a man who is very, very widely respected in our State.

I got to know Jerry about 20 years ago and shortly after we came to know one another he left and went to Indiana, which accounts for the presence of my colleague from Indiana. He stayed there for 10 years and then had the good judgment to come back to our State where he was a vice president of the Pillsbury Corp. which really was one of the most publicly spirited companies that I've ever encountered. He led their efforts to be publicly spirited and to participate in community affairs and did so in the broadest possible manner and really gained the respect and the admiration of not only myself but of everybody that I know in our community.

He is bound to do a good job. He is really of a broad personal background that will suit both sides of the aisle of this committee and of the Congress in general. And it is just an honor and privilege to be here today to introduce him to your committee.

The CHAIRMAN. Thank you, Senator Boschwitz.

We are also very pleased to have the senior Senator from Indiana, Senator Lugar.

#### STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you very much, Mr. Chairman. It's a privilege to introduce Jerry Olson to this committee. As my colleague, Senator Boschwitz, has pointed out, Jerry Olson had a dis-

tinguished career in Minnesota with Governor LeVander and he was campaign director for New York Governor Nelson Rockefeller, during his presidential campaign.

Jerry Olson came to Cummins Engine Co. in Indiana with Irwin Management Co. and during that period became a consultant for Governor Otis Bowen, our Governor for 8 years. It was my privilege as mayor of Indianapolis to share with Governor Bowen the counsel of Jerry Olson, which was instrumental in the formulation of many local government reforms, as well as State government reforms in Indiana, which he provided as a pro bono service.

I followed with great interest his progression to Pillsbury in Minnesota. Have kept in touch with him. His ideas about good government have been an influence on my life and service, and it is a privilege to be here to introduce him to you today.

The CHAIRMAN. Thank you.

Gentlemen, I know your busy schedules. We are pleased to have you. Thank you very much.

Now, Mr. Olson, if you would let us proceed on the regular agenda here.

Our next nominee is Bryce Harlow, who has been chosen by the President to be Deputy Under Secretary of the Treasury for Legislative Affairs. In that post, he will serve as the chief liaison between the Treasury Department and this committee. His job is going to be that of keeping the members of this committee and its staff informed about the legislative efforts of about the committee.

You have had some extensive experience in the Reagan administration in legislative affairs. You have worked in the Legislative Affairs Office for the Federal Trade Commission, the Environmental Protection Agency, the Office of Management and Budget and the Office of the Presidency.

And as consultant for the Treasury Department this year, you helped guide the administration's other Treasury nominations through the Senate. So you are certainly familiar with the process. We are pleased to have you.

I defer to the ranking member, Senator Packwood, for any comment he might have.

Senator PACKWOOD. I cannot more than echo what Senator Chafee said, Larry. We all know you well and hold you in very high regard. I regard it as lucky that the government has kept you in some position where we can deal with you.

The CHAIRMAN. I see the arrival list this morning is Senators Packwood, Heinz, Chafee, Danforth, Rockefeller, and Armstrong.

Senator Heinz.

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

The CHAIRMAN. Senator Danforth, any further comments?

Senator DANFORTH. No comments, Mr. Chairman.

The CHAIRMAN. All right.

Senator Rockefeller.

Senator ROCKEFELLER. No questions, Mr. Chairman.

The CHAIRMAN. If you would proceed with your statement, Mr. Harlow.

**STATEMENT OF BRYCE L. HARLOW, NOMINEE TO BE A DEPUTY  
UNDER SECRETARY OF THE TREASURY**

Mr. HARLOW. Thank you, Mr. Chairman.

I just have a short statement I would like to read and then go to questions.

The CHAIRMAN. Fine.

Mr. HARLOW. If you will allow me.

I am deeply grateful to President Bush for nominating me for this important responsibility and to Secretary Brady for recommending me to the President. And allow me to thank many of you on this committee and your colleagues in the Senate. I know that several or more of you were contacted by the Secretary or others and asked about me since I have spent so much time on the Senate side of the Capitol since 1985.

Evidently, you gave me the benefit of the doubt. Thank you. I hope I will continue to merit your confidence.

The challenges facing this committee and the Treasury are serious. The obstacles we face will not be easy to overcome. Nevertheless, I am increasingly sure that the President's determination to attack the nation's problems head on in a constructive fashion, in cooperation with you, will lead to an outstanding record of achievement by the 101st Congress and the Bush administration.

In that effort, with Secretary Brady's leadership, I always will be ready to listen to and discuss your concerns and work with you. I hope you will use me often in that way. I believe that my job is to faithfully represent your views to Treasury, to just as faithfully represent and promote the administration's position to you and to try to perceive new solutions while acting as an honest broker. I have no doubt that if we work together in this trustful way, the American people will benefit.

Mr. Chairman, I would say finally that I was raised to believe that the greatest pleasure in life comes from being of service to others. What an honor, therefore, it is to be chosen by the President to serve the Secretary of the Treasury and the U.S. Congress. And should I be confirmed, how fulfilling it will be for me to serve in that way the public interest.

Thank you and I will be pleased to respond to your questions.

The CHAIRMAN. Well, let me get you to your first assignment. We worked late last night and we have a question on catastrophic illness. We had a McCain amendment on the floor asking for a deferral of the benefits under the catastrophic illness legislation as enacted by this Congress and signed by President Reagan. And we had an amendment in the second degree—the Mitchell, Dole, Bentsen, Packwood second degree amendment to the McCain amendment. Do you support that amendment or not?

Mr. HARLOW. Senator, the administration opposes the second degree amendment and the I reason, believe, is—

The CHAIRMAN. They oppose the Mitchell, Dole—

Mr. HARLOW. Yes, sir.

The Chairman [continuing]. Bentsen, Packwood second degree amendment?

Mr. HARLOW. Yes, sir. [Laughter.]

And the reason is, that as I recall the sense of the Senate resolution—the last permutation I saw of it—it contained a section that talked about addressing this issue in the reconciliation measure.

The administration's position is that it is too early to presume what the numbers are going to be on the catastrophic health program, that we should give some more time for the program to work. Certainly, at least until we have some more numbers coming in later in the summer about the outlays and the revenues. We are uncomfortable at this point in presuming that there should be anything in reconciliation when we are not yet convinced that there is a problem.

The CHAIRMAN. All right. Then what is the administration's position on the McCain amendment?

Mr. HARLOW. We oppose that as well.

Senator PACKWOOD. Very opposed to the McCain amendment.

Mr. HARLOW. We are very opposed to that.

Senator PACKWOOD. Yes, all right. And only slightly opposed to the Bentsen, Mitchell, Dole, Packwood amendment? [Laughter.]

Mr. HARLOW. I would say that is an appropriate characterization, right.

The CHAIRMAN. That is an appropriate characterization, is that right?

Mr. HARLOW. Yes, sir.

The CHAIRMAN. About that much difference? [Laughter.]

Do you have any questions, Senator Packwood?

Senator PACKWOOD. Larry, I noticed a story in the Los Angeles Times about 1 week or 10 days ago reporting on a speech that Chairman Rostenkowski had given in Los Angeles in which he suggested the possibility of a 20-percent capital gains tax for a year or two and then indexing it. And there was some comment—I cannot remember from who—from someone in the administration that said, well, that might not be a bad idea to compromise. There would be no question that you would have a cornucopia of money if you had that kind of a window. And forget the long-term prospects. I do not know what they would be, but you would have a cornucopia of revenues if everyone knew that it was going to be 2 years at 20 percent and then indexed.

Is the administration serious about their comments on the chairman's—I do not think he was advocating it. It was more kind of an opinion in his speech—something the administration would be interested in.

Mr. HARLOW. I think the administration—and I do not presume to speak to Ken who has looked at a number of options—but I believe we are always interested in looking at options on that issue. Obviously, we are standing behind the President's proposal at this time. We do not expect to not be standing behind the President's proposal at a future time, but we are interested in talking about all possible alternatives.

Senator PACKWOOD. Second question, do you have any idea, Larry, about the Treasury projections on the increased receipts next year?

Mr. HARLOW. No, sir; I don't.

Senator PACKWOOD. Okay.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Danforth.

Senator DANFORTH. No questions, Mr. Chairman.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. No questions, Mr. Chairman.

The CHAIRMAN. Senator Daschle.

Senator DASCHLE. I have no questions.

The CHAIRMAN. Senator Boren.

#### OPENING STATEMENT OF HON. DAVID L. BOREN, A U.S. SENATOR FROM OKLAHOMA

Senator BOREN. Mr. Chairman, I have no questions, but I had hoped to be here earlier when the nominee was first introduced to the committee. I just want to add my very strong endorsement to those that have already been made by Senator Warner and others for this nominee.

As all of you know, we have all dealt with him in various capacities, some of which are his role as a Special Assistant to the President for Legislative Affairs, and his work at EPA and other agencies. There is no one better qualified for this position in terms of his experience.

Let me just say that in my opinion there is no one better qualified in terms of ability and, more importantly, in terms of integrity. All of us who have worked with him know him to be a man of integrity, a person whose word you can count on. And as you might guess, many of us believe that these qualities come from his Oklahoma roots and birthplace. It has been my privilege to have been a part of an association between our two families spanning three generations. His father was one of my mentors and advisors from early on in my political career—a person for whom I have great admiration.

I wanted to say that I think Larry follows in that tradition, upholding the tradition very, very well. I am just pleased that the President has seen fit to nominate him and I enthusiastically support this nomination.

Mr. HARLOW. Thank you, Senator.

The CHAIRMAN. Thank you, Senator Boren.

If there are no further questions, Mr. Harlow, we are pleased to have you and look forward to working with you.

Mr. HARLOW. Thank you, Mr. Chairman.

