

# NOMINATION OF W. MICHAEL BLUMENTHAL

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HEARING  
BEFORE THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
NINETY-FIFTH CONGRESS  
FIRST SESSION  
ON  
THE NOMINATION OF  
W. MICHAEL BLUMENTHAL, SECRETARY-DESIGNATE OF THE  
TREASURY

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JANUARY 12, 1977

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## NOMINATION OF W. MICHAEL BLUMENTHAL FOR SECRETARY OF THE TREASURY

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WEDNESDAY, JANUARY 12, 1977

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

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

Present: Senators Long, Talmadge, Ribicoff, Harry F. Byrd, Jr., Nelson, Gravel, Bentsen, Hathaway, Haskell, Hansen, Packwood, and Schmitt.

The CHAIRMAN. The committee will come to order.

We are holding a hearing today on the qualifications of Mr. Michael Blumenthal, whom President-elect Carter has announced he has intended to nominate for Secretary of the Treasury.

Mr. Blumenthal comes to us with impressive credentials. First, I will ask Mr. Blumenthal to make his opening statement, after which I will call on Senators in the order that they arrived.

### STATEMENT OF W. MICHAEL BLUMENTHAL, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, THE BENDIX CORP., SOUTHFIELD, MICH.

Mr. BLUMENTHAL. Thank you very much, Mr. Chairman and members of the committee.

I was honored when Governor Carter designated me to become his Secretary of the Treasury and it is an equally great privilege to appear here today before this committee in respect to my confirmation to that high office. I want to assure you, Mr. Chairman, and all members of the committee, that I will do my very best, if confirmed in this position, to work closely with you on many matters of importance relating to my responsibilities which will come before us.

In preparation for my appearance here today, I have consulted with the staff of this committee concerning the resolution of my potential conflicts of interest, and with my legal counsel who have advised me that, in light of the arrangements which I have made, my assumption to the Office of the Secretary of the Treasury will not result in any violation of the conflicts of interest law.

As I have informed the committee staff and the President-elect's transition staff, I will before my swearing in as Secretary of the Treasury sever all relationships with the Bendix Corp. except for

my rights to pension benefits and entitlements under my 1973 agreement with Bendix—that is, the agreement which provides for payments following the termination of my employment with Bendix. With respect to this 1973 agreement, I will receive no payments whatsoever pursuant to the agreement while I am in office. My rights for the next 4 years will be satisfied by a payment prior to January 20, 1977, and, if I were to continue in a Government position for more than 4 years, future payments would be deferred until I leave public office.

The agreement specifically provides that I will not be required to consult at any time while I am in office nor will I be required to consult at any time after leaving office where consultation would involve a violation of the conflict of interest law.

With specific reference to my stock holdings, I propose to exercise additional options for Bendix shares which were granted to me in 1971 and 1973—and, because of Federal securities law considerations, will postpone that exercise until during the 5 business days after swearing in.

In addition, I have created a blind trust with Morgan Guaranty Trust Co. of New York as trustee, and I will transfer no later than October 31, 1977 any stockholdings, including all shares of Bendix not personally sold by me, to the blind trust with instructions that the trustee have full investment discretion and not disclose to me the identity of the trust investments. Moreover, the trust agreement expressly requires that the trustee diversify the portfolio on or before October 31, 1977 by reducing the holdings in any particular company to not more than 25 percent of the trust assets.

Finally, I will disqualify myself from participating in any way in any ruling, determination, proceeding or other particular matter in which Bendix, or certain other organizations with which I have a relationship, has a financial interest.

Mr. Chairman, I would be happy to answer any questions that you or any other member of the committee has for me.

The CHAIRMAN. Senator Riegle would like to be recognized, I believe.

#### **STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM THE STATE OF MICHIGAN**

Senator RIEGLE. Mr. Chairman, I appreciate the opportunity to appear with Mr. Blumenthal. I do so, not only for purposes of putting on the record an introduction that I think is appropriate to his background but also because we, from the State of Michigan, feel especially honored and privileged that he has been selected for this post.

Speaking for myself, as I look at the composition of the President-elect's Cabinet, I feel the best feelings about this particular Cabinet-designee. His record of service in the public arena, his record of service in the private arena, I think is one of the finest in the country and I think that his potential for exceptional service as Secretary of the Treasury is as high as it possibly could be.

If I may, rather than postpone your opportunity to question him, what I would like to do is insert into the record a detailed biographical sketch of Mr. Blumenthal that spells out his record of accomplishment at the Bendix Corp., his previous service, government service, and public service, both at the national level and at the State level and also I want to stress what I think is a unique aspect of this particular individual, and that is an element of exceptional business statesmanship, too seldom seen in the private sector. His leadership in terms of public issues and the forward movement of people from all backgrounds within his company, I think stands out perhaps above any other example in the United States.

Not only has there been exhibited that kind of human consciousness and social consciousness within that corporate setting, but it has not been at the expense of the financial success, the profit success of that corporation. The Bendix Co., I think is recognized as one of the best managed companies in the country, but it has been done in a manner that allows the people in that organization to grow at their maximum capacity.

I think this particular aspect of leadership that he has given the private sector is something that we can well use in the public sector.

I am delighted to welcome him today back to Washington and say that it is my prediction when the record of this administration is totaled up some years down the road that his accomplishment and record as Secretary of the Treasury, I think, will stand right at the top of the list.

I appreciate the courtesy of the committee and the chairman for allowing me to make these remarks.

[The biographical data of Mr. Blumenthal follows:]

#### W. MICHAEL BLUMENTHAL

##### BIOGRAPHICAL SKETCH

Werner Michael Blumenthal: Chairman of the Board and Chief Executive Officer of The Bendix Corporation, Southfield, Michigan; residence, Ann Arbor, Michigan; born, Oranienburg, Germany, January 3, 1926; graduated from University of California, Berkeley, California, 1951; Princeton University, Princeton, New Jersey, 1956; holds B.S., M.P.A. in Public Affairs, M.A. in Economics, Ph.D. in Economics; married Eileen Polley; children, Ann Margaret, born March 31, 1953; Gillian, born, October 28, 1955; Jane Eileen, born November 21, 1957.

1976-present, Chairman and Chief Executive Officer, The Bendix Corporation, Southfield, Michigan.

1972-1976, Chairman, President and Chief Executive Officer, The Bendix Corporation, Southfield, Michigan.

1971-1972, President and Chief Operating Officer, The Bendix Corporation, Southfield, Michigan.

1970-1971, Vice Chairman, The Bendix Corporation, Southfield, Michigan.

1967-1970, President, Bendix International, New York, New York.

1963-1967, U.S. Ambassador, President's Deputy Special Representative for Trade Negotiations, and Chairman, U.S. Delegation to Kennedy Round Trade Negotiations—Geneva, Switzerland.

1961-1963, Deputy Assistant Secretary of State for Economic Affairs, Department of State, Washington, D.C.

1957-1961, Vice President and Director, Crown Cork International Corporation, Jersey City, New Jersey.

1954-1957, Research Associate, Industrial Relations Section, Economics Department, Princeton University.

1953-1954, Fellow, Social Science Research Council.

Elected to Phi Beta Kappa, 1951; recipient of Management Man of the Year Award—1974; United Negro College Fund, Annual Medallion Founders Award.

Published writings: Co-Determination in the German Steel Industry; Disability Retirement in Industrial Pension Plans; A World of Preferences.

Officer, director or trustee of numerous business and non-profit organizations and educational institutions, including The Equitable Life Assurance Society of the United States, Princeton University, the Council on Foreign Relations, and The National Committee on U.S.-China Relations, Inc.

The CHAIRMAN. Thank you very much.

I am going to suggest to all members of the committee that we limit ourselves to 5 minutes for the first round of questions and thereafter I would suggest that we limit ourselves to 10 minutes. If anybody wants to pass, he can have 15 minutes on the second round, if he wants to take that much time. Those who want to ask only one or two questions can be accommodated the first time we go around.

Going in order that the Senators arrived, I call on Senator Packwood first.

Senator PACKWOOD. Mr. Blumenthal, I would say that you started with a good step with this committee as choosing Mr. Woodworth who has done much in the past in the interrelationship of the executive branch and this committee. I do apologize. I am going to leave as soon as I finish my questions. I am going to the Rules Committee, where we are trying to work out a method so we will not have these conflicts.

You were president of Bendix International I understood from 1967 to 1971. Is that the international sales arm of Bendix?

Mr. BLUMENTHAL. Right.

Senator PACKWOOD. You are very experienced in multinational corporation's investments overseas.

In your experience, in most multinational corporations, is the principal reason that they invest overseas to get inside a market, or to be close to a market overseas?

Mr. BLUMENTHAL. I would certainly say that market considerations in all business matters are by far the single most important motivating factor.

Senator PACKWOOD. Of course, you are familiar with the argument that comes up annually about foreign tax credits and deferral tax income to the United States?

Mr. BLUMENTHAL. I am.

Senator PACKWOOD. Do you recall either of those taxing devices as an inducement, an unjustifiable incentive that causes corporations to go overseas?

Mr. BLUMENTHAL. I do not believe, Senator, that these two matters, in and of themselves, would cause a corporation to do one thing or another. I think that they must be seen as a part of the totality of considerations, including, most importantly, and primarily, market considerations. Certainly it is very difficult to generalize.

In particular industries, particular countries, situations may differ.

I would say in overall terms, tax considerations are really only one aspect of the totality and not the most important aspect in determining where a company invests its resources.

Senator PACKWOOD. Based on your experience and knowledge, do you see any need to make any change in either the present foreign tax credit law or the deferral of taxation of foreign source income law.



Mr. BLUMENTHAL. I have for some time taken the position that I would be happiest if the tax laws work in such a way that there is really true neutrality between investments in this country and investments abroad. I would hope in a review of our entire tax code that we could test to see whether or not these particular provisions to which you refer and others that would have an influence do, in fact, provide such neutral treatment or do provide an incentive for either one or the other area of investment.

Unless I were to conclude that they provide an incentive to invest abroad, I would have some question about their elimination. If I did find that they do, I would think a good case could probably be made for their revision.

Senator PACKWOOD. You mentioned totality in terms of investment. The investment tax credit, of course, does not apply to overseas investments. That is, therefore, a positive inducement to invest in this country.

Mr. BLUMENTHAL. Correct.

Senator PACKWOOD. This is a positive inducement to invest in this country?

Mr. BLUMENTHAL. Correct.

Senator PACKWOOD. If you were looking at totality and those are tax devices that induce you to invest in this country in terms of totality you may have to have some favorable benefits to incur to reach neutrality.

Mr. BLUMENTHAL. All of these factors, both those intended to be particularly beneficial to investing here as against abroad would have to be taken into consideration in such a review.

Senator PACKWOOD. Thank you very much.

I have no further questions, Mr. Chairman. Thank you for letting me ask them now.

The CHAIRMAN. Senator Griffin has entered on the scene. He would like to say a word on behalf of Mr. Blumenthal.

#### STATEMENT OF HON. ROBERT P. GRIFFIN, A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator GRIFFIN. Mr. Chairman, I just wanted you to know that the pride of Michigan in the nominee who is before you is bipartisan. We are very happy and pleased that Mike Blumenthal has been nominated by the President-elect to be the new Secretary of the Treasury, and I can tell you from a good deal of experience that he will be an excellent one.

We are very happy. I will not bore you or fill up the record with more recitations about his accomplishments. He is a very remarkable person, with a very distinguished record both in government service and in the business world.

I commend him to the committee, and along with my colleagues, Senator Riegle, urge that the Senate confirm his nomination.

The CHAIRMAN. Thank you very much.

Next on the early bird list is Senator Byrd of Virginia.

Senator BYRD. Thank you, Mr. Chairman.

I welcome Mr. Blumenthal. Mr. Blumenthal, what do you regard as the most important problem facing the Nation today?

**Mr. BLUMENTHAL.** The most important problem facing the Nation today on the economic front, Senator, is to provide for growth without inflation adequate to put the people to work who are able to work and looking for work and unable to find it; to do so, however, without inflation and in a manner which leads to that growth in the economy that can bring us at the earliest possible date a balanced budget.

**Senator BYRD.** Well, some—perhaps I should say at least one—feels that the most important problem is the need for the Government to put its own financial house in order. What order of priority would you list that?

**Mr. BLUMENTHAL.** I think that we cannot have prosperity and growth and stability if the Government's financial house is not in order. I really think, Senator, that these matters are really closely inter-related. One cannot be done without the other.

I think and hope that the economic programs that are developed are of a nature that all these matters need to be attacked jointly.

Clearly, Governor Carter has stated that it is his goal to achieve a balanced budget within a period of time. Clearly that is not possible this year, or next. He has assigned a very high priority to that task. I fully concur with that as a very important goal.

I think the other goals of keeping inflation declining over the years and providing employment for people have to be looked to together as a part of this three- or four-pronged attack on our economic problem.

**Senator BYRD.** Do you regard the proposed economic program which the Carter administration has indicated that it will send to the Congress to be a deflationary one? You do not contend that; do you?

**Mr. BLUMENTHAL.** I regard that program as a necessary step and a vital step in the direction of achieving, at the earliest possible date, the goals to which I have referred.