The CHAIRMAN. I note we have Senator Dodd here. And he, as I understand it, would like to introduce Mr. Farren. If you would both please come forward.

#### STATEMENT OF HON. CHRISTOPHER J. DODD, A U.S. SENATOR FROM CONNECTICUT

Senator DODD. Thank you, Mr. Chairman and members of the committee. I am pleased and honored this morning to present to this committee yet another Connecticut Yankee for the Department of Commerce. This is a tradition, Mr. Chairman, of which we are growing deeply proud, which recently produced Mack Baldrige and Bruce Smart, both with great expertise in trade issues. Mike Farren falls very much in that tradition.



He is truly a son of Connecticut: His entire education, Fairfield University, a Masters from Trinity College, as well as a law degree from the University of Connecticut; born and raised in Waterbury, Connecticut; and worked for my colleague Ron Sarasin. Many of you will remember Ron Sarasin who served in the House in the 5th Congressional District, and Michael ran his office in the State and over the years has worked with a very successful law firm in New Haven and been involved in the Department of Commerce—first as counselor to Mack Baldrige for whom all of us, of course, had nothing but the highest regard. I remember introducing him, in fact, nine years ago when I was a freshman Senator, when he was first nominated by President Reagan to be the Secretary of Commerce and what a tremendous job he had done. Bruce Smart, who then, of course, was the Under Secretary for International Trade and Mike was his Deputy in the Department in that area as well.

So he brings to this job the kind of background and experience we would like to see with people who move through the ranks, if you will, within the Department. I might also add, he was the Deputy Director of the Transition Team for the Bush administration.

And, Mr. Chairman, furthermore, and one of the reasons that I am sitting here is that Michael has been very active in Republican politics in Connecticut for years and this may be one way I can get him out of the State for awhile. [Laughter.]

So I am very anxious to have you confirm his nomination and send him along. But truly a good friend and someone we are very proud of in Connecticut. He has done a great job over the years. In my nine years here, we could always call on Michael down at the Department on any number of issues that came along. Connecticut, of course, is the most dependent State in the country on a per capita basis on international trade and we are very proud of that and feel that Connecticut, over the years—historically known, not only as the Constitution State, but the Provision State in many ways—and given the importance of trade issues today and how that affects this country, Mike Farren will very much carry on in that tradition.

I am honored to be able to present him to the committee this morning.

The CHAIRMAN. Senator Dodd, we are very appreciative of your statement and your candor. I know you have other responsibilities and duties, and with that we will return to our original agenda. Mr. Farren, we will deal with you in a moment.

Mr. FARREN. Thank you, Mr. Chairman.

Senator DODD. Thank you.

The CHAIRMAN. Thank you.

Mr. Olson, if you would return to the stand, please.

This committee's jurisdiction deals with many of the issues that you will be involved with, Mr. Olson, as the Assistant Secretary for Legislation, as well as the implementation of the Department's legislative program. We are looking forward to having you serve as liaison with the members and with our staff to keep us abreast of some of the major legislation that you are dealing with. One that we dealt with at some length last night was catastrophic illness. Other issues of special interest to this committee are welfare

reform and physician payment reform. So, we look forward to hearing your testimony.

- Senator Packwood, any comments?

Senator PACKWOOD. No statement, Mr. Chairman.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. No questions, Mr. Chairman.

The CHAIRMAN. Senator Daschle.

Senator DASCHLE. No questions, Mr. Chairman.

The CHAIRMAN. Senator Boren, any comments?

Senator BOREN. No questions, Mr. Chairman.

The CHAIRMAN. We are pleased to have any statement you might want to make at this point.

**STATEMENT OF GERALD L. OLSON, NOMINEE TO BE AN ASSISTANT SECRETARY OF HEALTH AND HUMAN SERVICES FOR LEGISLATION**

Mr. OLSON. thank you, Mr. Chairman.

I would like to first introduce my wife, Evon, who is seated immediately behind me.

The CHAIRMAN. We are pleased to have you.

Mr. OLSON. Our son, Steve, and his wife, Deanne and our daughter, Anne, and her husband Scott are unable to be in attendance today, but my wife and I are delighted to be here.

Mr. Chairman and members of the committee, it is an honor to appear before you today as President Bush's nominee to be Assistant Secretary of the Department of Health and Human Services for Legislation. This will be my first formal role in government. However, I am not new to politics or to Washington and I am personally acquainted with several of the distinguished members of this committee.

I look forward with great enthusiasm to undertaking my duties with your consent and will do so with a deep awareness of the responsibilities involved and with a strong commitment to our new President and to the policies which address priorities for this nation.

The President's call for a kinder and gentler nation will perhaps be heard, and responded to, at no other executive agency as it will be at the Department of Health and Human Services. President Bush could not have found a more qualified advocate for proposals to better serve the poor, the disenfranchised, the disabled, the elderly, children and the sick than Dr. Louis Sullivan. I am proud to have been chosen by our President to work with Dr. Sullivan to help implement this administration's agenda. And equally, I look forward to working with the Congress to find the very best solutions to our nation's health and human service problems.

I have spent the last 20 years of my life in congressional affairs, most recently as vice president of government relations for the Pillsbury Co. in Minneapolis. I fully recognize and very much appreciate the importance of good relationships with Congress and I pledge to you to work diligently with Secretary Sullivan and his team at HHS to advance this relationship.

I am well aware that my role as Assistant Secretary for Legislation is to accurately and effectively communicate the administra-

tion's views to you in a timely manner. Parallel to this obligation is the responsibility to assist Secretary Sullivan by expeditiously conveying to him your views.

Mr. Chairman, I want to assure you and the other members of this committee that, if confirmed, I will perform the duties of my office to the best of my abilities.

Thank you for the opportunity to appear before you today.

The CHAIRMAN. Well, Mr. Olson, I have had some very excellent reviews on you and I am very pleased to see someone of your qualifications coming into public service.

Mr. OLSON. Thank you.

The CHAIRMAN. We look forward to working with you.

Mr. OLSON. Thank you.

The CHAIRMAN. I defer to you, Senator Packwood, for any questions.

Senator PACKWOOD. Mr. Chairman, no questions.

The CHAIRMAN. Are there any other questions?

[No response.]

Senator Matsunaga. Just a congratulations.

Mr. OLSON. Thank you, Senator.

The CHAIRMAN. Let me just ask one question. Do you have a feel yet for how much you will be participating in policy, other than just acting as a liaison and informing us of decisions already made in the Department?

Mr. OLSON. Mr. Chairman, is it my understanding that Secretary Sullivan plans to reconfigure the management in the upper levels of HHS by bringing back into play something that is called the Policy Council. It is my understanding, if confirmed, I will be a member of that Council. So the answer is yes, I will be involved in policy.

The CHAIRMAN. Well, we are looking forward to working with you. Thank you very much, Mr. Olson.

Mr. OLSON. Thank you, Senator.

The CHAIRMAN. Next I would call Mr. Michael Farren back.

Mr. Farren, the job that you are nominated for is of utmost importance to this committee. This position is one with which we have close contact, and one in which we have substantial oversight concerns insofar as the administration of the trade legislation, and the progress of the Uruguay Round. I think it is a terribly important position and that heavy responsibility is going to fall on you.

I am aware that there were reports in 1988—that lobbyists for the Japanese were influential in preventing your promotion to the Under Secretary position and that they found you to be too tough a negotiator. I do not know whether those reports are true, but I sure hope that if they are true you will not change your negotiating style. We need strong negotiators to open up those markets. Mr. Farren, we will be pleased to hear your statement from you.

But I would like to defer now to Senator Packwood for any comments he might have.

Senator PACKWOOD. I have some questions, but no statement.

The CHAIRMAN. All right. Are there any statements to be made?

Senator DANFORTH. I have a question, also, Mr. Chairman.

The CHAIRMAN. All right. Any statements to be made?

[No response.]

If not, if you would make your statement, Mr. Farren.

**STATEMENT OF JOHN MICHAEL FARREN, NOMINEE TO BE  
UNDER SECRETARY OF COMMERCE**

Mr. FARREN. Thank you, Mr. Chairman.

Mr. Chairman, I do not have a formal opening statement. But I did want to say at the outset that I appreciate Senator Dodd's introduction. I also very much appreciate your bringing my nomination forward to the committee as expeditiously as you have. That is very helpful. I also want to say that I am honored by the confidence that the President has shown in me in setting my name forward for this position which I agree does carry significant responsibilities.

I also look forward to the opportunity to work closely with Secretary Mosbacher in his efforts as Secretary of Commerce.

If approved by this committee, and reported out favorably, I can assure you that I will not change the practices that I followed in the past in my position as Deputy Under Secretary and hope to be able to use the experience and knowledge that I gained in that position to provide the most effective service possible as Under Secretary.

Thank you, sir.

The CHAIRMAN. Mr. Farren, you have just returned from a trip to Europe, as I understand it. The chairman of this committee and some of its members recently traveled to Brussels and met there with members of the Commission. We had some concern about our country's staffing in Brussels, given the progress of Europe's 1992 plan. The European Community is getting into some subjects that are rather arcane. Our concern is that subjects, such as the setting of standards on procurement, require technical expertise. Yet, we saw no staffing from the Commerce Department.

Now that is of concern to the chairman of this committee and to some of its members. What is your position on that?

Mr. FARREN. Mr. Chairman, the position of the Department of Commerce is that the staffing does need to be expanded in Brussels. We are hopeful that that staffing will be comprised of Commerce Department employees and Secretary Mosbacher has sent a letter to Secretary Baker to that effect, requesting the approval and cooperation of the State Department to add Commerce Department staff to the Brussels mission.

The CHAIRMAN. Well, getting back to the Japanese question, the Commerce Department, as I understand it, is one of the Departments that will be negotiating with the Japanese on the anti-competitive practices which arise from the structure of business in Japan. From your experience in negotiating with the Japanese, what insights do you bring to that effort?

Mr. FARREN. Mr. Chairman, over the 4 years in particularly that I worked on trade specifically in the 6 years at the Commerce Department, Japan, of course, was a prime focus of the Department, particularly Secretary Baldrige and Under Secretary Smart. In dealing with the individual issues as we did, many of them were contained in the Moss negotiations, the marketing opening sector specific negotiations. It became very clear to the negotiators that

the issues went beyond individual sectoral problems and went to the overall structure of the Japan economy.

I think the experience that I had in dealing with the individual issues will serve me well as we attempt to broaden that out and attempt to deal with the structural aspect of it—things like distribution, their patterns of the structure, their corporations, the vertical integration, the nature of the financial systems, everything that we hope will be included in the structural discussions that will be initiated next week in Tokyo.

The CHAIRMAN. I understand that the Commerce Department has lapsed the funds for the trade adjustment assistance centers which operate the trade adjustment assistance program. Now, if you are confirmed, you will be responsible for overseeing that program; do you intend to kill it the way the last administration did?

Mr. FARREN. Mr. Chairman, the position of the administration at this time is not to seek funding for the trade adjustment assistance centers for the next fiscal year. However, an appropriate—

The CHAIRMAN. Why is that? Do you feel that they have not been successful, that they are not effective?

Mr. FARREN. Mr. Chairman, there are 13 centers. Each one operates in their own unique way and services the business community and the region in a unique way. The difficulty is, though, the centers are designed to offer specific advice to firms that have been affected by imports. A considerable amount of money goes into doing that. And, frankly, the number of firms that are reached is extremely small. It is infinitesimal.

The CHAIRMAN. Why is that?

Mr. FARREN. Well, in large measure, simply because of the nature of the centers and the service that has to be rendered. It involves a good deal of time and effort to sit down and work through a business plan for a firm. In many cases, frankly, the firms do not come in and seek assistance until they are already in deep trouble, simply as a business entity in deep trouble. And the net outcome of it, compared particularly to the dollars expended, simply does not warrant the amount of funds that go into the program.

And frankly, I think the administration concluded that the funds could be better spent in other programs. I think the Department would be very much interested in seeing some of those funds go into export related services for firms that are competitive and healthy and have the capability of taking advantage of export opportunities that now exist.

The CHAIRMAN. Is it lack of cooperation on the part of the businesses involved? Are they generally smaller businesses? Is it lack of sophistication or is it that we are not doing a good enough job on the government side?

Mr. FARREN. Well, it goes to the amount of time that can be offered to a given business, the condition of the business when they typically come in and seek the advice and, frankly, the amount of affect that that advice can have on a business that typically is often in deep trouble when it seeks that advice.

Now clearly, Mr. Chairman, you can go back and successes out of the program. There is no question about that. But frankly, whether those successes could not have been achieved by other means or,

frankly, without the extent of expenditure that goes into the program overall is really what is the question. I believe the administration has concluded that the funds offered simply do not warrant the benefit gained.

The CHAIRMAN. Is the decision that you will simply cut them all out or will you try to winnow out those that are effective from those that are not?

Mr. FARREN. Well, Mr. Chairman, in following up on your original question, let me say that the Department is very much supportive of maintaining the programs for this fiscal year and intends to make certain that they are fully funded. And, in fact, in my experience as Deputy Under Secretary, we worked very hard to make certain that the program was maintained throughout each appropriation cycle.

The centers will be funded through the end of this calendar year and will be able to operate. And frankly, the centers will, in my view, if confirmed, I would make towards making certain that the centers are healthy and available for continued operation should an appropriation be made by the Congress for the next fiscal year.

So there is no intention to do anything but make certain that the programs are properly managed and the funds that have been appropriated are effectively spent.

The CHAIRMAN. I would like some feedback on that.

Mr. FARREN. Yes, Mr. Chairman.

The CHAIRMAN. I would like an evaluation that would give me a better feel for the situation and a better understanding of it.

Mr. FARREN. Yes, sir.

[The information appears in the appendix.]

The CHAIRMAN. The arrivals now are Senators Packwood, Heinz, Chafee, Danforth, Rockefeller, Armstrong, Daschle, Boren, Matsunaga, Moynihan, Durenberger, and Symms.

Senator Packwood.

Senator PACKWOOD. Mr. Farren, are you familiar with the Canadian Softwood Agreement?

Mr. FARREN. Yes, sir; I am, Senator.

Senator PACKWOOD. You are aware that the Canadians would like to temper it or do away with it?

Mr. FARREN. Yes, sir.

Senator PACKWOOD. What is your position on their desires?

Mr. FARREN. Senator, I was involved in the negotiations of the Softwood Agreement, arising from the original ADCVD case. Senator, I believe that the agreement is an outcome of an appropriate action taken by the industry and the U.S. Government in conformance with ADCVD statute and it is the obligation of the U.S. Government to continue to provide the protection offered by the MOU from subsidies to the Canadian softwood lumber industry.

Senator PACKWOOD. That is a very good answer.

Second, the President is going to have to make a decision on steel VRA's. He will have input from any number of people, one of which will be from you. What would be the personal advice you will give him as to what the VRA should include, if anything?

Mr. FARREN. Senator, I am reluctant to offer commentary on advice that I would term personal. But perhaps I can offer some

commentary on what I believe the administration will have to consider as it look at the VRA and the VRA extension.

Senator PACKWOOD. Let me rephrase my question. If you will not indicate what personal advice you might give to the President, what are your personal feelings about VRA's?

Mr. FARREN. Senator, I believe, again, it is frankly very similar to the softwood lumber. The VRA's arose from scores of cases that were brought by the U.S. industry that clearly demonstrated dumping and subsidies by foreign industries, or offered to foreign industries, that were resulting in an unfair advantage to those imports coming into the United States.

The outcome of that was in essence a suspension agreement that allowed for the negotiation of the VRA's with the authority of Congress to do so. Assuming those subsidies still exist, and assuming individual companies importing would have a propensity as well to dump, then it is entirely appropriate for the VRA's to be extended and, in fact, that was a decision of the President as conveyed to Senator Heinz prior to the election, that it was his intention to extend a voluntary restraint program on steel.

My recommendation would be that clearly the President follows through on his commitment.

Senator PACKWOOD. Of course, the commitment can be long or short, inclusive or exclusive.

Do you think countries should be excluded from any voluntary restraint where we are now convinced they are no longer involved in subsidizing their industry?

Mr. FARREN. Senator, that is one of the aspects that the administration is going to have to consider and it goes to the issue of subsidies. Have past subsidies which, frankly, are now paying themselves out in a lower price for steel from those individual countries to be overlooked or excluded from the program. In any number of cases, you have industries that have been for years subsidized. Perhaps at the moment they are no longer, but the question is, is it fair and appropriate to allow those imports to come in unrestrained under the VRA.

You are also in a situation where you are dealing with an overall commodity. And if you allow imports, particularly from an industry that has had unfair advantage over the years, then you can skew the entire program.

Senator PACKWOOD. Let me rephrase the question. What if we conclude that the past subsidy is no longer relevant, that the steel is now produced on a market basis in another country and we cannot make any allegations of unfair subsidy. What should be our position then, vis-a-vis that country and a VRA?

Mr. FARREN. Senator, I think I would have to go back to the question of whether or not we can make a valid case that the subsidies in the past are currently skewing the program.

Senator PACKWOOD. What if you cannot?

Mr. FARREN. If you cannot, then it would be very difficult to include them in a VRA.

Senator PACKWOOD. Thank you.

Mr. FARREN. In large measure because it is a voluntary restraint. And unless the country itself willingly comes to the table and negotiates the agreement, it is very difficult to arrive at that agree-

ment. A country would be in a very strong position, during the course of the negotiations to assert that it is inappropriate for them to be included in the program.

Senator PACKWOOD. Do you think the American consumer has benefited from the auto VRA's?

Mr. FARREN. Senator, to the extent that there is a healthy profitable U.S. industry that will continue to provide product in the out years, yes, that is a benefit to the American consumer.

Senator PACKWOOD. Do you think, when we put in the auto VRA's that the Japanese looked at the limits and, therefore, send us higher priced cars because they could not send us all the cars, and because there is more money to be made in higher priced cars—I mean, they did that. There is no question that happened. Do you think the American automobile industry simply raised their prices accordingly because they now were not faced with the lower priced cars?

Mr. FARREN. Senator, I think if the auto industry raised the price accordingly we would have seen some of the more recent profit figures show up a lot sooner. Clearly what the industry did was use the pricing as an opportunity to plow back in the investment that has been made over the last several years and become more competitive. It is one reason why the industry now is looking at export opportunities, which I believe a matter of 3, 4, 5 years ago on a competitive basis, they would not have been able to do.

Senator PACKWOOD. Thank you, Mr. Chairman.

Senator MATSUNAGA. Any further questions?

Senator HEINZ. Yes, Mr. Chairman.

Senator MATSUNAGA. Senator Heinz.

Senator HEINZ. First, I want to commend Senator Packwood on the most artful question I have ever heard asked where he said, if we conclude that past subsidies are no longer relevant, then what would your position be as to whether or not they were relevant. I just want to commend him. He did not express it quite that way, but that was the art of his question. And I want to commend Mr. Farren on having given an equally artful answer. [Laughter.]

Both of you are well qualified for the positions you have been nominated to serve in. [Laughter.]