The reason that we have a very large budget deficit as this administration takes office is because, in large measure, the economy is operating at too low a level of capacity; that kind of shortfall is in large measure responsible for the big deficit.

As we achieve, hopefully through the program that is being recommended to the Congress, a faster growth rate, and receive the fiscal results of that, then I would expect that certainly the intention would be to bring us a balanced budget and stability within a period of time.

**Senator BYRD.** How much will the proposed economic package increase the projected deficit for 1977 and for 1978?

**Mr. BLUMENTHAL.** The precise program has, of course, not been fully defined, Senator. The estimates of the program as they presently stand and as have been discussed by Governor Carter with congressional leaders last week, provides for expenditures in fiscal 1977 of somewhere in the area if \$12 billion to \$16 billion, in actual amount probably around \$15 billion, and for expenditures in the following year, fiscal 1978, at a level somewhat below that.

What we do not yet know and have not been able to calculate with precision, is how much of a return in terms of increased taxes and benefits from an economy that operates at a higher level of activity will be flowing back, so that the net addition to the deficit in 1977, and certainly in 1978, would be significantly smaller than the growth numbers. For 1977, there will not be time for enough of that net factor

to play a role, but it should play an important and significant role in 1978.

Senator BYRD. My time has expired; I would like to explore this more fully at a later time.

Mr. BLUMENTHAL. Yes, sir.

Senator BYRD. Thank you, Mr. Chairman.

The CHAIRMAN. I am going to pass, at this time, and turn to Senator Hathaway.

Senator HATHAWAY. Thank you, Mr. Chairman.

It is a pleasure to see you again. Let me ask you two or three questions.

The Treasury Department, as you know, is responsible for insuring the compliance of financial institutions which hold Federal contracts with the Executive order prohibiting discrimination. GAO and the Senate Banking Committee have found that Treasury, in the past, has not done a very good job in this regard.

With your fine record at Bendix, I would expect that you would make a commitment to improve that record. Is that true?

Mr. BLUMENTHAL. Senator, my views on the necessity for all citizens to have equal rights and the importance of the elimination of discrimination, I think is clear. I feel very strongly about that. I am not familiar, frankly, with the precise rules and regulations that the Treasury has to administer. I will look at those very closely.

I will assure you I will do all that I can to make sure that they are properly, fairly, and clearly administered.

Senator HATHAWAY. Thank you.

At the beginning of this week, the Office of Revenue Sharing published in the Federal Register some interim final regulations under the recently enacted Revenue Sharing Act. We have received some complaints from public interest groups, as well as State and local government representatives, with regard to these interim regulations.

For example, I think there is some provision for waiver of the public hearing requirement, which the public is very much interested in.

On the other hand, there are some very stringent audit requirements which State and local governments have some interest in.

I wonder if you intend to go over these regulations and do you contemplate any additional consideration of these regulations before they come out in final form?

Mr. BLUMENTHAL. I will make it my business, Senator, to look at these regulations, go over them, and review them, to see whether I find them adequate or whether I would recommend any changes in them.

As to the question of public hearing, I believe with Governor Carter that the most open possible government, the most participation possible by the public in all of these matters is in the public interest. I would always stress that.

Senator HATHAWAY. I am glad to hear that. That is one of the most important parts of the revenue-sharing bill that was passed. We eliminated the laundry list of requirements for spending and substituted in lieu thereof public hearing mechanisms where the public itself could come in and testify as to what it wanted.

The last question that I want to ask you concerns trade policy. As you probably know, the International Trade Commission has recently

determined injury in the shoe industry resulting from imports and has recommended tariff quotas to take care of the problem.

This, of course, will come before the President to make a decision of whether to go along with that recommendation or not. Undoubtedly he will be calling upon you for your recommendation.

Could you say at this time whether you would recommend going along with the majority decision—four out of the six Commissioners recommended tariff quotas.

Mr. BLUMENTHAL. I am really not in a position, Senator, to give a firm view today of what my recommendation would be. I would certainly note the fact that four out of six Commissioners have found in a certain direction. I would want to look closely at all the facts, the employment effect, the impact on the domestic economy, and on our international relations and international economic situation as I make my recommendation.

I am keenly aware of the fact, through 4 years of trade negotiations during my previous period of Government service, that the impact on employment on particular industries in the domestic economy is a vital factor in making these decisions. I would want to study them very carefully.

Senator HATHAWAY. My time has expired. I will ask more questions later.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. Mr. Blumenthal, it is hardly necessary to say that your nomination arrives at a time of serious economic difficulty. The economies of the United States and other industrialized nations are slowly recovering from the first concurrent world recession since 1957 and the most severe economic recession since the 1930's. Here in the United States unemployment continues at 8.1 percent—an intolerable level. Economic recession of this severity—combined with the threat of continuing inflation—is seriously straining the world's systems of trade and finance.

There is little that can be achieved if our economy continues to stagnate. On the other hand, there is much that can be accomplished for ourselves and our friends if the economy of the United States is strong and healthy. Accordingly, your task as Secretary of the Treasury will be to devise a policy to accelerate the recovery of our economy, without inflation.

The international economic problems facing us are equally serious and potentially disruptive. We live in a world of scarce resources and growing economic interdependence. It is appropriate that you are trained as an international economist. As the structure of the world economy changes rapidly we as a nation must learn to live with the problems forced upon us by international economic realities.

You, as Secretary of the Treasury will have to devise policies to help us survive and prosper under increasingly difficult circumstances. There has been a fundamental shift away from the traditional issues of foreign affairs toward economic issues and the strategies of geopolitics. We have to have a coherent global economic strategy to deal with all the challenges facing us—including the potentially devastating effects of a powerful oil cartel. But most importantly, the United States must provide leadership. As our economy recovers and

our international economic structures adjust to the new realities, America must be in the forefront of interdependent cooperation.

So, Mr. Blumenthal, I welcome you here this morning and I welcome your return to Government. We need a man of your intellect and ability at Treasury if we are to provide the political and economic leadership this country and the world so urgently require.

Now, Mr. Blumenthal, an amendment to the Tax Reform Act of 1976 denies tax benefits to any person who participates in, or cooperates with the Arab boycott or any other unauthorized international boycott.

President-elect Carter took a strong stand on this importance of this issue, speaking out on it time and time again during this last campaign.

With regard to the enforcement of antiboycott legislation, he said on October 18, "I believe that there must be effective implementation of antiboycott laws by the executive branch. I would make sure that the Government applies these laws vigorously."

Now, the Treasury Department has issued proposed guidelines on this law that to me and to other thoughtful people are totally unacceptable. In my opinion, the proposed guidelines do not seek to implement the law. They seem to obstruct and frustrate the legislative intent.

Mr. Blumenthal, as Secretary of the Treasury, I am interested in your views on these issues, particularly in whether you would order a complete review of the Treasury guidelines?

MR. BLUMENTHAL. Senator Ribicoff, may I say at the outset that I am completely opposed to these sorts of boycotts. I agree with, and support, and welcome, the Ribicoff amendment that became law. I will most certainly, immediately upon taking office if I am confirmed, review these draft regulations to insure that they do, in fact, carry out the intent of this law and seek to administer them in a way that is consonant with the intent of this legislation. I do not believe in that type of boycott activity. I do not believe that Americans should support it.

Senator RIBICOFF. Mr. Secretary, the domestic and international economic problems that you will face as Secretary of the Treasury are very much inter-related. The paradox of unemployment and rising prices threaten the economy of our Nation and the industrialized countries as well as the world situation of trade and finance.

The recovery of the domestic economy cannot be separated from the recovery of the world economy. The recovery of the world economy is a function of the price and supply of energy. The supply and price of energy and other resources are related to the North-South dialog.

You are going to be confronted, as Secretary of the Treasury, with a seamless web of economic problems. I wonder if you could relate to us how you look upon your priorities, and which of these problems will receive your earliest attention?

MR. BLUMENTHAL. Senator, you are quite correct, and I agree that these problems of the domestic economy, energy policy, world energy problems, the impact of these on the world economy and the North-South dialog are closely inter-related questions. It is difficult to assign priority to any one of these matters.

I would say the first thing we must do is to take the necessary steps to put our own domestic economic house in order. We need a growing, healthy, vibrant U.S. economy, and that is a prerequisite for virtually everything else that we must do.

As a part of that, I would strongly feel that the development of a national energy policy should require high priority and I understand that that is something the President-elect intends to press strongly.

At the same time, with our current energy policy and our domestic economic policy taking shape, based upon the proposals that Governor Carter has made, we are now in a position simultaneously to talk to our friends and trading partners, in Europe, Japan and elsewhere and resume the North-South dialog on a basis which will allow us to talk sensibly and urge them to collaborate and do their part to put the whole world economy into better shape.

Senator RIBICOFF. Thank you.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. Thank you, Mr. Chairman.

Mr. Blumenthal, it seems like old times to have you back before the finance committee again. You are familiar, of course, with former President Kennedy's seven point program of assistance to the American textile industry, including the short- and long-term arrangement relating to imports of cotton textiles, are you not?

Mr. BLUMENTHAL. I am, indeed.

Senator TALMADGE. That program has remained as the basis of textile trade policy through succeeding administrations. Now, however, that trade policy, as you know, is subject to the terms of the multifiber arrangement negotiated in GATT in 1973.

You are familiar with the multifiber arrangement, of course?

Mr. BLUMENTHAL. Yes, sir.

Senator TALMADGE. I was interested to read some time ago your comments on unemployment. As you know, textile imports and garment imports at the present time are displacing some 250,000 persons. That is rising right along.

You probably know that the multifiber arrangement is scheduled to expire at the end of this year.

In this regard, one of my constituents in Georgia, who is interested in textiles, visited with President-elect Carter. President-elect Carter wrote him a letter on his interest in textiles. I have shown you a copy of that letter.

You fully support President-elect Carter's comments on continuing the textile policy, I take it?

Mr. BLUMENTHAL. I do.

Senator TALMADGE. I ask unanimous consent, at this point, Mr. Chairman, that President-elect Carter's letter be made a part of the record.

The CHAIRMAN. Without objection, agreed.

[The letter to be furnished follows:]

JIMMY CARTER PRESIDENTIAL CAMPAIGN,  
Atlanta, Ga., March 22, 1976.

Mr. MORRIS BRYANT,  
President, The Jefferson Mills,  
Jefferson, Ga.

DEAR MORRIS: Thoroughly enjoyed our meeting last week with Mr. McKissick and Mr. McLendon.

As you are well aware, I realize the United States has the world's largest textile industry employing about one million people. Some two thirds of the jobs in textile manufacturing are in small non-metropolitan areas. But combined with apparel production which provides another 1¼ million jobs it also is extremely important to the large urban centers. And its *minority employment* is highly significant—16% as compared to 11% in manufacturing generally.

Equally significant is the fact that jobs are provided in every state in the union either directly or by suppliers in agriculture, fiber production, chemicals, machinery, paper and many others.

Because it provides vast employment opportunities and because of its total economic impact special policies regarding international trade and textiles have evolved. These were initiated by former Secretary of State, Cordell Hull under the administration of Franklin Roosevelt in 1935. Today they are embodied, in a large part, in an international arrangement negotiated in 1973 under the auspices of the GENERAL AGREEMENT on TARIFF and TRADE—an arrangement which provides for orderly trade in textiles and apparel. This and previous international agreements have proved themselves beneficial to both developing and developed countries.

As President, my administration will continue and where necessary improve upon this policy which has been and is designed to preserve American jobs.

Once again thanks for your active support of my campaign. I hope that I will never disappoint you.

Sincerely,

JIMMY CARTER.

Senator TALMADGE. Do you realize in this critical time it is vitally and absolutely necessary for us to expand and continue our exports in every way we can. To that end, you will utilize the Export-Import Bank to the fullest degree, I take it?

Mr. BLUMENTHAL. I will.

Senator TALMADGE. As between agricultural products and industrial products, there will be no discrimination?

Mr. BLUMENTHAL. I will certainly see to that to the largest extent possible, in accord with all of the existing laws and regulations. I think that we ought to use our advantage wherever we can, and agricultural imports are one of the strongest factors in the import-export picture.

Senator TALMADGE. Thank you very much. I have no further questions.

The CHAIRMAN. We will call on Senator Hansen.

Senator HANSEN. Thank you, Mr. Chairman.

Secretary Blumenthal, a little less than 2 years ago you were testifying before the Senate Interior Committee on an energy policy. I read carefully what you then said.

Without burdening the record, if you can, recall the thrust of that testimony at that time. I would ask if you still hold to those views that you expressed then?

Mr. BLUMENTHAL. I recall them in only general terms, Senator, and I know of no major aspects of it regarding which I have changed my mind.

Senator HANSEN. Fine.

I am certain that we are all most hopeful that there can be further progress in the various negotiations toward peace in the Middle East. We should note particularly the actions taken by Saudi Arabia in refusing to go along with some of her sister countries in OPEC and holding the price increase to 5 percent rather than 10 percent that some have adopted. We should note, too, that the latest figures disclose that we are importing 41 percent of the oil that we use daily in the United States from abroad. I think about half of the oil that is imported into the United States now comes from Arab countries. Do you foresee any significant danger or threat to our continued energy supply, indeed, to our national security, if we were to modify in any

significant regard the boycott terms that have been spelled out by Treasury regulation?