Let me ask one quick question on still the VRA's. The Italians are now—have just voted a \$6 billion subsidy—\$6 billion subsidy—for their steel industry which is a fraction the size of ours. They will be spending that money over the next 2 or 3 years. Let us assume that at the conclusion of their spending this money that they come to the U.S. Government and say, we have stopped subsidizing. We are not going to do anymore of it. And someone comes to you and by the Grace of God you have the decision to make as to whether Italy should be judged as a nonsubsidizer. What would be your judgment?

Mr. FARREN. Senator, if I were asked for advice at that time I would have a hard time asserting that Italy was not operating from a base of subsidized steel.

Senator HEINZ. Let me change subjects on you and ask you about air bus. Other members of the committee—I think Senator Danforth may be one—have been trying to obtain a copy of the Commerce Department study on European subsidies of air bus. So far,



that study, though it was completed I guess a year ago after all the proprietary information was deleted from it, it is still not available.

My understanding is that the EPC of the Reagan administration decided for reasons that I suppose are now academic not to release it at that time. Can we depend on you to revisit that decision and get us a copy of that report?

Mr. FARREN. Senator, you can count on me revisiting the decision. I would have to say though that it would still be a decision of the White House. One reason why it was withheld is the Economic Policy Council concluded that it was a document used for the purpose of their deliberations. It was the position of the Commerce Department at the time—in fact, when the report was originally contracted for—it was our presumption that at some stage the information in it or the report would become public. And we, in fact, expended additional funds so the proprietary information was removed.

So the Commerce Department was certainly prepared to see it become public and I expect that would still be the position of the Department.

Senator HEINZ. Was that report prepared at the express direction of the Congress?

Mr. FARREN. Senator I do not believe it was. It may have been. It is known as the Gilman Report. I believe it was prepared primarily because the air bus governments went out and contracted for a report of a similar nature and made much of the information public. It was our conclusion that we needed an objective base of information to operate from. So the Commerce Department expended, I think, approximately \$150,000 in going out and contracting for the report.

Senator HEINZ. Let me ask you a question about high definition television. Other countries, and other country's governments, particularly the Japanese, have been moving very aggressively to encourage their potential manufacturers, broadcasters and others to move aggressively into high definition television. A lot of money has been expended in research by the Japanese Government. They have engaged in a market creation strategy. There is a directive that the Ministry of Posts and Telegraphs have sent to the 13 largest municipalities saying, figure out how to create a market in your municipality—get your hotels, anyone you license to buy these things, display them and so forth.

Our industry, at least one part of it, has come to the Government and said, well, we need some help. Now my view is that Secretary Mosbacher is probably right when he says, "Don't just throw money at a problem." At the same time, I understand the industry's problem, which is, look, there are these guys we are going to have to compete with out there who are being helped by their Government. We have got to find some way to—we need something from our Government—some signal, some help, some sign—so that we know that we are not just going to get wiped out if we bet hundreds of millions of dollars of our own money here.

It is not in our nature—it is not part of our system—to create a market where none exists. Nevertheless, I have some sympathy for the American companies that say we have got to have some kind of help, even though I think they are asking for the wrong thing.

Have you got any ideas as to how we can approach that?

Mr. FARREN. Senator, that is something that, as you know, Secretary Mosbacher has put a lot of time into. It is currently under study. In fact, Commerce is chairing an interagency group looking into it. There is an advisory group that has been put together of the private sector that has interests in HDTV. What Secretary Mosbacher has asked for is to have a industry-led program, i.e., for the industry to come in and cite specifically—frankly, what the mark of potential is and what needs to be done, particularly in the context of getting the Government out of the way, making certain that the Government is a facilitator rather than an impediment to HDTV development.

One significant aspect of that, of course, will be standards and the final decision that we make in the various standards that will go into production in transmission production. It is a classic case of Japanese targeting. An infant industry, R&D done, long-term targeting, enlistment of the private sector. If we can come up with a solution on HDTV, then we certainly have a peridium that could be utilized in dealing with a lot of other Japanese-related targeted industry programs.

I cannot give you a simple answer today, except to agree with you that it requires significant Government attention and it is, in fact, an industry that warrants some real effort on the part of the U.S. industry, and has long-term implications for the electronics industry of the United States.

Senator HEINZ. Although my time has expired, Mr. Chairman, may I give—I have a 15 second addition, just to make a brief editorial comment.

Senator MATSUNAGA. If there are no objections.

[No response.]

Senator MATSUNAGA. Without objection.

Senator HEINZ. It strikes me that this—we are in a situation where the only solution to the successful industrial targeting and infant industry policy of Japan is in this instance to adopt our own infant industry strategy. Otherwise, the infant that we have will be stillborn.

Senator MATSUNAGA. I thought the Senator's comment would be the Japanese are very clever people.

Senator HEINZ. This is true.

Senator MATSUNAGA. Senator Danforth, did you have any questions?

Senator DANFORTH. Mr. Chairman, I have a question. One question, only, Mr. Farren and I am going to ask the question and then I am going to give you the preamble for the question.

Here is the question: How can we in Congress be assured that the Commerce Department is playing and will continue to play a key role in the formulation and execution of U.S. trade policy?

Now, here is the preamble: While the Constitution gives the Congress responsibility for foreign commerce, in point of fact, there is no way that we can execute trade policy on a day-in, day-out basis. We are busy dealing with other pressing concerns, such as Section 89 or sense of the Senate resolutions relating to foreign policy matters. We cannot execute trade policy on a day-to-day basis. So the executive branch has to do that.

Now I think it is fair to say that many people in Congress welcome the approach of the Bush administration, which appears to elevate the consideration of the commercial and economic interests of the United States beyond where we were before. Clearly, there is an ongoing dispute, regardless of the administration, about the relative importance of international trade in formulating our policies vis-a-vis our countries. Generally the State Department and the Defense Department, OMB, and the Council of Economic Advisors, take the view that the United States should not really not insist on its economic and commercial rights. They generally believe it gums up our relations with other countries, or it does not meet their definition of free trade which means that the U.S. market is open regardless of what other countries do.

On the other hand, USTR, the Commerce Department, Labor, Agriculture, sometimes Treasury, take the position that our commercial interests should be given greater visibility and consideration. We count—we being Congress—on the Commerce Department in particular to be the advocate for U.S. commercial interests. But we know that the Commerce Department sometimes—to use Senator's Bentsen word—is "stiffed."

One of the interesting things that happened in the FSX deal is that when the new administrations come in, the Commerce Department became involved. Not so in the Reagan administration.

For those of us who want the Commerce Department to be active, for those of us who want a voice for the economic interests of the United States in dealing with other countries, I repeat the question, how can Congress be assured, that the Commerce Department is going to be playing a role?

Mr. FARREN. Senator, in approaching the answer and trying to be brief, because this is a subject that, of course, has taken up considerable discussion on my part and those of others within the institution of the Commerce Department over the last several years as to how Commerce can appropriately promote the interests of American business and make certain that economic security in the establishment of national policy is viewed as being just as important as military security.

Of course, it was something that Secretary Baldrige felt strongly about and it is something that Secretary Mosbacher has been very active in the FSX, perhaps being the clearest example. There are two aspects of it. There is one, the institutional role for the Commerce Department and I think this committee and the Congress last year in the trade bill established an institutional relationship among the various agencies on trade policy with the U.S. Trade Representative being the coordinator and spokesperson on trade policy.

Following that direction of Congress, Commerce is now and will continue to work very closely with USTR and is a real partner with USTR on the formulation of trade policy, so that you have two cabinet members coming to the table with that view. With the USTR clearly having the statutory authority.

Commerce in the administration of law, particular the antidumping countervailing duty law and other responsibilities that we have, has an opportunity of taking a pro-active role and putting the institution out in front where it has an opportunity to impact

on what trade policy is and, frankly, force some decisions in the interagency process.

But more importantly, I think you have to look at the informal process and that is the individuals who are serving in the positions in the Commerce Department, particularly the Secretary, and a commitment on their part to carry the message and take a forceful stand. I think thus far in this administration the Secretary of Commerce has clearly shown a willingness and a long-term intent to do exactly that. Because ultimately, it is a forceful argument made at the cabinet table that will have the most impact on what the decision of the administration is on individual issues of trade policy.

The CHAIRMAN. Are there further comments?

[No response.]

The CHAIRMAN. Mr. Farren, I certainly share the views expressed by Senator Danforth in urging that the Commerce Department play a substantial role in trade policy and hope that it can do so. I happen to have been a friend and admirer of Malcolm Baldrige. I thought he tried very hard to play an active role. I have known Secretary Mosbacher for many years and I have high regard for him. I think he has an advantage that Malcolm Baldrige did not have. I think he has the ear of the President and has a more equal footing with the State Department, the Treasury, and the Pentagon in trying to determine the trade policies of this country.

For a long time we were such an important economic power in the world that we could afford to trade off economic points for the foreign policy objective of the moment. That day has passed. We have some very tough, able competitors out there and it is quite important that we work to see that we retain a diversified industrial base in this country and that we have open markets for our agriculture.

In Europe, they talk about agriculture being a social policy. With us, it is business. We are good at it when the markets are open. I feel very strongly about that issue and that although opening markets alone will not turn around the trade deficit, it will help. It is a many faceted problem and we have to address as many of those as we can.

So we wish you well in your service and we look forward to serving with you if you are confirmed.

Thank you very much.

Mr. FARREN. Thank you, Mr. Chairman.

The CHAIRMAN. Now we will move into executive session.

[Whereupon, the hearing was adjourned at 10:49 a.m.]

# APPENDIX

## ALPHABETICAL LISTING AND MATERIAL SUBMITTED

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### PREPARED STATEMENT OF SENATOR BOB DOLE

Mr. Chairman, Larry Harlow is well known to most of the members here. He has chosen to spend his career in public service.