I refer, of course, to the question earlier asked by my good friend from Connecticut, Senator Ribicoff.

Mr. BLUMENTHAL. Senator, I think that the United States should never be afraid to speak clearly in a measured way on a matter that we feel strongly, for reasons of our history, our culture, and for reasons of law and equity. I think that is very important.

I think that if we explain that to other nations in a friendly and firm way that they will respect us for it.

I obviously do not favor precipitous action on any matter that would endanger the national security of our country. I think that this particular matter to which I responded in reply to Senator Ribicoff's question is one that has other complex issues attached to it that must be taken into consideration and no doubt will be. I really do not believe that it is necessary for us to compromise on the kind of approach that the President-elect has outlined, which is basically that the United States cannot and will not comply with boycott requests of the kind that are covered in the Ribicoff amendment.

Senator HANSEN. I do not argue with the position taken by the President-elect, nor do I argue basically with what you have said.

I think whatever the contention of Treasury in the present administration, that the thrust and the main thesis that was spelled out in conference between the Ways and Means Committee and the Finance Committee has been reduced to regulations by Treasury.

How might a significant revision of those regulations be interpreted by our friends around the world, indeed, by many of the companies that would be directly affected here if it were to be spelled out, or if the impression were to be left that they were not satisfactory?

You are not saying that they are unsatisfactory?

Mr. BLUMENTHAL. I am not saying that. I am saying that the commitment that I feel that I made, and I made it willingly and happily, is to immediately review those regulations to see whether they comply with the intent of Congress. I consider that to be my responsibility, and I will do so.

Senator HANSEN. Thank you, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Next, on behalf of the committee, I am happy to welcome our new member, Senator Schmitt from the State of New Mexico, to our committee.

Senator SCHMITT. Thank you, Mr. Chairman and members of the committee. It is good to be here. I am afraid it may be temporary, but I expect to learn a great deal from you and witnesses such as Mr. Blumenthal, and I have a soft spot in my heart for his previous association with Bendix, as I have used some of their equipment quite successfully.

I appreciate everything that your corporation did for us.

Mr. BLUMENTHAL. We helped getting you there and back, Senator.

Senator SCHMITT. Yes, sir, and you used about 4 hours of my time on the Moon that helped also.

I am a novice in the finance area. My questions will be fairly general.



I do know that the public in New Mexico, as elsewhere, are getting more sophisticated in the questions that they ask candidates about finance, so I suspect that my interest will continue in Congress.

I wonder if you could just discuss in very general terms for me, and hopefully for others, the relationship as you see it between the money supply and productivity in this country and inflation, and if that goes fairly well, add capital supply to that.

You have my 5 minutes to continue this discussion.

Mr. BLUMENTHAL. It is difficult to do that in 5 minutes, Senator.

I would say that I am afraid we do not know as much as we ought to about the causes of modern inflation, although there are many economists who will discourse eloquently on the subject. Also, it is a subject on which many people who are not economists have strong views, and although I once was an economist many years ago, I would have to say that I wish I knew and understood better the precise relationship among the causes of inflation as they are influenced by the money supply, as they are influenced by fiscal policy, as they are influenced by many factors that are decisive.

So I confess the limits of my knowledge. Second, what I do believe to be the case is that an economy that is managed in such a way—and I hate to use this phrase, but it is necessary to use it—other things being relatively equal, when the economy is operated with a supply of money in excess of the needs, and there is an unbalanced budget, then you clearly set in motion inflationary pressures. These inflationary pressures lead you into a lot of difficulties, they lead you to a lot of unemployment and hardship, and it seems to me that one of the major requirements of economic policy formulation and execution by the President and the Congress has to be to avoid that happening.

The next point that I would make, is that in my judgment you cannot look at any one factor and say that it is the sole cause of inflation, and I would have some question about those who point to the money supply and money supply only as being the principal factor determining economic activity.

Clearly fiscal policy is terribly important. Clearly the budget is terribly important. Clearly the sum of the rigidities that exist within our society that make prices and wages not easily or quickly adjustable to underlying economic trends are very important.

We have had a situation where we have had inflation and high unemployment. That is not supposed to happen, according to the economists. That is what I mean when I say we really do not understand it fully and we have to do much more work and study on the subject.

So I look upon monetary policy as a very important aspect that requires a close working relationship in my new job, for example, with Dr. Burns, and I certainly look forward and expect to have a close working relationship with him. I will look upon that as one vital element.

But again, it is only part of a seamless web of interrelated problems that make up an intelligent economic policy.

Senator SCHMITT. You are not mentioning the word I mentioned, productivity. Would you care to discuss that from your previous experience?

Mr. BLUMENTHAL. I stand corrected.

I certainly feel that investment research and development and productivity, so that the resources that we have at our disposal are not only utilized fully, but efficiently, with an increasing level of efficiency, represents the only way that we can look forward to a rising standard of living. There is no other magic. Otherwise, we just shovel what we have around. The cake has to get bigger. The way the cake gets bigger is to do things more efficiently.

That is what business is all about. That is what any corporation worth its salt spends a lot of time and energy on. That is clearly a very important element for the economy as a whole.

Senator SCHMITT. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Gravel?

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

I would like to ask unanimous consent to have a statement inserted into the record at this time.

The CHAIRMAN. Without objection.

[The statement to be furnished follows:]

STATEMENT BY SENATOR MIKE GRAVEL ON THE PROSPECTIVE NOMINATION OF  
MICHAEL BLUMENTHAL AS SECRETARY OF THE TREASURY-DESIGNATE

I am extremely pleased that President-Elect Carter has nominated Michael Blumenthal to head the United States Department of the Treasury. Mr. Blumenthal brings to this office impressive credentials: proven successful leadership of one of America's major corporations and proven commitment and dedication to constructive efforts aimed at solving America's socio-economic problems. Jimmy Carter could not have chosen a more appropriate individual to work with him in the new administration.

I believe the Secretary-designate's experience to date will serve him well in:  
Managing day-to-day as large an organizational structure as the Treasury;  
In grasping the many complexities of national fiscal and monetary policies;  
In working with this committee to effectuate revenue, budgetary, socio-economic and international economic goals.

I have already indicated my eagerness to work with him and with Jimmy Carter in these areas in what I foresee as a welcome, even propitious partnership for the Congress and Executive and to give immediate priority to matters such as a jobs program for reducing unemployment, and tax reductions and credits, short-term and longer, for our lowest-income citizens.

The Congressional Quarterly of December 18 in its detailed profile of Michael Blumenthal put it succinctly in stating that he will bring an "expertise in international economics, great success in the corporate world and enormous energy to this new job."

Senator GRAVEL. I would like to say I am very happy Governor Carter has selected Mr. Blumenthal as Secretary of the Treasury. My first question. As chief executive officer of a major American corporation, did you, at any time, encounter arrangements that you would classify as corporate bribery or commercial bribery, and what do you think can be done in the international community with respect to the conduct of businessmen involved in bribery and demands by Government for bribery, or whatever?

Mr. BLUMENTHAL. This is an important question and one that I have spent a great deal of time and thought on in my previous responsibility as chief executive officer of Bendix. It is a complicated issue, to which there are no simple answers.

I am proud of the fact that we have been fortunate that the policies that we developed for our company, for the Bendix Corp., have been faithfully observed by all of our executives in such a way that we have never been embarrassed to have to report publicly, as some other companies have, instances of illegal payments of bribery here or abroad.

What we did, essentially, was say to all of our people, and say it again, and again and again, and to institute internal procedures to insure to the maximum extent possible that this was understood and followed, that we do not believe that business that is obtained by methods that are illegal is worth having. We do not accept the adage of "when in Rome, do as the Romans do." We are a large company, we are an honest company. We would rather pass up some business than get that business by these questionable illegal means.

It took some time for my colleagues to realize that we were really serious. There was a lot of discussion and a lot of questioning, but we did manage to get that view accepted and it has not hurt the Bendix Corp. one bit. Our sales and earnings are higher than they have ever been.

I believe, and I have publicly said so, that it is possible for American corporations to adopt that approach. I believe that there is merit in exploring the notion of a code to which corporations in this country would subscribe, a professional code somewhat analogous to the medical profession, legal profession, or engineering profession.

I believe that that kind of leadership on the part of American industry would be welcome and would, in many instances, not only be admired, but followed by the industries of other developed countries. Indeed, we could reach some international agreements using our approach as a model.

That is not the only way of dealing with this problem, but it is one way, and one that I have suggested.

I believe businessmen are as honest, ethical, and as decent as other members of the society. I believe that the requirements of a complex world are different than they were 10, 20, or 30 years ago, and businesses have to adjust to it, and I would say that it is probably not a field in which I would welcome too much legislation.

It really depends on the individual actions of people as human beings. I would much rather see the business community voluntarily and on its own establishing standards of conduct and negotiating them internationally than to try to impose legislation which is difficult to frame and even more difficult to administer.

Senator GRAVEL. Thank you.

The CHAIRMAN. Senator Bentsen?

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

Mr. Blumenthal, in responding to Senator Byrd's question on the most important issue facing this Nation, you talked about the joint problems of unemployment and inflation and the difficulty of dealing with both at the same time. Much of what you try to do for one is counterproductive to the other.

I would like to speak for just a moment about my proposal for an employment tax credit to encourage business to hire additional workers. I would like to see a tax credit for investing in our most important resource, and that is people.

We have a recent econometric study that was made for the Joint Economic Committee by professors from the University of Iowa that shows that if a 5-percent employment tax credit with a 95-percent employment base had been put in effect in the fall of 1975 we would have more than 2 million people added to the payrolls today.

We had a similar study at Michigan State University which indicates that a marginal employment tax credit would have substantially

decreased unemployment in this country. What we are seeking is a way of lowering business costs and passing these reductions on to the consumer and at the same time, putting people back on the payroll.

Since we have a competitive, free enterprise system, lower production costs from employer tax credits should be passed on to the consumer. It seems to me that an employment tax credit is one of the least expensive ways to try to put people in permanent jobs and not dead-end jobs.

I would like to ask if your office would make a study of this kind of proposal.

Mr. BLUMENTHAL. Senator, I know that one of the highest items on the agenda for priority consideration according to the wishes of the President-elect is the whole question of tax simplification and tax reform. I certainly intend to look at this particular proposal—I promise you I will do that. I am not familiar with the study to which you refer. I will have myself briefed on it, and investigate this as a possible way to achieve the goals that you have outlined.

Senator BENTSEN. Thank you, Mr. Blumenthal.

Another concern for me and for, I am sure, this committee, is the fact that the 1974 Pension Reform Act has a lot of overlapping jurisdiction between the Treasury Department and the Labor Department.

It has resulted in excessive paperwork and redtape.

Big business does not really complain much about this. They have the lawyers and accountants to comply with endless reporting requirements. However, it is often an excessive burden for small businesses. In fact, in some instances the administrative costs for a plan exceed the contributions to the plan.

I would urge very strongly that you help us resolve the jurisdictional disputes and cut back on the paperwork on that.

Mr. BLUMENTHAL. Senator, you touch a point that is very close to my heart. I would only differ on one small point: That is, your statement that big business does not complain. We complain bitterly at the amount of paperwork and the amount of bureaucracy that is required in these matters. If there is one thing I can do that will lead to simplification and elimination of these jurisdictional disputes that lead to more paperwork, then I would be delighted to do so, and I will do my very best.

Senator BENTSEN. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Haskell?

Senator HASKELL. Thank you, Mr. Chairman.

Mr. Blumenthal, I am sorry I was not here when you arrived. I enjoyed talking to you very much today. I want to congratulate you for showing up without being flanked by a lot of people. You obviously do not need that kind of assistance.

I have one question.

We hope that our new administration will take the necessary stimulatory measures to the economy to reduce unemployment. It undoubtedly will occur to a lot of people that that raises the problem of inflation, yet it seems that people find that standby wage and price controls are an anathema. What are your views on the subject? Though we hope to stimulate the economy and reduce unemployment, we certainly want to control inflation.

What are your views on standby wage and price controls?

Mr. BLUMENTHAL. One of the worst experiences, Senator, that I had in my business career was to try to live with wage and price controls. It is an absolute nightmare for any businessman to try to live under because it freezes an existing pattern almost by definition, unfairly and capriciously, because you have to take a certain point in time and a certain reference period. It creates distortions in the economy and results in inefficiencies.

It is, in my judgment, a very, very poor way of dealing with what can be, sometimes, a very serious problem.

It is for that reason that I fully agree with those who feel that wage and price controls are not the answer except in periods of real national emergencies, certainly in war times, and such periods.

I do not believe wage and price controls are the answer. Since they are not the answer, I see no reason why they should exist on a standby basis.

What most likely can and will happen, if they do exist on a standby basis, is that businessmen, having been burned before, being slightly suspicious, would say to themselves, "Well, here they are, maybe they will activate them after all. And that leads, and can lead, to precisely the kind of inflationary raising of prices that would not otherwise occur.

I would be extremely concerned with standby controls having the opposite effect of the one you and I would want to achieve.

Senator HASKELL. Let me say that I hope that you are right, and I am wrong.

Thank you.

Mr. CHAIRMAN. Senator Nelson?

Senator NELSON. Mr. Blumenthal, several members of the Finance Committee are also members of the Small Business Committee, as you know. When the 1975 emergency tax reduction bill and the tax reform legislation of 1976 were before us, these members brought some proposals to the Finance Committee involving short-term stimulation and long-range tax reforms as they specifically affected small business and several of these proposals were considered by this committee, modified slightly, and adopted: estate and gift tax reform; increase on the surtax exemption from \$25,000 to \$50,000; reduction of the corporate income tax rate from 22 to 20 percent on the first \$25,000 of earnings; an increase in eligibility for the investment tax credit from \$50,000 to \$100,000 on used machinery (the biggest user of which is the small businessman) improvements to "subchapters" of the Internal Revenue Code, and an increase in permissible accumulated earnings.

One of the complaints, and a legitimate one, I think, from small business is that the Congress and the executive branch hears the voice of the large corporation, because they have experts readily at hand, available to testify before committees or present their case to the executive branch; and of course, the small businessmen do not. And from my observation over 14 years, I think that is a valid complaint, whether it involves legislation on regulation or taxes in the Congress, whether it involves the drafting of regulations in the executive branch, the small business community does not feel that it gets a fair hearing. I think that is correct.

My question is general.

During the campaign, and afterwards, I believe, President-Elect Carter made some statements, respecting small business. One of them in response to questions presented by the National Small Business Association. Mr. Carter said, "As President, I will introduce and support concrete programs which would have as high priority the expansion of the independent small business sector in the economy. Also, he stated: To measure the success of these programs, my administration would develop specific statistical yardstick formulas to measure the relative growth or small business in relationship to other sectors of the economy."

The Small Business Committee has been proposing that within each agency of the Federal Government—including the Department of the Treasury, of course, the Department of Labor and the rest—that there be some designated a representative of or contact point for small business. This would make it possible when regulations are drafted, that small business would have an input. The Small Business Administration would also be, able to consult with the representative, in order to have its viewpoint of the problem, and the proposed regulation and its impact on small business, considered before the regulation is adopted. As to tax changes, the same.

My general question is, would it be your intent, in terms of any recommendations that you had on tax policy matters, that you would specifically—or would you specifically consult the representatives of the small business community. Also, in the drafting of regulations—Senator Bentsen mentioned ERISA which, in the form of 16 of pages that could have been done in 5½, small business was not consulted. These form have been a disaster to many of them.

Would it be your established policy to call upon the small business community for their suggestions on taxes, regulations, and other such questions?

Mr. BLUMENTHAL. A short answer to that, Senator, is definitely yes. I do not necessarily believe that big is necessarily beautiful. I realize that there are many more small businesses than large ones in this country. In the kind of advisory groups that I plan to establish, or activate, or that already exist, I would certainly make sure that small business is particularly represented. In the staffing of the Treasury at senior levels, I also intend to pay some attention to that consideration.

Senator NELSON. This is their compelling concern, and over the years. Everyone who appears, who is asked that general question, of course, gives the answer "Yes," because there is no other answer. But, thereafter the implementation of a program, the establishing of an effective responsibility toward small business within the Agency never seems to get implemented.

What I am simply asking: Would it be your specific intent to implement a specific program of establishing a relationship with small business and all matters affecting them so that they would have an adequate hearing on their viewpoint before regulations emerged, or before the proposed tax reform package?

Mr. BLUMENTHAL. Yes, sir, I will consult with the Secretary of Commerce to make sure that we do not overlap, but work together, and it is my intention to set that up within the Treasury.

If I do not carry it through, I hope you will remind me.

Senator NELSON. Thank you, Mr. Chairman.

The CHAIRMAN. There are a number of Senators who would like to be here but are necessarily attending meetings somewhere else. I have a letter from Senator Moynihan. I would like the letter be printed in the record.

[The letter referred to follows:]

UNITED STATES SENATE,  
Washington, D.C., January 12, 1977.

HON. RUSSELL B. LONG,  
Finance Committee,  
Dirksen Senate Office Building,  
Washington, D.C.

DEAR MR. CHAIRMAN: I am one of the two freshmen who were chosen by lot yesterday to fill the Democratic vacancies on the Budget Committee, which I gather Ed Muskie thought was a matter of some urgency. That being the case, I assume I had best be on hand for the Budget hearings which begin at 10 this morning and so will not take advantage of your generous offer to sit with the Finance Committee while my old friend Mike Blumenthal is heard.

Respectfully,

DANIEL PATRICK MOYNIHAN.

The CHAIRMAN. In addition to that, Senator Proxmire sent over a letter proposing three questions which I would urge you to look at and see if you would feel that you could respond to those at this point, Mr. Blumenthal.

Mr. BLUMENTHAL. Yes, Mr. Chairman.

I have before me a letter sent by Senator Proxmire to you, and the first of three questions which he raises relates to bank regulatory reform. The question is, "Given President-elect Carter's interest in Government reorganization, will I give serious consideration to endorsing the concept of consolidating bank regulation within a single Federal agency?"

The answer to that, Mr. Chairman, is that I will certainly seriously consider it. I will have to confess that I do not, at this point, know all of the detailed considerations involved, but I know of the interest of Senator Proxmire and others in this matter, and we will, indeed, consider it seriously.

The second one relates to the New York City loan program and the question, Senator Proxmire's question, is what the timetable appears to be on this program, and whether or not I anticipate that any new initiatives will be announced early on in the new administration, or whether it is intended to wait and see how New York City progresses under its present financial plan.

Mr. Chairman, I have been in touch, as a result of the instructions of President-elect Carter, with the authorities and the interested parties in New York City to follow through on the President-elect's three points which he made at Sea Island.

The first is: He does not consider bankruptcy for the city of New York to be a viable alternative.

Secondly, that he is happy to see the progress that has been made in closing the current budget gap, and notes the commitment to close the gap for the coming fiscal year. He made the point that that is something that has to be done locally and that he expects will be done locally.

Similarly, the question of raising the funds related to the moratorium decision which exceeds \$1 billion, that, too, has to be raised

locally by the people involved in New York City, and that is another matter that he expects to be done there.

The third point: We will have to do a lot of studying and thinking regarding the question of insuring that subsequent to the coming fiscal year, subsequent to June of 1978, with a balanced budget having been achieved, that the city of New York would again be in a position, on its own, to have access to the financial market for the raising of its financial needs.

We will be working closely with them on that question. We recognize that the issue relates, really, not just to New York City, but perhaps more broadly to all the major cities of this country and that the timetable is to get started on studying the problem immediately, but

I am not really in a position to say when any decisions would be proposed in regard to that matter.

The final question relates to the contract compliance program, and it is given the support—I think it is addressed to you, Mr. Chairman.

The CHAIRMAN. No: I think it is addressed to you.

Mr. BLUMENTHAL. "Given my support for affirmative action at Bendix"—that is right, at "Bendix"; it must be me—"will you make an effort to improve Treasury's record in this area?"

I most certainly will.

The CHAIRMAN. Senator Packwood, we are on the second round. You may have 10 minutes, if you wish.

Senator PACKWOOD. I do not need 10 minutes.

I am back, Mr. Blumenthal, because of the problem that the Rules Committee is addressing itself. The Rules Committee was unable to meet because they lacked a quorum because there were other members at the Foreign Relations Committee, so they will meet tomorrow at 10 o'clock, when we are here to consider Mr. Califano.

Two quick subjects. Indexing, indexing generally. What is your view about it? Indexing tax exemptions?

Mr. BLUMENTHAL. And making them conform to the rate of inflation?

Senator PACKWOOD. Yes; because of the argument the Government gets an unjustified windfall and people get pushed into a higher tax bracket because their income goes up, although it does nothing to keep up with a higher cost of living, but they are pushed into a higher tax bracket that has not been indexed.

Mr. BLUMENTHAL. I would have to study the matter more closely. Mr. general layman's reaction to a broad-based program of indexing throughout the economy would be negative. I would like the free market mechanism to work. I would not like to see business and the private economic unit tied in, locked in, in that way. It builds in automatic inflationary pressures in the economy. The whole question of productivity in all of these matters must be allowed to have its proper place.

As a general rule, a broad policy of indexing is, in my judgment, undesirable and, I think, unnecessary, if we achieve our goal of a modest, declining inflation rate. That becomes a different matter when you have a high inflation rate, and that we must avoid at all costs anyway.

Senator PACKWOOD. The second question is fringe benefits.

Secretary Simon has just withdrawn a Treasury discussion draft about fringe benefits, such as free tuition to college employees, and parking spots for employees.



What is your general view? Airline rides for airline employees when the plane is not full, department store discounts, chauffeurs for people driven to work. What is your view as to whether these benefits that exist on a wide scale should be taxed as income? They have not been in the past. What do you think about it?

Mr. BLUMENTHAL. Senator, I will have to spend a little time familiarizing myself again with all of the various considerations. I really have no knowledge beyond what comes from the newspapers about this particular situation.

I think that is probably difficult, and perhaps unwise, to single out a particular area in a field that is very broad, under which there are many factors and many examples. They must be attacked together, particularly where there are all kinds of resulting hardships and problems that arise because the pattern has been in existence for a long time.

I would move cautiously. I will say that I will insure that there is a procedure within Treasury so that there can be close collaboration between Mr. Woodworth, Assistant Secretary of Tax Policy, and the incoming Commissioner for the Internal Revenue Service, so that they work closely together. They will report directly to me and work with the Deputy Secretary and we will look at those problems in their totality.

Senator PACKWOOD. As a quick aside, as president and chief executive officer of Bendix, did you have a chauffeur?

Mr. BLUMENTHAL. No. On weekends and so forth I drove my own car. But during the week I was picked up in the morning and taken home at night, and I worked in the car all the way.

Senator PACKWOOD. Thank you.

I have no other questions, Mr. Chairman. Thank you.

The CHAIRMAN. Senator Byrd.

Senator BYRD. Thank you, Mr. Chairman.

Mr. Blumenthal, first I want to commend you for your statement to Senator Gravel in regard to the fact that your company, under your leadership, refused to pay bribes or other illegal payments in order to attract business.

I certainly agree with your viewpoint. Business itself can solve this problem, if it is willing to do so.

The Wall Street Journal of this past Monday on page 1 had this statement:

The good news about the business outlook is that it has grown increasingly clear that the economy will keep expanding as the new year unfolds, very possibly with exceptional vigor. The bad news is that the danger of worsening inflation appears greater than at any time in some 3 years.

Do you agree or disagree with that statement?

Mr. BLUMENTHAL. 3 years goes back to 1974. That was the period when we had a very high level of inflation. I would not take 3 years. If I took 3 years as my base point, I might have some difficulty with that, Senator.

I do agree with the concern that is expressed that underlies the statement that we must now be very careful. We have a level of inflation that, in overall terms, is 5 percent, although there may be some underlying factors that could accelerate that, and therefore any economic program by the incoming administration must assure that inflation is not worsened thereby.

I notice in the figures that were handed to me which were released this morning, some essentially bad news that indicates that the Wholesale Price index has risen more than it should, and clearly that is something to watch. I would therefore say that there is a clear need, as these policies to achieve a reduction in the rate of unemployment are put into place, to keep an equally careful eye on the level of inflation and prevent any acceleration from taking place.

Senator BYRD. I have the feeling that the greatest long term threat to the people of the United States is inflation. Would you comment on that observation?

Mr. BLUMENTHAL. Senator, I think that the greatest challenge is to protect the people of the United States from the negative effects of inflation and to provide a job for every American who is able to work, and who wants to work.

Senator BYRD. Your soon-to-be colleague, Mr. Charles Schultze, who will be the Chairman of the President's Economic Advisory Counsel, stated that the \$30 billion stimulus proposal that would add as much as \$15 billion or so to the deficit in the current fiscal year will not crowd private investors out of financial markets, if the Federal Reserve System follows an accommodative monetary policy.

Do you agree?

Mr. BLUMENTHAL. I agree.

Senator BYRD. What is "an accommodative monetary policy"?

Mr. BLUMENTHAL. I assume what Mr. Schultze has in mind—what I would have in mind—would be that we do not have a situation in which, as the economy begins to grow and expand, and the growth rate rises above the present level, and hopefully moves up closer to the 5½ or 6 percent that is required to reduce the level of unemployed, that as that happens, the money supply is not tightened in a way, credit is not tightened in a way, so as to prevent this from happening.

In that situation, competition for capital enhances the rising cost of money and could present problems, but I do not anticipate that will happen. I certainly intend to work very closely with Dr. Burns, with whom I have a very good relationship, and intend to have one, to insure that it does not.

Senator BYRD. You said in your response a moment ago, if interest rates are not allowed to increase; how do you envision that interest rates will not be allowed to increase?

Mr. BLUMENTHAL. I would not say that interest rates would not be allowed to increase. What I meant to say is that policies are not followed that result in the creating of a shortage of capital resources and a substantial increase in the rate of interest. I think the interplay of monetary and fiscal policy in that regard will be a very important factor. Ample supplies of capital are available at noninflationary rates of interest to finance the investment decisions that large and small business presumably will be making in response to the more buoyant consumer demand.

Senator BYRD. Is it correct that the more the Government goes into the money markets to finance the deficits, the greater strain there is on interest rates, the greater upward push there will be on the interest rates?