The breadth of his experience—at the E.P.A., at the Federal Trade Commission, at O.M.B., at the White House and finally, at Treasury—indicates an intellectual curiosity, a willingness to learn and a commitment to serve. The success which he has achieved in each of these positions confirms his ability as an adviser and as an administrator.

Mr. Chairman, Larry Harlow will bring both great political skills and great dedication to the Treasury Department. I strongly support his nomination as deputy under secretary.

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### PREPARED STATEMENT OF SENATOR DAVE DURENBERGER

Chairman, I want to take this opportunity to strongly endorse the President's decision to nominate Gerald Olson to be an Assistant Secretary of Health and Human Services.

Gerry and I have been friends since the early 1960's, and I can recommend him highly to this Committee as I have to this new Administration. We served the Governor of Minnesota together in the 1960's and have worked together on national corporate social responsibility projects.

Gerry Olson's business career path and the special opportunities represented by a change of Administration and a change of times are appropriately co-incident. His corporate management experience and his long-time and extensive participation in public policy make him an exceptionally well-qualified candidate for this important position.

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### BIOGRAPHICAL OF JOHN MICHAEL FARREN

1. John (J.) Michael Farren
2. 402 Third Street, SE, Washington, DC 20003
3. November 21, 1952, Waterbury, Connecticut
4. Single
5. No Children
6. Fairfield University, Fairfield, Connecticut  
9/70-6/74 & 12/76  
B.A. 1977  
Trinity College, Hartford, Connecticut  
8/77 to 6/82  
M.P.P. 1982  
University of Connecticut School of Law, Hartford, Connecticut  
9/79 to 6/82  
J.D. 1982
7. Employment Record:  
Consultant to the Secretary, U.S. Dept. of Commerce 1/89 to present  
Deputy Director, Office of the President-Elect 11/88 to 1/89  
Counsel, Wiggin & Dana Law Firm, New Haven, CT 9/88 to 11/88

Consultant, Republican National Committee, Washington, DC 9/88  
 Deputy Director, Operations/Convention (volunteer), George Bush for President, Washington, DC 8/88  
 Consultant to the Under Secretary, International Trade Administration, Dept. of Commerce 5/88 to 7/88  
 Deputy Under Secretary, International Trade Administration, Dept. of Commerce 9/85 to 5/88  
 Counsellor to the Secretary of Commerce 3/85 to 9/85  
 Director of Business Liaison, Office of the Secretary, 6/83 to 3/85  
 Director of White House Liaison & Executive Assistant to the Deputy Chairman, Republican National Cmte, Washington, DC 8/81 to 6/83  
 Vice President, Greater Waterbury Chamber of Commerce, CT 12/78 to 8/81  
 Deputy Campaign Manager, Sarasin for Governor Committee 1/78 to 11/78  
 Vice President, Greater Waterbury Chamber of Commerce, CT 9/77 to 1/78  
 District Representative, Staff of Congressman Ronald A. Sarasin, Washington, DC 12/76 to 9/77  
 Campaign Director, Sarasin for Congress Committee, 5/76 to 11/76  
 District Representative, Staff of Congressman Ronald A. Sarasin, Washington, DC 12/74 to 5/76  
 Campaign Director, Sarasin for Congress, Washington, DC 3/74 to 11/74  
 Campaign Coordinator, Donnarumma for Mayor Committee, CT 8/73 to 11/73  
 Local Reporter, *New Haven Register*, Long Wharf, New Haven, CT 3/73 to 5/73  
 Laborer, Currier Electric Company, Naugatuck, CT 12/72 to 1/73 and 5/72 to 8/72

Salesclerk, Breen's Inc., Naugatuck, CT 11/68 to 8/71 (Part-time and during school vacations)

8. Government Experience:

Naugatuck, CT Republican Town Committee 1973-74  
 Candidate for Naugatuck Board of Burgess 1973  
 Naugatuck, CT Board of Finance 1973-78  
 Connecticut State Police Auxiliary 1972-78  
 Connecticut Advisory Committee on Environmental Quality 1979-81  
 See employment history for other positions held.

9. Memberships:

1983-Present, American Bar Assoc., Professional, Chicago, IL  
 1982-Present, Connecticut Bar Assoc., Professional, Hartford, CT  
 1983-Present, DC Bar Assoc., Professional  
 Oct. 1988-Present, International Bar Assoc., Member, London, England  
 1974-Present, Fraternal Order of Elks, Naugatuck, CT  
 1977-1981, Waterbury Easter Seals Rehab. Center, Board of Directors, Waterbury CT (Charitable Organization)  
 1979-1981, CT Business Coalition to Save Energy, Hartford, CT (Business Organization)  
 1983-1985, American Judicature Society, Chicago, IL (Professional Organization)

10. Political Affiliations:

Volunteer, Reagan-Bush Campaign 1980  
 Director of White House Liaison, Republican National Committee 8/81 to 6/83  
 Volunteer, Bush for President Committee 8/88  
 Consultant, Republican National Committee 9/88

11. Honors and Awards: None.

12. Published writings: None.

13. Speeches: Numerous speeches to Business Groups, few were from written texts, no texts were retained.

14. Qualifications:

Since June 1983, with the exception of six months, I have been at a senior level in the Commerce Department working on policy and management issues regarding international trade, competitiveness and the effective delivery of government services to the business community. This specific background combined with my work as a local Chamber of Commerce executive, Congressional staff member and an educational background in political science, economics/public policy and the law, offer strong skills for the position of Under Secretary for International Trade.

As Deputy Under Secretary for International Trade, I worked directly for former Under Secretary Bruce Smart and had responsibility for the daily management of the International Trade Administration. This included budget, personnel, public affairs, legislative liaison and policy analysis. I was

involved in issues such as semiconductors, steel imports, softwood lumber imports, export controls, Airbus, telecommunications, supercomputers, international construction, machine tools, heavy electrical equipment, science and technology agreements and the start of the Uruguay Round.

I regularly represented the Department of Commerce on the interagency Trade Policy Review Group, organized the Department's role in consideration of the 1988 Omnibus Trade and Competitiveness Act, participated in meetings with foreign trade officials, and accompanied Secretary Baldrige on foreign travel.

As Counselor to the Secretary and Director of the Office of Business Liaison, I had contact with all aspects of the Department of Commerce and the business community. This included managing the Department's outreach program to more than one thousand business representatives and trade associations. I also reviewed all policy papers going to the Secretary and served as the contact with the White House and other Cabinet agencies.

For six years I have had a direct role in the formulation and implementation of U.S. trade policy working directly for the late Secretary Baldrige and former Under Secretary Bruce Smart. My experience has included direct negotiations with the Government of Japan, which enabled me to develop a special understanding of dozens of unique trade problems. My work for the Department on trade legislation and in the interagency process provides an insight into institutions only possible through direct experience.

I believe my experience offers a special opportunity for the Department of Commerce to respond promptly in serving the needs of the U.S. business community.

#### INFORMATION REQUESTED BY SENATOR BENTSEN

U.S. DEPARTMENT OF COMMERCE

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

Dear Mr. Chairman: During my confirmation hearing, you requested information on the Trade Adjustment Assistance Program (Program). In response to your request, Deputy Under Secretary Roger Wallace met with Finance Committee staff and a representative of Senator Heinz's office for an indepth discussion of the Commerce Department's position on the Program. In subsequent meetings and telephone conversations, Committee staff have been kept current on further developments.

The elimination of the Trade Adjustment Assistance Program for firms has been consistently recommended in recent Presidential budgets. These recommendations are based on experience with the Program's results. The Administration believes that the assistance offered through TAA does not warrant the cost of maintaining the Program. Recent studies have supported this conclusion; Committee staff were given an overview of these studies and their findings. A list of these studies is attached.

Nevertheless, although the Department of Commerce believes the continued funding of TAA is ill advised, we remain committed to effectively managing the Program in FY 90 as mandated by Congress.

In an ongoing effort to improve the administrative management of the Trade Adjustment Assistance Center (TAAC) grants, the Department has undertaken two actions during this year.

First, to rectify the problem of funding uncertainties, the TAACs are now on a calendar year funding cycle. Due to the general uncertainties of final approval of appropriations, and specifically, of the Trade Adjustment Assistance appropriations, certain delays have previously been inevitable. Although funding cycles have not been interrupted, the delays have caused recipient unease. Our actions have been designed to avoid much of this, and we believe that the resulting certainty will outweigh any temporary inconvenience this improvement to the planning process might have caused.

Second, TAAC recipients have had a practice of maintaining significant reserves of Federal funds. Therefore, an indepth analysis of recipient fiscal reserves was undertaken to identify necessary prospective funding and to ensure equitable distribution of limited resources.

A series of awards to TAACs issued in July were considered adequate to fund all TAACs through December 31, 1989. The level of these awards was based on an anal-

ysis of the TAAC spending in fiscal year 1988. However, in the cases of the Mid-American and Southwestern TAACs, which are new organizations, we reviewed the need for additional funds before the end of the calendar year 1989. In the case of the Mid-America TAAC, the reassessment resulted in a supplemental award of \$30,000.

I want to assure you again that the Department is committed to managing this Program effectively. The recently enacted appropriations legislation provides a total of \$10,877,000 for the Program of which \$4,605,000 is new budget authority. Attached is a printout of TAAC expenditures for the past 2½ calendar years.

As I stated at my hearing, my experience with the Trade Adjustment Assistance Program has confirmed studies that found Program costs unmatched by Program results. As a manager committed to promoting exports and to meeting the challenges to U.S. firms in global markets, I am convinced we could make better use of the \$10,877,000 in other International Trade Administration programs.