Mr. BLUMENTHAL. That depends, to some extent, on the state of the capital markets at that particular point in time. In a situation such as exists at the moment, where the economy is operating at a relatively low level of capacity, and the balance sheets of most corporations are very strong, and loans are down, and the banks are looking for borrowers rather than having a surfeit of them, then the chance of the Federal Government financing the kind of program that has been proposed and thereby crowding out the private investor appears to me to be minimum.

Of course, during other periods when loan demand is already very high, when we are operating at a high level of capacity, that could be a problem, and therefore, one has to look at the particular point in time to make the decision.

Senator BYRD. You hope that there will be a high level of private activity. That is what you are aiming for?

Mr. BLUMENTHAL. Right.

Senator BYRD. At the same time, you are proposing to increase the deficit?

Mr. BLUMENTHAL. I think that is a question of sequence, Senator. We are starting out at a point in time when the level of activity is too low.

As the program begins to take hold and the economy begins to operate at a higher level of activity and private industry makes its investment decisions, the budget deficit is expected to come down substantially and the activity of the Federal Government in the market would be reduced.

Senator BYRD. Let us get to some figures now.

The projected deficit for the current fiscal year is \$50 billion as a minimum. The contemplated program will increase that \$50 billion by how much?

Mr. BLUMENTHAL. I cannot give you a precise net figure, but assuming that the stimulus in fiscal 1977 is in the range of \$12 to \$16 billion, it will increase the deficit by that amount, minus a small flow-back of maybe \$1 or \$2 billion.

Senator BYRD. Increase it roughly \$12 to \$15?

Mr. BLUMENTHAL. If the program is between \$12 and \$16 billion, we expect \$1 to \$2 billion to flow back. The net increase to the existing deficit will be \$11 to \$15 billion, or \$10 to \$14 billion, in that range.

Senator BYRD. The budget deficits in fiscal year 1975 and 1976 total \$109 billion. What you are saying is that those deficits are not enough. We will have another \$50 billion this year. That is not enough. We have to add to that if we are going to get additional activity.

Is that what you are saying?

Mr. BLUMENTHAL. I am saying that the Carter administration will inherit a budget deficit which in any case will be \$50 billion and may well be somewhat higher, and that a large part of the cost of that deficit is the fact that we are operating at a very low level of economic activity. In order to get out of that situation, a further program now seems to be the best way to get the budget deficit down next year and in subsequent years.

Senator BYRD. We will need to pursue this in a little more detail.

Mr. BLUMENTHAL. Yes, sir.

Senator BYRD. Thank you, Mr. Chairman.

The CHAIRMAN. I see my time has rolled around again.

Mr. Blumenthal, let me commend you for the proposal that you have in mind in regard to simplifying the tax returns of the great majority of American citizens. I have no doubt that that will be very good news to those who file their income tax this year. Regretfully, this year it is going to be more complicated than it was the year before, and that has been the trend for some time now.

I suspect that as you pursue your goal of tax reform with simplification being one of the prime objectives that President Carter and you have in mind, you will find that it will be more desirable, as time goes by, to encourage people to use the short form, rather than the complicated form where they attempt to itemize all these various proposals.

I hope that you, with the able assistance of Mr. Woodworth—and there is no greater sacrifice that we could make than to give you our best man on the Hill—that you will find ways to encourage people to use the short form rather than the long, itemized form. That means that you will have to make it more attractive to use the short form and less attractive to itemize.

I would urge that you take a look at what this committee at one time recommended back in the 1960's, when we tried to give an option to people who make more than \$20,000 to waive the opportunity to itemize and claim individual deductions. In return for that, they would pay at a lower rate than they would otherwise pay. I think that was called by some the "long short form" at the time.

While you may not like all the details about it, I would commend it to you as the approach to go along with tax reform. I would hope that we could get to the point where 95 percent of the people of this country would take the simple approach with a standard type deduction, rather than itemize and go through all the computations that might be involved. I assume we will repeal some of the deductions presently there. I doubt that you will find a way to make it simpler for everybody.

These laws are complicated because some people want it that way. When taxpayers came and asked that we consider their problem, sometimes we gave them favorable consideration. In due course, we found that in some cases there was too much of a good thing, and then we proceeded to amend the law to take away some of the advantages that people had been able to enjoy.

Most of the people who complained the most bitterly about the complications are the people who asked that it be that way to begin with. I would hope that as you study this, you could suggest to us a series of recommendations so that those people who do not want to pay taxes in the difficult, complicated way that we have for them now, would have a much simpler option available to them. I would hope that that would apply all the way up and down the line, not only to those making less than \$20,000.

Mr. BLUMENTHAL. Mr. Chairman, I have always supported that goal. I am happy to hear from the experts, including Larry Woodworth, that the first proposal along that line that has been made would, in fact, raise from 69 to 74 percent the number of people who are likely to file short forms using the standard deduction, and I think it would make me happier to move that up substantially.

Nothing particular would make me happier than being in a position at some point to be able to use that kind of short form instead of hav-

ing to hire lawyers and auditors and others to tell me how to prepare that complicated form I now have to prepare.

The CHAIRMAN. There are a lot of people who are willing to pay more if you relieve them of the burden of all the complications involved. If we could provide them that option, I think that it would be a popular thing for all of those who use it, even though in some cases it may cost them a little more.

Senator HATHAWAY?

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

I just have one brief question.

Mr. Blumenthal, would you favor including the Internal Revenue Code in the so-called Sunset legislation so that the Internal Revenue Code terminates on a periodic date and we would be forced to review all of the provisions thereof? This has been advocated for every other piece of legislation that comes before us.

Mr. BLUMENTHAL. Senator, I really must confess that I do not have a view on that. I know we are going to be beginning a total review of the tax code for fundamental tax reform and simplification in that regard. No doubt, we will be looking at the total code. Whether that ought to be made a regular requirement, I would want to look into it before I give you a more considered answer.

Senator HATHAWAY. A second question along that line; do you have any particular views with respect to tax expenditures versus direct expenditures?

As you well know, we spend a lot of money for social and economic problems with the so-called back-door Internal Revenue Code. Many of us have advocated that these programs should be funded on a direct appropriation basis rather than through the Internal Revenue Code.

Mr. BLUMENTHAL. I think, wherever possible, that that is desirable. I think that it will be some time before that will be entirely eliminated. I regard it the major purpose of a tax code, a system of taxation, as the raising of revenues and insuring that the taxpayers voluntarily pay what they have to pay. But I also understand that you cannot devise such a code, and achieve such a code, without bearing in mind certain social and more general objectives that are a part of the society.

I would regret it if the tax code got twisted and turned too much toward that end, and therefore began to have a negative impact on the major objective, the raising of the necessary revenue, and having people complying with that voluntarily and being able to understand what they are doing.

Within these two considerations, I would certainly hope that we could move somewhat in that direction.

Senator HATHAWAY. Thank you very much.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. Mr. Blumenthal, on December 2, 1976, Treasury proposed regulations, which if made final, would alter the tax treatment of tuition programs. Under current regulations, various kinds of free tuition programs available to children of college and university employees are deemed to be nontaxable scholarships.

This has been the view of the Treasury and Congress since the first tax law was enacted in 1913. The proposed regulation would treat the value of these scholarships as income and result in further tax being imposed on 1,000 of individuals. This is contrary to what has been the congressional intent.

I do not expect an answer from you on that subject. I would hope that you would have the Treasury staff review these proposed regulations.

Mr. BLUMENTHAL. I will certainly do so.

Senator RIBICOFF. Mr. Blumenthal, I have found in my experience in Government that one of the great problems to providing American leadership toward international economic cooperation has been the continuing prickly relationship between the Treasury and State Departments. This is tragic.

Within American leadership, you have no worldwide leadership. You cannot talk to a leader in private banking, private industry or government in any country in the world, be it developed or underdeveloped, without their telling you that without American policy, there can be no policy. Everyone acknowledges the importance American leadership.

I would cite three examples. Last spring, Chairman Long asked me to accompany Secretary Kissinger to Nairobi at the UNCTAD Conference. There I watched with dismay the cables back and forth and conversations between Treasury and State to allow the Secretary of State to speak for the United States in that supposedly important Conference on what policy would be.

Secretary Kissinger was not able to finalize his proposals until about 7 o'clock before the morning he was to make his presentation. The Secretary made some good proposals, but he was not able to clear it with anyone in the developed and underdeveloped countries. Consequently, it was a dud, when the whole world at that time was looking for American leadership.

In the field of energy, over the last few years I have made a number of studies at home and abroad. Here again, from oil-producing countries and oil-consuming countries, the whole world is waiting for an American energy policy. Without an American energy policy, there cannot be a world policy.

At one period of time in Paris, Secretary Kissinger had the concept of indexing prices with the inflationary factors. Secretary Simon was dead set against it, and consequently it fell between the stools.

In my recent visit to the Middle East, various oil ministers talked about the absolute necessity for the consuming and producing countries to have a continuous dialog on the role of energy and energy pricing, on the impact internally and externally on their economies and world economies. Yet, without leadership from the United States nothing takes place. So the problems we faced just a month or so ago with the OPEC countries is in large part due to our failure to bring together the consuming and producing countries.

I am in the process now of conducting an ongoing study of international organizations. The United States contributes—and I think my colleagues would be surprised—some \$1,200,000,000 to various international organizations. These international organizations have American representatives at all of their conferences and meetings. I am amazed as the study develops that again there is no leadership.

The American representatives at these conferences do not have the slightest idea what American policy is. The Soviet Union knows beforehand every time what Soviet policy is. The underdeveloped countries get together; they know what their policy is. They come to these

international conferences looking to the United States to project a program and policy. The United States does not have one.

No one knows at any given moment who speaks for the greatest country in the world, the United States. The answer is, nobody.

Here we have a basic problem. The world's leading nation is supposed to, but is not, leading. This is because of problems of human jealousy, human one-upmanship, bureaucracy, fights for prestige by men who head up departments and speak for the United States.

I know you, I respect you, I like you. I think that you are a very special and able man who has got a lot to offer. I watched you in the Kennedy Round, when you were special trade representative. You understand these problems.

From your experience in Government and business, how do you propose to coordinate with Secretary Vance, with the Special Trade Representative that the President will ultimately appoint for confirmation by this committee, with the Secretary of Commerce, with the Secretary of Labor. How do you see the executive branch being organized so that there will be an American policy in the entire international economic field?

Mr. BLUMENTHAL. Senator, I believe with you that we cannot escape, as a Nation, the responsibility for asserting our influence and our leadership, particularly with our friends and allies and in negotiations with others, whether we like it or not. We are a large and strong country and we have to play that role.

There are two ways to organize the Government to insure that this be done. I have no doubt that it will be done in the incoming administration. Indeed, the work has already proceeded to insure that it is done.

One way is simply the organizational structure that is created to insure timely and effective coordination of differing views and the establishment of a timely policy that all members of the administration and all Cabinet members can know, understand, and support.

The second is the individuals that are chosen to fill these jobs and to work together. With regard to taking the second form first, I am impressed by the fact that Governor Carter, by selecting not only people for the Cabinet, but also in instructing us on how to recommend to him the people who are to be recruited for the sub-Cabinet jobs, has had very much in mind the need for building a team that can work together.

In the particular instance that you mention, the Secretary of State designate, Mr. Vance, and I have been friends and colleagues for a good many years, and we have collaborated together on many private endeavors. We know each other well. I have no doubt that there will never be any kind of personal problem, or problem of jealousy between us.

Similarly, the people who are being recruited to staff the next level, Mr. Cooper in the State Department, and others who will be coming into the Treasury, are going to be people who are going to be looked at from the point of view of whether they can work together and whether they can be team players.

From everything I see—and everything I say applies also to Mr. Schultz, whom I have known for many years and have a good working relationship with—I think that the personality of the people, the

way they operate, will be good assurance that we can and will work together.

The second point relates to organization. There have been many studies made, studies of the way in which the coordination for economic and international policies have been worked out in the past, and we have tried to learn from the mistakes of the past.

What is likely to happen is the creation of a single economic policy group, a relatively small group that will have on it not only the Secretary of State, Secretary of the Treasury, but also the Chairman of the Council of Economic Advisers and the Director of OMB, as well as the Secretaries of Labor and Commerce, and we will have participating equally the Special Trade Representative, and the Energy Coordinator who will have interest in particular programs. A simple method of review, coordination and development of policies will be implemented through that body, both of domestic and international programs, given the close interrelationship between the two.

Through my participation on the National Security Council, I will have an opportunity to play a full role in watching the relationship between political and economic problems. It is therefore through this mechanism that is being created and through the choice of the people that have been selected that I think we have a good chance to correct some of the problems that you have explained.

Senator RIBICOFF. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Talmadge?

Senator TALMADGE. No further questions, Mr. Chairman.

The CHAIRMAN. Mr. Hansen?

Senator HANSEN. Mr. Blumenthal, several questions have been raised about how we can help come to grips with unemployment. The figures I have seen indicate that those persons between the ages of 16 and 24 constitute roughly one-fourth of the total labor force, and within that same age group, 16 to 24, are found about one-half of the people presently unemployed.

What role do you believe an examination of the impact minimum wage laws, child labor laws, and unemployment compensation would have on the unemployment picture. As you know, under certain situations within a State, unemployment compensation benefits may be extended for as long as 65 weeks. Can training programs put on by business compete with that benefit system?

I would add one further subject—the union restrictions on apprentice programs. I understand that in some unions five journeymen are required to merit one apprentice program.

Are these all problems, or all issues, that should be looked at as we try to solve the knotty problem of unemployment, particularly these people constituting an important part of the younger age group?

Mr. BLUMENTHAL. I would certainly say, Senator, that none of the points that you have mentioned, none of the programs, or others that may come to mind, should be excluded from consideration and review to determine if they are fair, adequate, contribute to, or hinder the basic economic and social goals that we have in this country.

My answer would be yes, they should be looked at.

I believe that the problem of unemployment among the young is indeed a very, very serious one. I think that it is really totally



unacceptable that a young person in this great country of ours who wants to work cannot find gainful employment.

I served for some years on the board of New Detroit, an organization of private citizens from all walks of life where we attempted to deal with the economic problems of that city. They are severe, with youth unemployment that runs, in certain age groups, as high as 50 percent. It is one of the critical problems that we face, and it leads to all kinds of serious problems, including crime, and all sorts of other things.

I believe that the particular program that is being recommended by the President-elect is one way of getting at the problem. It includes, among other things, some limited, carefully designed programs of a size that can be carefully and well administered, not with a buckshot approach, but a rifle shot approach, directed at specific age groups in specific areas. The kinds of young people you describe would be for certain limited periods of time put into perhaps a youth employment corps and taught useful skills, sent out to work, through the National Park Service, in doing the many useful and productive tasks in the national parks and elsewhere that can be done by them and learn a profession and trade in the process.

That is money that is well spent. It is money spent on the one hand; and it is welfare money, unemployment money saved on the other.

I think that clearly we have to be very careful about the cost of these programs. As these young people enter the labor force, we have to look at the wage rates that they will be getting to insure that the problem does not defeat the purpose that we have in mind.

I do not believe that we can solve the unemployment problem by generally lowering wages. I think productivity and research and development from business investment, is really where most of those jobs have to come from. Five out of six jobs in this country are private jobs. We do not want to start programs that would change that relationship and put more people permanently on the public payroll. I would strongly oppose that.

To create these private jobs for these young people really requires not a lowering of wages, or exempting certain groups from the minimum wage laws, I would think, but rather, it means programs under which research and development, private investment, incentives to create new jobs in a growing economy that brings us about are the prime goals that we will pursue.

Senator HANSEN. I appreciate your answer and I share your strong conviction that we ought not forget that five out of six jobs are found in the private sector.

With all due respect—and I have great appreciation for any idea that you may hold, Mr. Blumenthal—I must say that the thing that worries me about the kind of youth conservation type program to which you spoke is that it cannot involve enough young people.

Right today, it seems that many of the old laws that we have on the books are archaic. I think that the child labor laws have no meaningful purpose longer to serve. There was a time when there really was a very real need, as everyone knows, but you really cannot, I believe, coerce somebody into doing something that he should not be asked to do, so long as he is going to be able to eat and have a reasonably decent place to sleep.

As a consequence, I have a feeling that some of these laws are self-defeating. I happen to be a rancher. Lots of young people would love to come out and work on a ranch. But we have machines on a ranch, so generally speaking, they cannot come out. The only way they can work is if they happen to be a member of the family.

I have grandchildren who do work, who have been driving tractors since they were 10 years old. I happen to think that there is a lower incidence of fatal accidents on those tractors than there are in the kids in town who are not working at all, but driving around in somebody's hotrod and getting into the problems that young people do. I just happen to think that if we really want to expand opportunities markedly for young people that we need to make it a responsibility of the business community. Towns could play an important role in this as well.

We are not going to send any significant numbers of young people out to Yellowstone or Grand Canyon or Sequoia or some place else. It is a great experience. I share your enthusiasm for it, as far as it goes, but it does not reach enough young people.

Kids could be stocking grocery store shelves. It would not hurt them. Instead of Mom and Pop standing up till 12:00 o'clock at night to replenish the shelves on the stores. Younger people could do the job, and, if necessary, let them be paid a wage below the minimum wage.

When I was Governor of Wyoming, I recommended raising the minimum wage. It was Pat Moynihan who told me later on, as a member of the Finance Committee, that minimum wages militate against people with fewer job skills and minorities getting work, and I think he is absolutely right. I would suspect, as we raise the minimum wage, that we are going to find these groups of people harder pressed to find work than they are today. If we had some way of making an exception for people who need training, the best training of all is training on a job that they might later on be doing. I do not think they have to be sent away someplace. If we could encompass within a revision of the law the concept that this is the kind of job training that is going to make them useful, productive members of the work force who will earn more than the minimum wage, that is a real plus. I would hope that you might, if you share that view and to the extent that you are able, help it along. I think it is going to need a lot of help, because I am sure the unions and a lot of other people are going to be opposed to it. I think it has some merit.

Mr. BLUMENTHAL. Thank you.

The CHAIRMAN. Mr. Schmitt?

Senator SCHMITT. Yes, sir.

I would like to pursue one point and a couple of other questions on the Federal Reserve Board.

Do you have an opinion on how closely the term of the Board Chairman should be tied to that of the President?

Mr. BLUMENTHAL. I think that the independence of the Federal Reserve is a tried and true method of operating in this country. I have no particular views that that independence should be modified or changed. The changing of the term of office for the Chairman of the Federal Reserve would not be something that I would have any strong urge to recommend.

Senator SCHMITT. That is good to hear.

I would also like to follow up on what Senator Hansen has said, but again, taking it the next step: that is, we have a 16- to 24-year-old unemployed group that is now constituting over 50 percent of our total unemployed if our figures are correct. However, that is continually resupplied, and we can work with, and we should work with, and follow every available course that we can come up with that will work to teach these people jobs, find them jobs, whatever else is necessary. However, if we continue to supply that group with unemployable people, we continually have to take those kinds of steps.

Do you see anything in the purview of your office that would start to get at the core of the problem, the education system and maybe even the preschool period?

Mr. BLUMENTHAL. Let me say, in response to your question, Senator, and commenting also on the point made by Senator Hansen, that some of the specific ideas that Senator Hansen raised of course, first and foremost would fall in the purview of the Secretary of Labor and are not directly a part of my responsibility. And as I said, I think they all ought to be looked at.

Secondly, the example that I cited in regard to the national parks, I cited it because it happens to appeal to me. It is a good program. Clearly, it is not the only thing that needs to be done, because, as correctly pointed out, the number of people involved, as you reemphasize, is really much larger.

There are, in the proposal that the President-elect has made and will send to the Congress, other similar programs for apprenticeship training of various kinds for employment of these people in urban areas that will go alongside the particular one I mentioned and make a somewhat larger dent into this large pool which, as you say, is constantly being replenished.

I would hope that in the course of the more fundamental tax review and reform and simplification that will be undertaken that we can bear in mind the particular problem that you raise. I think that it is frequently the young people of this country that get the short end of the stick.

As a developed society, the people who have political power, the people who are organized in unions and in consumer and other organizations, tend to be the older and more mature people. We think more about pensions. We think more about the additional income and security sometimes than we think about the young people coming into the labor force, and they have the least power to make their views known. So I think it is a very important problem that I think we have to work on. And I hope perhaps as we look at these tax measures, bearing this problem in mind, because it will be a perpetual problem for us, that ways can be found to alleviate it, and I would certainly very much would want to be alert to this, because I feel strongly about this based on my experience in Detroit.

Senator SCHMITT. The question is somewhat related to the concept of negative income tax and income maintenance programs of a wide variety of kinds. Do you have a comment on that?

Mr. BLUMENTHAL. I do not have a considered view of that particular device at this time. No doubt I will have to develop it.

I do believe that we do have an obligation to insure that no one in this country goes hungry and has shelter if there is a legitimate hard-

ship. I do not include people in that group who are able and have an opportunity to work and choose not to do so. That is a different question. There are a variety of devices suggested to deal with legitimate needs. The idea of a negative income tax is one of them.

I would want to familiarize myself with it more before I give you a better answer as to which particular device I would favor.

Senator SCHMITT. The examination, I would hope, in the case of your office, will include the basic efficiency of the transfer of income, which is a goal we are trying to attain more and more, and whether you agree with it or not, determining if that efficiency is greater through the revenue process or through the actual, direct transfer through welfare programs of various types.

Finally, let me ask, have you considered some of the details of our intermediate term energy policy, such as it is, as it concerns coal. For instance, whether or not the development of a new coal industry in this country, including all aspects, exploration, production, utilization, are going to require some special protection, particularly against the threat of a precipitous drop in foreign energy costs, which still is considerably above the cost of actual production?

Mr. BLUMENTHAL. I only have a general view in regard to the energy question. It is essential that a comprehensive and integrated energy policy be developed by this country, and I know the President-elect intends to do so and Mr. Schlesinger will be particularly charged with carrying out that responsibility.

I further believe that the undue dependence on foreign sources of energy, and our growing dependence, is something that should give cause for concern, and that we have many different untapped sources of energy in this country which should be developed.

As with many of these matters, such development will require, in all probability, various kinds of Government action, different kinds intended to further that goal.

I certainly do believe that the vast resources of coal that are in this country are a very important source of energy that needs to be developed, and it may be that some protection is required. It may be that other forms of incentive that can be provided that will give business and mining companies an incentive to put the very substantial capital resources into that sector that are needed.

I would hope equally that other sources of energy, whether they are nuclear or solar, would also be furthered through the kinds of Government programs that could be considered in this regard.

I would hope, finally, that we do not, in the area of energy, deviate any more than necessary from the general policy of many administrations, Republican or Democratic, for an open trade policy with a minimum of restrictions, for only those restrictions necessary to protect employment and deal with particular hardship and special situations.

I firmly believe, based on my prior experience, Senator, that a general protectionist trade policy leads to similar policies by other countries and gets the world into very, very serious difficulty.

Senator SCHMITT. Thank you, sir. I have no further questions.

The CHAIRMAN. Mr. Gravel?

Senator GRAVEL. Mr. Blumenthal, I was impressed by your statement on wage and price controls. We both realize that the only area of our

economy today that has, essentially, price controls is the energy economy. Can I take this to mean that you will vigorously press your views on the Carter administration to see a deregulation of our energy systems?

Mr. BLUMENTHAL. Senator, I am really not an expert on the economics of energy and I would not want—I hope you will not press me too hard to give you a yes or no answer on this.

My general philosophy is clear. I would love to see it applied to all sectors of the economy, but I would really request a little time to become more familiar with that before I give you a precise answer to that question.

Senator GRAVEL. I would be happy to take that situation. Let me just say that there are many people in the energy business—business people like yourself—who can recite at great length, ad nauseum, the horror stories that they have had with the Government. I underscore the fact that we have an energy problem in this country today because we have never faced up to our responsibilities politically. Our side or the executive.

Let me touch on another area.

As Secretary of the Treasury, you will head the national advisory council for international monetary and financial problems which coordinates U.S. participation in multilateral development banks.

What do you envision in the next 4 years as U.S. participation in these banks, the World Bank and other organizations? What would be our policy and ones for these institutions as it affects the underdeveloped world?

Mr. BLUMENTHAL. Among the most serious international economic policies that, again, have a great impact on our domestic economy, the question of the payments position of some of the developing countries and the growing disparity in growth rates and the national incomes that exist between these countries and many other countries of the world, that question, I think, is at the top of the list, and I would expect that there will be many different programs that will have to be explored, many initiatives taken, to deal with that problem, because I think it is a real threat to peace in the longer run.

I would hope that to the largest extent possible, whatever we do as a country with regard to economic assistance be handled through multilateral organizations where we can be one of a group of countries who work together and contribute to the solution of these problems.

I think that the time for a large national program or a bilateral program for economic aid is probably past except in certain exceptional circumstances. I expect our work in these international organizations to be very intense and very active. The principal problem that has to be addressed is twofold.

First, the question of what to do about these great imbalances in payments. We have a great surplus being accumulated by some of the OPEC countries. We have tremendous deficits that are being incurred by several of the developing countries—Brazil is an example, and many others, and how to deal with that problem is certainly very important.

The second question relates to this whole matter of commodities and the insistent demand of the developing countries for greater stability—

and, no doubt, from their point of view, a higher absolute level of prices over time for their commodities.

These are very difficult and complex questions. They have been around a long time. They now appear in a more inflamed and urgent context, and I think it is in the second area that through these multilateral organizations we are going to have to put our thinking caps on and try to find some new answers.

Senator GRAVEL. What do you envision our objectives are in respect to economic policy with Japan?

Mr. BLUMENTHAL. Our objectives in regard to our economic relations with Japan ought to be, in my view, to insure the highest level of trade and economic relationships bilaterally and multilaterally on a fair and equitable basis, insuring that American industry and American workers are not hurt by excessive concentration or excessive imports from Japan. We should recognize that Japan is one of our important allies, a major factor in the world economy, and that she has to export in order to earn the foreign exchange that is necessary for maintaining her own economy, and that we have a stake in a sound and stable Japanese economy and that our relationships should be directed toward that goal.

Senator GRAVEL. Moving to Europe I would like to include in the record, excerpts from a recent speech by the French foreign trade minister, Andre Rossi.