Sincerely,

J. MICHAEL FARREN.

Attachments.



STUDIES OF THE TRADE ADJUSTMENT ASSISTANCE PROGRAM UNDERTAKEN  
IN THE LAST TEN YEARS (MOST RECENT LISTED FIRST)\*

U.S. Congress, Office of Technology Assessment, Trade Adjustment Assistance: New Ideas for an Old Program - Special Report, OIA - ITE - 346 (1987). (Referred to as "OTA Report")

HCR, Evaluation of the Adjustment of Firms Assisted by the Trade Adjustment Assistance Program: Economic Experience of Client Firms Since 1981 (report prepared under contract for the U.S. Department of Commerce, Office of Trade Adjustment Assistance, 1985).

U.S. Department of Commerce, Office of Inspector General, International Trade Administration Trade Adjustment Assistance: No Cure for Import - Injured Firms, Report No. D-068-5-006 (1985). (Referred to as "IG Report").

U.S. Congress, General Accounting Office, Management of Trade Adjustment Program Shows Progress, CED-82-58 (1982).

U.S. Department of Commerce, Office of Inspector General, Review of the Trade Adjustment Assistance Loan Program to Identify Areas for Improvement of Loan Quality, Report No. 3AD-134-01-1030-82-01 (1981).

U.S. Congress, General Accounting Office, Adjustment Assistance to Firms under the Trade Act of 1974 - Income Maintenance or Successful Adjustment? ID-78-53 (1978).

\* Copies of any of these studies are available from Eleanor Roberts Lewis, Acting Chief Counsel for International Commerce, U.S. Department of Commerce, 377-0937.

TAAC EXPENDITURES CALENDAR YEAR 1987, 1988 AND 1989 THRU 7/31/89  
 PREPARED BY: DTAA - TECHNICAL ASSISTANCE DIVISION

	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	CY 1987				CY 1988				CY 1989 THR 7/31/89			
	NO. TOTAL	CONSULT-	TOTAL	NO. TOTAL	CONSULT-	TOTAL	NO. TOTAL	CONSULT-	TOTAL	NO. TOTAL	CONSULT-	TOTAL
	OF OPERATING	TANT	EXPENS-	OF OPERATING	TANT	EXPENS-	OF OPERATING	TANT	EXPENS-	OF OPERATING	TANT	EXPENS-
TAACs	MTH COSTS	EXPENSES	ES	MTH COSTS	EXPENSES	ES	MTH COSTS	EXPENSES	ES	MTH COSTS	EXPENSES	ES
N. WEST	: 12	\$616,500	\$102,200	\$718,700	: 12	\$637,600	\$123,000	\$760,600	: 7	\$380,500	\$110,700	\$491,200
N. JERSEY	: 12	\$318,500	\$92,400	\$410,900	: 12	\$309,400	\$382,800	\$692,200	: 7	\$190,200	\$280,400	\$470,600
MID-WEST	: 12	\$592,700	\$70,600	\$663,300	: 12	\$692,000	\$35,700	\$727,700	: 7	\$431,900	\$193,800	\$625,700
SOUTHWEST	: *	*	*	* : 3	\$51,200	\$0	\$51,200	: 7	\$242,700	\$33,800	\$276,500	
MID-AMER.	: *	*	*	* : 3	\$30,800	\$0	\$30,800	: 7	\$162,700	\$18,900	\$181,600	
NORTHEAST	: 12	\$501,800	\$299,200	\$801,000	: 12	\$554,800	\$572,900	\$1,127,700	: 7	\$344,900	\$277,000	\$621,900
NY STATE	: 12	\$572,100	\$119,500	\$691,600	: 12	\$617,200	\$69,800	\$687,000	: 7	\$401,800	\$81,400	\$483,200
SOUTHEAST	: 12	\$729,700	\$213,700	\$943,400	: 12	\$784,800	\$260,400	\$1,045,200	: 7	\$310,400	\$119,400	\$429,800
WESTERN	: 12	\$580,300	\$264,100	\$844,400	: 12	\$848,100	\$244,100	\$1,092,200	: 7	\$523,400	\$377,800	\$901,200
MID-ATLAN.	: 12	\$315,070	\$0	\$315,070	: 12	\$596,900	\$199,200	\$796,100	: 7	\$510,700	\$69,100	\$579,800
ROCKY MT.	: 12	\$377,100	\$119,100	\$496,200	: 12	\$562,900	\$167,500	\$730,400	: 7	\$319,000	\$171,000	\$490,000
G. LAKES	: 12	\$782,400	\$173,900	\$956,300	: 12	\$875,400	\$117,400	\$992,800	: 7	\$540,000	\$82,700	\$622,700
METRO NY	: 12	N/A	N/A	\$812,300	: 17	N/A	N/A	\$1,033,200	: 5	N/A	N/A	\$387,900
TOTAL	:132	\$5,386,170	\$1,454,700	\$7,653,170	:138	\$6,561,100	\$2,172,800	\$9,767,100	: 89	\$4,358,200	\$1,816,000	\$6,562,100

\* TAAC NOT IN OPERATION

\*\*\*\*\*  
 TAA CONGRESSIONAL APPROPRIIS - (\$ IN MILLIONS)  
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	TECHNICAL ASSISTANCE	ADMINIS-TRATION	TOTAL
FY-87	\$13.9	\$ 1.9	\$ 15.8
FY-88	\$13.9	\$ 1.9	\$ 15.8
FY-89	\$ 3.9	\$ 1.9	\$ 5.8
TOTAL	\$31.7	\$ 5.7	\$37.4

## RESPONSES TO QUESTIONS SUBMITTED BY SENATOR ROCKEFELLER

## STEEL

**Question.** We have been waiting for several months for the Administration to come up with a policy to implement the President's commitment on steel. When can we expect the conclusion of this process?

**Answer.** The President and members of his Cabinet recently met with you and the other members of Congress to discuss the steel VRA issue. The Administration is currently in the final stages of determining what its policy should be with regard to implementing the President's commitment on steel. I anticipate a decision by the President in the near future.

**Question.** There are a few people who are suggesting that semifinished steel be excluded from the program or that the quota on semifinished steel be increased significantly which would have the same effect. What is your feeling on this?

**Answer.** I support the inclusion of semifinished steel in the next steel program. I believe this is essential if the domestic industry is to continue to make critical investments in the modernization of hot-end steelmaking facilities. If semifinished steel were not covered, we would become a nation of rollers and finishers.

I do not believe it is necessary or appropriate to significantly increase semifinished steel ceilings. Last year, when semifinished steel demand was at a peak, large amounts of authorized short supply tonnage went unused.

**Question.** There are some who suggest that South Korea is a good candidate for exclusion from the program. What are your thoughts on that?

**Answer.** I disagree. Korea is the fourth largest U.S. Steel supplier, with imports from Korea totalling 1.3 million net tons in 1988. The absence of such a major producer from the program would discourage other countries from cooperating in our efforts to conclude the VRAs and achieve an international consensus.

Additionally, the Commerce Department has found that Korea's steel industry has benefited from some subsidies, albeit small ones, in past countervailing duty cases. The Treasury Department has found that Korea manipulates its currency, benefiting all export industries.

**Question.** How can the President's goal of an "international consensus" on eliminating dumping, subsidies and import barriers best be achieved?

**Answer.** The consensus must obtain discipline over subsidies and improve market access. The framework should be consistent with Uruguay Round Subsidies Code and market access objectives. A consensus must include an adequate enforcement mechanism to ensure that commitments are upheld and that we can take swift action against violations. Consensus commitments should be negotiated in conjunction with VRA levels to maximize our ability to obtain commitments.

I believe that the consensus should be the centerpiece of the next steel program, not an afterthought. The only way we can ensure that this is the last steel VRA program is to attack the market forces that led to the VRAs—unfair trade practices and distortions in steel trade. A successful international consensus can do this.

## STRUCTURAL IMPEDIMENTS INITIATIVE

**Question.** Along with the President's decision on Super 301, he announced that we would enter into a structural dialogue with Japan. I would like to know how you envision this dialogue proceeding.

**Answer.** United States and Japanese officials will meet soon to agree on an agenda and framework for the talks under the Structural Impediments Initiative (SII). Given the complexity of the issue, research and planning will take place during the summer. The first full round of consultations with Japan will be held shortly thereafter.

## FSX

**Question.** Several weeks ago the Senate voted to allow the FSX project to proceed. One of the reasons I supported the FSX, and that many others supported it, was that the Commerce Department was given a seat at the table. The clarifications made to the original MOU were important, and it was Commerce's involvement that allowed this to happen. Are you satisfied that the Commerce Department will have a continuing and strong role as we proceed with FSX development? I would hate to see other agencies, like Defense, try to cut Commerce out. This would trouble me, and I think it would trouble my colleagues.

**Answer.** Commerce played a central role in the interagency process that resulted in the clarifications to the FSX MOU that you mention. During this process, we made it clear to other agencies that Commerce would continue to play a key role,

especially in monitoring technology transfer and the flowback of technology from Japan. I am confident that Commerce will continue to take a very active role in the process.

#### PREPARED STATEMENT OF KENNETH W. GIDEON

Mr. Chairman. The President has honored me by nominating me for the position of Assistant Secretary of the Treasury for Tax Policy, and it is an honor to appear before this Committee today.

There is clearly much work to be done in Tax Policy and I am anxious to get on with it. I believe that I can work together with the members of this Committee and members of the House Ways and Means Committee to fashion solutions consistent with the President's program but reflecting wisdom, insight, and concerns of the Congress as well. Achieving solutions will not be easy. Budgetary constraints, of course, limit all of our freedom of action. There are significant disagreements about what ought to be done. But solutions can be achieved, and I pledge to you that I will work hard—with you—to achieve them.