[The material referred to follows:]

EXCERPTS OF THE SPEECH BY FRENCH FOREIGN TRADE MINISTER ANDRE ROSSI  
BEFORE THE ECONOMIC AND SOCIAL COUNCIL, NOVEMBER 23, 1976

#### MULTILATERAL TRADE NEGOTIATIONS

(The introduction described France's importance as a world exporter and its interest in the negotiations.)

In a sense France is condemned to play an increasingly important role in international commerce. We must find counterparts to our energy and raw material imports, our need for using foreign labor and the assistance which France intends to provide to a certain number of developing countries.

France is a member of the European Economic Community which today is the most important commercial power in the world. In these negotiations, which primarily concern the United States, Japan and the countries of the European Community, our country has a fundamental role to play in the preparation of Community positions and in overseeing the negotiations.

In the Council of Ministers, France participates in the definition of directives which permits the Commission, by applying Article 113 of the Rome Treaty, to conduct the negotiations on behalf of the Community.

My personal experience in the functioning of Community mechanisms and in Community decision making leads me to believe that this way of organizing for negotiations undoubtedly gives to France a power and a mobility which is frequently less than that of our principal partners in the resolution of specific conflicts.

In a global negotiation, on the other hand, we can compensate this handicap by defining our objectives and our interests in a timely way. . . .

I will outline French objectives in the negotiation. Then I will indicate the most significant changes on the international scene since your council gave its last advice. Finally, I will describe French Government positions in the negotiations.

#### *I. Objectives of the negotiation*

There are three principal objectives in the MTN:

1. *To organize the framework of international economic relations.*—It is not, in fact, as the United States has sometimes advanced, a question of seeking a systematic liberalization of international trade. That view is completely contrary

to the interests of the majority of countries. Since the oil crisis, increased international competition has provided too many examples of the damage which fierce competition can do to certain sectors of the economy. Furthermore, the advisory report which you have just debated suggests that one can question the existence of a systematic link between the reduction of trade barriers and a correlated increase in national production and well-being.

The Tokyo Declaration itself states very precisely that these negotiations have as their objective "the improvement of the international framework for world trade." This is essential; liberalization of world trade is only acceptable if it is accompanied by rules which can assure:

Equality of conditions of access to different markets bearing in mind the sovereignty of national economic policy.

Regulation of the markets for certain products which under competitive conditions are subject to fluctuations which are as bad for producers as for consumers,

The adaptation or conversion of the sectors most affected by international competition,

International agreements regulating the trade of certain sensitive products of which the MTN constitutes one imperfect example.

But all of the results which might be obtained in organizing international trade will be in vain if parallel progress is not achieved in the monetary sphere. From this point of view the first two principles suggested by France and reaffirmed in the Paris Communiqué are fundamental conditions for a harmonious development of national trade:

The maintenance of fixed but adjustable parities,

The free convertibility of all currencies.

A *de facto* link exists between trade and the monetary system. This link will not be lost sight of.

Finally, it is indispensable that the interests of all trading partners be taken into consideration and not only those of the industrialized countries. The Tokyo Declaration and Community texts concerning the MTN are important to the developing countries. The French Government has always considered essential the question of stabilizing the resources of these countries as well as the development of an industrial sector in them. Sooner or later it will be necessary that trade between developed and developing countries become more important than foreign aid. . . .

2. *To preserve Community personality.*—It is inconceivable that the Community should be weakened by the MTN. However, one had every reason to believe that in 1971, in proposing the negotiations, the United States sought to weaken the Community, aiming directly at:

The common external tariff,

The common agricultural policy,

The Community association policy.

In particular the CAP has again recently been the object of extremely violent attacks by the United States who tried to rally against the Community the large Latin American agricultural exporters.

These attacks are unacceptable. European agricultural policy is no different in its objectives and policies than those carried out by most countries which seek to:

Assure the public of sufficient agricultural resources on a regular basis,

Provide farmers with a standard of living comparable to that of other sectors of the population.

This policy does not translate into a reduction of commercial intercourse. As your report notes, the Community is in fact the largest importer and the second largest exporter of agricultural products in the world.

Maintenance of the CAP, a fundamental element of European economic unity, is one of the essential conditions for these negotiations.

But European identity also results from the common external tariff. Its maintenance at a significant level is one of the fundamental factors of the Community personality.

Moreover, an excessive reduction of the common external tariff would seriously diminish the advantages provided by the Community to certain developing countries and would lead to the questioning of our entire policy of commercial assistance to the economic development of these countries.

3. *To obtain equilibrium of results and not of concessions.*—If the principle of mutual advantage should be translated as the adoption of the same percentage of tariff reduction for all participants, certain countries including the European

Community would find themselves at the end of the negotiations with a level of protection having no longer any dissuasive character, while others would retain on some products significant tariff protection.

Such a situation would be fundamentally unfair. In tariffs these negotiations must result in comparable levels of effective protection for participating countries.

In the non-tariff area, a certain number of countries, in the front rank of which figures the United States, have adopted practices which are in formal disaccord with GATT regulations. It is particularly a question of the conditions in which these countries can apply countervailing duties to products which have received export subsidies. The United States uses the pretext of the protocol of provisional application to avoid applying established rules adopted by them in the anti-dumping code during the Kennedy Round.

It must be very firmly stated, and your report is very clear on this point, that the United States must yield like all other countries to international rules already negotiated. This is a precondition for all new negotiations on these questions and obviously would not be considered as a concession on their part.

This tendency to develop commercial practices in contradiction to international rules has developed in recent years. It accompanies an increase in protectionism throughout the world and constitutes one of the factors of the new context within which these negotiations will unfold.

## *II. International factors since 1973*

(The speaker devotes several paragraphs to recent developments, particularly the economic recession and its effects on the developing countries. He continues with a discussion of protectionism as follows:)

The increasing difficulty of international competition leads certain countries to multiply their protectionist practices to preserve their national economies. In the front rank one must place the United States.

Far from reducing the differences between U.S. practices and international rules, the Trade Reform Act (*sic*) considerably reinforced them.

Not content finding itself at the beginning of the negotiations with one of the highest tariffs in the world, the United States provided itself in the Trade Act with an extremely protectionist legislative framework in total contradiction with GATT principles.

In particular:

Countervailing duty legislation must henceforth be applied in accordance with extremely strict procedures.

Legislation on the Safeguard clause is considerably strengthened. The President of the United States is obliged to apply restrictive measures if damage is established.

The provisions of Section 301, very dangerous by their generality, can be applied by the President to products receiving in their countries of origin discriminatory treatment judged unjustifiable or unreasonable.

To be less legalistic, the Japanese market is no less efficiently protected. . . . And what about Europe? The Common Market appears to be one of the least protectionist groupings in the world;

Its Customs Tariff is the lowest in the world,

No single protectionist discriminatory measure has been adopted since 1971.

The Community has shown an extremely constructive attitude in all international negotiations.

The contrast between the extremely open attitude of the Community and the protectionism in the United States and Japan is certainly one of the important factors accounting for the steady growth of trade surpluses of these countries vis-a-vis the Community.

## *III. French positions*

The first question which must be asked before considering position to be adopted in the different parts of the negotiation is the following:

In the international economic context of 1976 is it in the interest of France to continue these negotiations?

I will answer this question very clearly: We must continue these negotiations because we are already engaged but, above all, because it is in our interest to do so.

In September 1976, when we were still at one of the lowest points in the economic crisis, France reaffirmed at Rambouillet with the chiefs of state most directly concerned the principle of continuing these negotiations.



This is still in our interest for two reasons:

(1) International interdependence makes our economy particularly vulnerable to the ravishes of protectionism. Now, the major objective of these negotiations is not so much, as I mentioned earlier, the systematic liberalization of international trade. It is the establishment of an international framework which, by the disciplines it imposes, permits the avoidance of disastrous economic wars. By stopping the growth of protectionism which is developing in certain of our principal partners, these negotiations should permit maintenance and improvement of the framework of free international trade which has permitted rapid economic growth of these past twenty years.

(2) The decision-making mechanism in the Community makes us more apt to succeed in a negotiation together, well defined in terms of time, than to resolve to our advantage bilaterally a series of specific conflicts.

That is why, now that our positions are clearly defined, the negotiations must proceed rapidly and terminate in 1977 in an offensive and constructive spirit.

This is not the time to reform the GATT. It is too important a problem and too difficult to be handled in this time frame. The first thing to do is to have all contracting parties begin by applying the GATT. One cannot hide from the fact that these negotiations will be difficult. Our positions must therefore be very clear.

*Agriculture.*—Our position is based on three points:

(1) To establish a fundamental distinction between industry and agriculture. This has constituted one of the major objectives that we have given ourselves in the agriculture area.

At every opportunity the U.S. tries to go back on this principle. It will be necessary to remain particularly vigilant on this point until the end of the negotiations.

(2) Maintain complete autonomy of the common agricultural policy.

(3) Organize international markets for agricultural products by: commodity agreements, with price discipline and stockpiles for principal products such as cereals, sugar, etc.

A concerted market discipline for other products assure that operations on world markets on the part of exporting countries take place in an orderly way.

As the second largest exporter of agricultural products, France attaches particular importance to this area.

*Industry.*—In tariffs:

(1) Reduce high tariffs much more than others,

(2) Maintain at the frontiers of the Community a significant level of tariffs,

(3) Link any reduction of tariffs to the adoption by the United States of a simple system of valuation as close as possible to that adopted by the Brussels Convention,

(4) Preserve certain exceptions.

In the non-tariff field to attach priority to the effective application by other countries of accords which may result. In particular, subject any undertaking on our part on standards to an undertaking by the United States which effectively obliges American enterprises to conform to them.

*Procedures for exceptions and adjustments.*—

(1) Above all, have the U.S. themselves apply GATT rules.

(2) Consider the possibility of applying the safeguard clause selectively. This would permit more flexible protection, better adapted to each case, easier to apply, and one that would not harm countries not directly responsible for the commercial problem in question.

(3) Favor the establishment of collective surveillance so as to place commercial partners in positions of real equality. This should be considered in standards, in safeguard clauses, and in countervailing duties.

(4) Maintain sufficient parallelism between the establishment of efficient international monetary discipline and the application of the results of the MTN.

*Conclusion*

... as for me, as one in charge of the negotiations for France, I will shortly undertake a tour of European capitals to narrow our points of view by means of intensive conversations. In Brussels, at the Commission, I will assure myself that our way of seeing things has been fully understood.

I will also go to see the Americans and I will explain to them our position so that it will be with the full understanding of our interests that they contemplate the final phase. I will also have conversations with the other principal participants in the negotiations.

Senator GRAVEL. It makes clear that as far as the French are concerned, the trade negotiations are a heads-I-win, tails-you-lose proposition. That speech pompously and arrogantly states that Europeans are not under any circumstances going to remove their protection barriers, but that the Americans are great protectionists and must remove the few that we have. In short, they want everything their way.

What was your experience in negotiating at the Kennedy rounds?

Mr. BLUMENTHAL. Senator, I am a veteran of 4 years of these kinds of speeches and that type of negotiation. I believe that we should negotiate patiently and firmly and not at all be afraid to ask for a full quid pro quo for anything we do. That is certainly something that I tried to do. A major comment that I read in the foreign press when they heard about my nomination about this particular job was to recall that I was, in their view, too tough on them.

I am proud of that, because I have always believed that proper relationships do not involve giving more than you are getting, but to ask for as much as you are getting.

I am sure that most of our trading partners are going to ask for that goal, and I hope the American negotiators are going to insure that they are not going to succeed. I am not going to support any kind of outcome at the international trade negotiations which, in my judgment, would not give us an equal deal. Even though individual countries will try to get a little more, I think that we ought to be fully prepared and competent enough to insure that does not happen.

Senator GRAVEL. Thank you, I appreciate that answer.

What would be your definition of excess profits in the business community?

Mr. BLUMENTHAL. I think—

Senator GRAVEL. Let me put the question this way.

There is a lack of confidence—you know it as well as I do—a lack of confidence with the American public with respect to the business community, and more so centered in the energy area.

One of our problems is the perception that the American people have, that business rips them off in many respects.

What I would like to do is find out—for my own benefit and our edification—what your views are as to profit in the business enterprise, and is there a rip-off, or, is their perception correct?

Mr. BLUMENTHAL. I think that the perception is incorrect in my judgment. I know from surveys that I have seen, that when you ask the average person, "what percentage of profit do you think the typical American corporation makes?" you get numbers that are very far from reality, so I think that there is a misconception. The fact that a company like Bendix, for example, which now takes some pride—and justifiably so—of having become much more profitable than it used to be, at this point struggles to have a net income of slightly less than 4 percent, probably would be a surprise to the average person. That net profit rates that are much in excess of that, are an exception rather than a rule would be an equal surprise.

I really do not know what excess profits in a competitive free-market economy are, Senator. I think we need to insure that they are not monopoly profits, profits that are made as a result of restrictive practices or other market conditions which allow corporations to use their excess power as a result of this kind of restriction to rip off the public.