I would like to discuss, very briefly two issues, capital gains and civil tax penalty reform. I support the President's capital gain proposal. I believe that the impact of the American business tax system on the competitiveness of American business will become an increasingly important part of the tax policy debate. Capital gains proposals address an important aspect of that system in a positive way which I believe will have significant long-term benefits for our economy and hence all Americans. The revenues associated with a capital gains proposal would go far toward allowing Congress to meet the budget agreement.

Yesterday, a Subcommittee of the House Ways and Means Committee considered important proposals to significantly reform the civil tax penalty system to make it simpler and fairer. This proposal enjoys bipartisan support in the House and I hope that it will receive early consideration and similar support by this Committee. Specifically, the bill consolidates many existing penalties into a simplified structure. It provides, for the first time, continuing incentives to comply with information and reporting deadlines even after the initial due date has been missed. While the Treasury Department has made suggestions for improvement, I believe the bill deserves support and it has my personal support.

I wish to thank President Bush for nominating me, Secretary Brady for his confidence in me, and my wife, Carol, and our four children present here today for their understanding and support.

This concludes my statement. I will be happy to answer questions which members of the Committee may have.

#### BIOGRAPHICAL OF KENNETH W. GIDEON

##### Employment:

Partner, Fried, Frank, Harris, Shriver & Jacobson

Attorneys at Law, Washington, D.C.

General tax practice including corporate and partnership tax planning and litigation. Details of significant practice and litigation will be provided upon request.

Chief Counsel for the Internal Revenue Service, Washington, D.C., 1981-83.

Supervised IRS litigation, administrative appeals, and technical functions (4,500 employees); participated in development of partnership audit legislation including work with tax writing committees and House Legislative Counsel on drafting; member of Policy Committee to review significant tax regulation and ruling issues.

Previously in practice with Fulbright & Jaworski, Houston and Washington, 1971-81; 1983-1986.

##### Professional Activities:

American Bar Association, Section of Taxation

Council member elected for term to end 1990.

Committee on Government Relations, Chairman, 1984-86.

Committee on Court Procedure, Chairman, 1979-81.

Served on Task Force on Compliance and Dependency Exemptions

Co-Chair, Tax Force on Civil Tax Penalties—appointed by Senator David Pryor, 1988.

Member of informal advisory group to Senator Robert Dole, on tax reform options to Senator Robert Dole, 1985-86.

- Fellow, American College of Tax Counsel  
 Member, American Law Institute Advisory Group on Subchapter C, Federal Income Tax Project, 1987-88.  
 New York University Advisory Board on the Internal Revenue Service Continuing Education Program, 1983-86. Co-chairman. 1985-86.  
 Commerce Clearing House, Advisory Board on Transactional Tax Publications, 1983-present.  
 Participant, Tax Court Judicial Conferences, 1984, 1986, 1988.  
 Participant, Judicial Conference of the United States Court of Appeals for the District of Columbia Circuit, 1987.  
 Attendee, Invitational Conference on Subchapter C (Corporate Income Tax) sponsored by ABA Tax Section and New York State Bar Tax Section, 1987.  
 Attendee, Invitational Conferences on Income Tax Compliance sponsored by ABA Tax Section, 1983, 1987.  
 Fellow, American Bar Foundation.  
 Chairman, Committee on Administrative Practice and Liaison with the Texas Comptroller of Public Accounts, Taxation Section, State Bar of Texas, 1979-81.  
 Chairman, Subcommittee on Capital and Financial Structure, Legal, Tax and Accounting Committee, National Council of Farmer Cooperatives, 1980-81.  
 Frequent lecturer and speaker on tax topics for trade association meetings and bar and accounting continuing legal education programs.  
 Greater Houston Tax Forum, 1973-1981. President, 1978.
- Professional Publications:  
 "Mrs. Gregory's Grandchildren: Judicial Restriction of Tax Shelters," 5 *Virginia Tax Review* 825 (1986).  
 "Settling Docketed Tax Court Cases: Coping with the Multiparty Environment Practically and Ethically," *Proceedings of the 44th NYU Tax Institute* 2-1 (1986).  
 "Mrs. Gregory's Northern Tour; Canadian Proposals to Adopt the Business Purpose Rule and the Step Transaction Doctrine," *Canadian Tax Foundation, Report of Proceedings of the 39th Tax Conference, Montreal* (1987).
- Civic Activities:  
 Troop Committee Chairman, Boy Scout Troop 869, McLean, Virginia, 1985-88.  
 Harvard College 20th Reunion Gift Committee, Class of 1968.  
 Deputy Police Commissioner, city of Bunker Hill Village, Texas, 1981.  
 City Councilman, Police Commissioner, City of Spring Valley, Texas, 1978-79.  
 Chapelwood United Methodist Church, Houston, Administrative Board, 1978-80.
- Education:  
 J.D. 1971, Yale Law School, New Haven, Connecticut.  
 B.A. 1968, Harvard University, Cambridge, Massachusetts.  
 Preparatory education in Lubbock, Texas, Public Schools.
- Bar Admissions:  
 Supreme Court of the United States, 1981.  
 United States Court of Appeals for the Fifth Circuit, 1972.  
 United States Court of Appeals for the District of Columbia Circuit, 1985.  
 United States District Court for the District of Columbia, 1985.  
 United States District Court for the Southern District of Texas, 1972.  
 United States Court of Claims, 1972.  
 United States Tax Court, 1971.  
 Supreme Court of Texas, 1971.  
 District of Columbia Court of Appeals, 1984.
- Office address & telephone:  
 1001 Pennsylvania Avenue, NW., Suite 800, Washington, D.C. 20004-2505  
 (202) 639-7171

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PREPARED STATEMENT OF BRYCE L. HARLOW

I am deeply grateful to President Bush for nominating me for this important responsibility and to Secretary Brady for recommending me to the President. And allow me to thank many of you on this Committee and your colleagues in the Senate; I know that several or more of you were contacted by the Secretary or others and asked about me, since I have spent so much time on the Senate side of the Capitol since 1985. Evidently, you gave me the benefit of the doubt. Thank you. I hope I'll continue to merit your confidence.

The challenges facing this Committee and the Treasury are serious. The obstacles we face will not be easy to overcome. Nevertheless, I'm increasingly sure that the President's determination to attack the nation's problems head-on in a constructive fashion, in cooperation with you, will lead to an outstanding record of achievement by the 101st Congress and the Bush Administration.

In that effort, with Secretary Brady's leadership, I always will be ready to listen to and discuss your concerns, and to work with you. I hope you will use me often in that way.

I believe that my job is to faithfully represent your views at Treasury, to just as faithfully represent and promote the Administration's position to you, and to try to perceive new solutions while acting as an honest broker. I have no doubt that if we work together in this trustful way, the American people will benefit.

Mr. Chairman, I would say finally that I was raised to believe that the greatest pleasure in life comes from being of service to others. What an honor therefore it is to be chosen by the President to serve the Secretary of the Treasury and the United States Congress! And, should I be confirmed, how fulfilling it will be for me to serve, in that way, the public interest.

Thank you. I'll be pleased to respond to your questions.

#### BIOGRAPHICAL OF BRUCE L. HARLOW

1. Name: Bryce L. Harlow
2. Address: 2324 Jackson Parkway, Vienna, VA 22180
3. Date and Place of Birth: Oklahoma City, OK, January 21, 1949
4. Marital status: Married; Sue Kolakoski
5. Names and ages of children: Sandra Harlow, 21; Bryce N. Harlow II, 10
6. Education: Old Dominion College, 9/67-5/69.  
George Washington Univ., 6/69-9/71.  
B.A. Political Science, 9/71.
7. Employment Record: Staff Assistant to the Honorable Howard H. Baker; 6/69-1/71 & 6/71-12/71.  
Legislative Specialist, U.S. EPA, Denver, CO; 2/72-8/76.  
Manager, Field Affairs; Manager, Federal & State Affairs; Director, Government Relations; Grocery Manufacturers of America, Inc. (GMA), Washington, D.C.; 9/76-1/81.  
Special Assistant to the Administrator and Acting Director, Office of Legislation, U.S. EPA, Washington, D.C.; 1/81-10/81.  
Director, Office of Congressional Relations, U.S. Federal Trade Commission, Washington, D.C.; 10/81-2/85.  
Special Assistant to the President, Washington, D.C.; 2/85-11/85.  
Associate Director of the Office of Management and Budget for Legislative Affairs, Washington, D.C.; 11/85-12/86.  
Special Assistant to the President, Washington, D.C.; 12/86-1/89.  
Consultant, U.S. Department of Treasury, Washington, D.C.; 2/89-present.
8. Government experience: Please see answer to question 7.
9. Memberships: Member, Army and Navy Club.
10. Political affiliations and activities: Registered Republican.
11. Honors and Awards: Award for Excellence, U.S. FTC.
12. Published writings: None.
13. Speeches: None.
14. Qualifications: Extensive experience in legislative affairs and a dedication to public service.

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#### PREPARED STATEMENT OF GERALD L. OLSON

Mr. Chairman, and members of the Committee, it is an honor to appear before you today as President Bush's nominee to be Assistant Secretary of the Department of Health and Human Services for Legislation.

This will be my first formal role in government. However, I am not new to politics or to Washington and I am personally acquainted with several of the distinguished members of this Committee. I look forward with great enthusiasm to undertaking my duties, with your consent, and will do so with a deep awareness of the responsibilities involved, and with a strong commitment to our new President and to the policies which address priorities for our nation.

The President's call for a kinder and gentler nation will perhaps be heard, and responded to, at no other Executive Agency as it will be at the Department of

Health and Human Services. President Bush could not have found a more qualified advocate for proposals to better serve the poor, the disenfranchised, the disabled, the elderly, children and the sick than Dr. Louis Sullivan. I am proud to have been chosen by our President to work with Dr. Sullivan to help implement this Administration's agenda. Equally, I look forward to working with the Congress to find the very best solutions to our nation's health and human service problems.

I have spent the last 20 years of my life in congressional affairs, most recently as Vice President of Government Relations for The Pillsbury Company in Minneapolis, Minnesota. I fully recognize and appreciate the importance of good relations with Congress, and pledge to work diligently with Secretary Sullivan and his team at HHS to advance this relationship.

I am well aware that my role as Assistant Secretary for Legislation is to accurately and effectively communicate the Administration's views to you in a timely manner. Parallel to this obligation is the responsibility to assist Secretary Sullivan by expeditiously conveying to him your views.

Mr. Chairman, I want to assure you and the other members of this Committee that, if confirmed, I will perform the duties of my office to the best of my abilities. Thank you for the opportunity to appear before you today.

#### BIOGRAPHICAL OF GERALD L. OLSON

##### Career History:

- 1978-1989—Vice President, Government Relations  
The Pillsbury Company, Minneapolis, MN
- 1975-1978—Executive Director, Government & Community Relations  
Cummins Engine Company, Columbus, IN
- 1971-1975—Vice President and Division Manager  
Irvin Management Company, Columbus, IN
- 1969-1971—Assistant to the Chairman  
Cummins Engine Company, Columbus, IN
- 1967-1969—Special Assistant & Presidential Campaign Director  
Governor Nelson A. Rockefeller (R-NY), New York, NY
- 1966-1967—Campaign Manager and Legislative Liaison  
Governor Harold LeVander (R-MN), St. Paul, MN
- 1962-1966—Director of Operations  
Minnesota Republican Party, St. Paul, MN
- 1960-1962—Assistant and District Representative  
Congressman Ancher Nelson (R-MN), St. Paul, MN
- 1958-1960—Division Sales Manager  
Prudential Insurance Company, Fairmont, MN

##### Additional Political Activities:

Special Advisor and Transition Co-Chairperson, Governor Otis R. Bowen (R-IN), 1972.

Campaign Co-Chairperson, Richard Lugar (R-IN) for U.S. Senate, 1976

##### Board and Committee Memberships:

- Member, Board of Directors, Minnesota Project on Corporate Responsibility—St. Thomas College
- Member, Board of Directors, Public Affairs Council
- Member, Board of Directors, Minnesota Wellspring
- Member, Board of Directors, Community Development Foundation, Great Minneapolis Chamber of Commerce
- Member, Minnesota Governor's Commission on Economic Dislocation
- Member, Board of Directors, Minnesota Chamber of Commerce & Industry
- Member, Board of Directors, Minnesota Sports Event Promotion Board
- Chairman, College of Business Advisory Council, Mankato State University
- Past Chairman, The Pillsbury Company Political Action Committee
- Past Chairman and Member, Board of Directors, The Taft Institute for Two-Party Government
- Past Member, Board of Directors, Citizen Conference of State Legislators
- Past Vice-Chairman, The Pillsbury Company Foundation

##### Personal History:

- Born on December 3, 1933 in Sioux Falls, South Dakota.
- Attended public school in Fairmont, Minnesota.
- Military service, Special Services, 1953-1955
- Attended Mankato State University, B.S. Degree, Business and Economics 1955-1958.
- Graduate Study, University of Minnesota, 1959-1960.

Brookings School of Advanced Management, 1975.

Honors:

Outstanding Young Men of Minnesota, 1965.

Public Service Award-Sagamore of the Wabash-Indiana, 1976.

The purpose of this brief chronology and history is to supplement the resume I have provided to you. This chronology is certainly not exhaustive nor comprehensive. If necessary, I can provide you with additional background and information.

As you will see from my resume, I grew up in Fairmont, Minnesota, graduating from high school there in 1951. In order to finance my college education, I volunteered for the U.S. Army in 1953, serving until my discharge in 1955. With the aid of the G.I. Bill, I then enrolled at Mankato State University, graduating in 1958 with a degree in business.

Following graduation, I joined the sales staff of the Prudential Insurance Company. After a successful first year with Prudential, I was named National Freshman Agent of the Year, and asked to join the management development program. My expectations on beginning this program were the completion of an MBA program and a long-term sales or marketing career with Prudential.

However, this game plan changed when I became involved with the gubernatorial campaign of Elmer Anderson in 1960. Following his election as governor, I left Prudential and went to work for the Minnesota Republican Party and Congressman Ancher Nelsen in Minnesota's Second Congressional District. My primary responsibilities in the congressional office were constituent service and public liaison.

In 1963, I was appointed Director of Field Operations for the Minnesota G.O.P. with management responsibilities for the 22-member permanent staff of the state party.

I held this post until 1965 when Harold LeVander, a South St. Paul attorney, was nominated as the Republican candidate for governor (Anderson had lost a close election in 1962). Shortly thereafter, I was asked by leaders of the state party organization to serve as campaign manager for LeVander in June of 1965. After the successful campaign and LeVander's subsequent election, Dave Durenberger and I took over the job of organizing the new administration and preparing for his inauguration as Governor of Minnesota in January of 1966. I then served as his chief lobbyist and liaison with the state legislature, and was responsible for managing the Governor's legislative agenda.

Because of the strength of Minnesota's DFL party, at that time under the leadership of Senator and eventual Democratic presidential nominee, Hubert Humphrey, LeVander's come-from-behind victory received significant coverage from the national media. Our efforts particularly caught the attention of the New York Governor Nelson Rockefeller. Rockefeller was himself looking for managers and strategists to organize a second bid for the Republican nomination for President of the United States.

Following discussions with Governor Rockefeller and his top advisers, I became Co-Manager of the Rockefeller for President effort. I served in that capacity from late 1967 and through the Republican National Convention of 1968. Needless to say, we lost the nomination to Richard Nixon. During that process, however, I became acquainted with Governor Rockefeller's National Campaign Chairman, J. Irwin Miller, who was then Chairman of Cummins Engine Company in Columbus, Indiana.

Irwin Miller asked if I would join his family-owned management company as Executive Director of Government and Community Relations. Mr. Miller is a committed philanthropist and as such has become very visible in his support of a number of social issues. I agreed to join him, taking responsibility for the management of all public policy issues, and for the \$1.2 million annual charitable contributions budget. Later, I served as his special assistant, spending a total of ten exciting years with the organization until Mr. Miller's retirement in 1978.

Enter The Pillsbury Company. In 1978, in response to overtures from The Pillsbury Company, I agreed to move my family to Minneapolis, and joined the Company's management team as Vice-President of Government Relations. On November 15 of this year, I completed my tenth year with one of the premier companies in the food industry and a leader among America's corporations. It has been a challenging and stimulating experience.

Obviously, recent developments at the company have encouraged me to look ahead to the next challenge. It is that subject that I hope we will have the opportunity to mutually explore.



## COMMUNICATIONS

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U.S. OFFICE OF GOVERNMENT ETHICS,  
*Washington, DC, May 22, 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 Michael Farren, who has been nominated by President Bush for the position of Under Secretary, International Trade Administration, 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. The report is supplemented by the enclosed letter from the Designated Agency Ethics Official at the Department of Commerce dated May 18, 1989.

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

Sincerely,

FRANK Q. NEBEKER, *Director.*

Enclosures.

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U.S. OFFICE OF GOVERNMENT ETHICS,  
*Washington, DC, May 8, 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 Kenneth W. Gideon, who has been nominated by President Bush for the position of Assistant Secretary for Tax Policy 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. In the Memorandum of May 2, 1989, which is attached to the enclosed financial disclosure report, the nominee has indicated his intent to recuse himself from participating in particular matters affecting financial interests attributed to him as outlined therein. He will also recuse himself from participating in any particular matter concerning the law firm of Fried, Frank, Harris, Shriver & Jacobson and certain clients as listed in Attachment A to the May 2, 1989, Memorandum. In a Memorandum dated May 3, 1989, addressed to Jeanne Archibald, Mr. Gideon has agreed to divest his holdings in the Riggs National Corporation within 90 days of his appointment to this position. This Memorandum is also attached.

Subject to the fulfillment of these commitments, it appears that Mr. Gideon will be in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

FRANK Q. NEBEKER, *Director.*

Enclosures.

U.S. OFFICE OF GOVERNMENT ETHICS,  
Washington, DC, May 22, 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 Bryce L. Harlow, who has been nominated by President Bush for the position of Deputy Under Secretary of the Department of the Treasury.

The report has been reviewed and advice obtained from the Treasury Department concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. Based thereon, we believe that Mr. Harlow is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

FRANK Q. NEBEKER, *Director.*

Enclosures.

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U.S. OFFICE OF GOVERNMENT ETHICS,  
Washington, DC, May 4, 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. Gerald L. Olson, who has been nominated by President Bush for the position of Assistant Secretary of Health and Human Services for Legislation.

We have reviewed the report and have also obtained advice from the Department of Health and Human Services concerning any possible conflict in light of its functions and the nominee's proposed duties. Because Mr. Olson is a fully vested participant in the Pillsbury Company's defined benefit pension plan, he has agreed to recuse himself from involvement in any matters uniquely affecting Pillsbury. He is seeking a waiver pursuant to 18 U.S.C. 208 from the Secretary of Health and Human Services to allow his participation in matters generally affecting the industry sector of which Pillsbury is a part. Additionally, Mr. Olson has indicated he will resign from all positions which he has disclosed in schedule D.

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

Sincerely,

FRANK Q. NEBEKER, *Director.*

Enclosures.

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