That is really the function of the antitrust laws and all of the regulations that we have in effect and they ought to be enforced clearly and fairly. In that kind of situation in a competitive, free-market environment, any profit that a company can make through more sales, better products, higher productivity, I welcome, because that profit is not lost. That profit is reinvested, creates new jobs, creates incentives and it is the reward for success, and the more of these kinds of successes we have, the more jobs that will be created and the better our total economy will be for it.

I do not know what excess profits are, other than profits garnered by means that are against the law.

Senator GRAVEL. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Bentsen?

Senator BENTSEN. Thank you, Mr. Chairman.

Mr. Blumenthal, I am concerned about the concentration of investment in the stocks of a few major companies by pension funds. Pension funds are growing, and are going to continue to grow, substantially. We are seeing economic concentration. For example, one bank trust department administers well over \$20 billion in assets. We have a change in the dollar volume of trading on the New York Stock Exchange. Several years ago individual investors were doing about 70 percent of the trading on the New York Stock Exchange. Today individuals are doing less than 30 percent and the financial institutions are doing the rest. The result is the nifty-fifty philosophy of 1975, where the pension managers only invest in major companies. We saw instances of pension advisors holding over 15 percent of the stock of a major company.

That is not allowed for insurance companies, and not allowed for mutual funds. Each has limitations about how much they can invest in the stock of a particular company, or the amount of the assets they could put into it.

There was a situation that developed with respect to IBM where you had a Federal judge come out with a decision that opened the door to an antitrust case against IBM. It was an Oklahoma judge, 3 years ago. Then all those financial institutions tried to get through the gate at the same time, selling IBM stock and it got awfully narrow and you saw a precipitous drop in the price of the stocks.

Then the judge redefined his decision a couple of days later, and the stock came back up.

I introduced legislation to remedy this and I would hope to have you testify before this committee on that. I would like to see those investment decisions spread as much as we reasonably can and would like to see limitations put on the concentration of assets in a company. This would be in the benefit of the pensioner, and in addition, cause some capital to be available to some of the medium-sized companies or small companies in this country. Do you have any thoughts on that?

Mr. BLUMENTHAL. I think the problem that you identify, Senator, is a very legitimate and very real one. I will certainly think about it seriously and be ready to testify before you. I think that it is well worth looking into. My one concern would be that we think carefully before we interfere in another way in the free-market mechanism and the freedom of trustees and others to make decisions that, in their judgment, are best for those for whom they are trustees so that we do not create a whole new set of rules and regulations that restrict the flow of capital to where it can be most productive.

Senator BENTSEN. I understand that, Mr. Blumenthal. These limitations have been put on insurance companies. They have been there for years. They have been on mutual funds.

You have a situation today where large pension managers can have a self-fulfilling prophecy on stock. We had some testimony where they were a substantial part of the dollar volume trading on that stock for months on end. That portfolio manager could make himself look awfully good just because he, in effect, was supporting that stock.

Those are some of the things that we have to look at.

Mr. BLUMENTHAL. Senator, I will be ready to testify on that. I will testify with some feeling, since my company was never one of the favored 50.

Senator BENTSEN. Nor mine.

I have one other concern I would like to address for the moment. In the 1976 tax bill, we changed one bit of terminology, the terminology where we talked about earned income in this country. Investment income was previously termed unearned income, as though it were something soiled, something in disfavor.

We were able to change that to personal service income and non-personal service income.

I am concerned that we do not destroy the upward mobility that we have always had. One of the things that has built this country is the idea that some poor fellow could bootstrap his way up if he is willing to gamble with a new business, yet we are putting some limitations on him to make it more difficult such as the limitation on deductible interest expenses.

I think incentives are important in this system of ours. The Charles Schultz series, where he was talking about putting incentives in and making the public objective the private objective, not trying to do it just by regulation, trying to anticipate every varied condition across the country, but to try to have the private sector have the incentive so they would fight for what are the national objectives.

I would like to hear your comment on that.

Mr. BLUMENTHAL. Senator, I will have a lot to learn about the details of the tax code and all of its problems. I am sure that I will get a quick and complete education as part of the tax reform work that will be undertaken beginning almost immediately.

This whole business of hopefully bringing about some reforms that bring down excessively high rates, that eliminate double taxation, that create incentives such that the tax system works for us and works for the average person rather than against the average person and for the economy while raising the necessary revenues for the Government, that

clearly is going to have to be the goal as I would see it of any kind of reform, and I agree with Mr. Schultz in making that point.

I have never—and I really speak as still a private citizen—never fully understood the philosophical basis for the distinction between earned and unearned income. I never fully understood why I, not having inherited any money, having the opportunity to make some savings and having invested these savings, why I am being taxed more heavily on the return of these savings which, after all, are being put back in the economy, than I am taxed on my so-called earned income, my salary, my bonuses, my fees, and the other forms of direct income that I have had.

I have always thought that I should be rewarded for having contributed enough to be paid enough salary, and having saved enough to put that back into work in the economy.

I, at least, find philosophical notion appealing for all Americans, that when they save their money they get taxed no more heavily than they do for any other kind of income.

I am sure that it raises all kinds of difficult problems. There are certain types of unearned income that perhaps are of a different nature. All of that is something that needs to be considered and will be considered as a part of the tax reform work that will be done, and I hope that what will come out of it will make the kind of sense that we all have in mind.

Senator BENTSEN. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Mr. Blumenthal, when we finished our last colloquy that ended because of the time limitation, I pointed out that for the fiscal years 1975-76 that we had a deficit of \$109 billion and as a projected deficit for the upcoming year even before adopting the program that might be advocated by the new administration of more than \$50 billion, and you very correctly pointed out—at that point, the colloquy ended because of time—that you inherited that deficit, and most certainly you did.

But it brings to mind 8 years ago a very able, extremely able banker from the city of Chicago became Secretary of the Treasury, Mr. David Kennedy. He pointed out that the new administration was inheriting a tremendous deficit from the Johnson administration, \$13 billion. I point out today that a deficit has not been that low since.

Now, what I am hoping is that the new administration does not take the deficits of the Nixon-Ford years and pyramid additional deficits on top of that. But it appears to me that we are beginning, at least, to go in that direction.

May I ask, what will be the total national debt at the end of the current fiscal year?

Mr. BLUMENTHAL. I really do not have that figure.

Senator BYRD. The answer is \$700 billion.

Mr. BLUMENTHAL. No doubt you know the figure better than I. I do not have the figure clearly in mind, sir.

Senator BYRD. What I am leading up to, before we advocate additional deficits, is it not important to realize what the deficits are now, what the debt is now, and to realize some additional figures that I think are tremendously significant?

I will not ask you the question. I am not sure that you have thought exactly along this line. I would hope that you would think along this line.

For the 7-year period, Mr. Secretary, 1971, fiscal 1971 through fiscal 1977, 42 percent of the total national debt would have been incurred, 42 percent of the debt would have taken place during that 7-year period. To me, it is appalling, number one, that it be such a high percentage and such a tremendous debt. Number two, it is appalling that it would happen under a Republican occupancy of the White House.

I must say that I am not much of a partisan. Of the 96 counties that we have in Virginia, if you leave out 4, of the other 92, in the last election, Byrd and Carter carried half of them and Byrd and Ford carried the other half. So I am not much of a partisan, but I think that it is appalling, and I am somewhat disturbed that the new administration is beginning, even before it takes office to go in a direction to which it will accelerate these deficits.

You have been very eloquent this morning in your statement as to the need for a balanced budget and a need to manage the Government where we do not have unbalanced budgets, but it seems to me what we are advocating—not we, I am advocating—what you appear to be advocating will lead to more and more deficits, unless you assume that the way to get a balanced budget is to spend more money.

Mr. BLUMENTHAL. May I make a comment, Senator?

In the first place, to make matters worse, I am afraid that the \$50 billion figure that you mention will be low.

Senator BYRD. It will be low, under your proposal.

Mr. BLUMENTHAL. Low, even without the incoming administration doing anything.

Senator BYRD. I agree with that.

Mr. BLUMENTHAL. The figure I have seen is \$60 billion, given the shortfall in revenue and the lower level of economic activity in the economy.

When I said that we were inheriting a deficit more likely in the area of \$60 billion, so to have the figures right as I remember them, Senator, anything that is spent by the incoming administration is going to be on top of \$60 billion and not \$50 billion. It is a large figure.

Senator BYRD. Thus, the country is looking at a deficit now of somewhere between \$70 and \$75 billion this fiscal year?

Mr. BLUMENTHAL. That is my understanding.

Senator BYRD. I rather suspect that that is why there is so much speculation in the newspapers and on the part of the business community that inflation is being stimulated and will continue to increase.

Mr. BLUMENTHAL. I was impressed by the fact that in the consultations in which I participated in the short period since I have come here to Washington to get ready for my job in the last few weeks, with a wide range of people including representatives from the business community and a large cross section, including bankers, including a wide range of economists with different views, including some who were prominently associated with prominent Republican administrations, the feeling that something had to be done was virtually unanimous—I say virtually, because we always find somebody who disagrees, but virtually unanimous.

I do want to reassure you that I am impressed by the deep conviction that Governor Carter has, and I share, that we must bring that huge number down quickly, and that the goal of achieving a balanced budget no later than 1980 is one to which he attaches considerable importance, and I share that view.

It is our hope and expectation as the economy accelerates in its growth that we will be able to achieve the goal, that I am sure you will welcome, to bring us to a balanced budget or, at any rate, very close to it.

Senator BYRD. I spent an hour with Governor Carter last month and I came away most impressed with him, and impressed with what I consider his desire to achieve a balanced budget. As I say, again, what is being advocated is not aiding in that direction.

You mentioned the experts feel that something has to be done and that we have to go to more deficits to improve the economy. Well, I lost confidence in the experts many years ago. For example, 10 years ago and 9 years ago and 11 years ago all the experts in Washington said that the way to handle Vietnam was to have a limited war, to have a limited war in Vietnam. The smartest man in Washington, according to anybody you would run into in the corridors of the Capitol, or the Senate Office Building, wherever you might be, was Robert S. McNamara. Whatever he said, he was the expert. All of the other people echoed what he said. Today we all know that not everybody is saying that he is the smartest man in Washington.

So I do not have much confidence in the experts. What I am saying is, as a matter of commonsense, it is not likely that we can continue to pile up these huge deficits, not just deficits, but accelerated deficits, one on top of the other, and increasing them, and then say we are going to get to a balanced budget.

Let me ask you another question.

Do you feel that we should take off the ceiling on the amount of earnings that social security recipients can receive?

Mr. BLUMENTHAL. I am not really prepared to give you a considered response to that, Senator. I would be glad to look at that and give you my answer the next time I appear before this committee.

I must confess that I do not know what the present ceiling is.

Senator BYRD. \$3,000.

The Congress has written a ceiling of \$300 million on the amount of loans that the Export-Import Bank might make to the Soviet Union. Would you support a continuation of that ceiling?

Mr. BLUMENTHAL. I believe that economic relations with the Soviet Union, including trade with the Soviet Union, has to be considered in the context of our overall relationship. I do not believe that we can look upon trade, and the financing of trade with the Communist countries or the Soviet Union, as something apart from overall relationships and I would think that, whether it is a question of continuation of that ceiling, the raising or lowering of it ought to be a decision that is made in the context of an overall relationship that develops through negotiation.

Senator BYRD. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Blumenthal, we have a new congressional budget process that has not given us a balanced budget. I believe you know, if you did not know before, that Senator Byrd, like his father, is the most consistent advocate of a balanced budget that this Nation has ever had.

Mr. BLUMENTHAL. I know that, Senator.

The CHAIRMAN. Sometimes in that respect, he reminds me of a situation that occurred in Louisiana when we had a severe flood. Some people looked out the next morning from a house with living quarters on the second floor, to see a hat on the top of the flood water going around in a square. All they could see was a hat moving on the water in a square.

Someone asked, "Why is that hat moving around in a square out there," and his son answered, "That's because Grandpa said he was going to cut the lawn, come hell or high water."

Senator Byrd's predecessor on this committee, the other Harry Byrd, used to tell me that he was the last of the New Dealers. When Franklin Roosevelt started out, he promised to balance the budget. Harry Byrd at that time was Governor of Virginia and he supported him enthusiastically on that platform. My father supported him at the same time, and he read the platform differently. One man thought the platform read one way, another thought it read another way.

If we have now decided that we are really going to balance this budget, I suggest you put Harry in charge of it. He can definitely show you how to do it, if we do decide.

I am sure you know President Carter wants to get that job done within 4 years. I hope that we can bring it about.

I would hope that I could reach an understanding with you in the beginning about trade figures. The Department of Commerce in particular likes to publish trade figures on a basis that leaves out the freight, leaves out the insurance, and adds to the total foreign aid. For example, if they had their way about it, we could report that we had a surplus in trade by just giving enough stuff away—the giveaway would be added to the trade figure to say that you had a trade surplus, even though you are not going to be paid for those things you give away.

We by law have required our negotiators in Geneva to negotiate on a CIF basis, to take into account the cost of insurance and freight. I wish we could have an understanding with you that when you appear before our committee in the future, or when your Under Secretaries or Assistant Secretaries are speaking for you, that if they want to put those trade figures in that context on a FAS or FOB basis, they should also have them without the soft currency sales and with the freight and with the insurance, just to show, what it would be on a CIF basis. For example, the way I would read them right now, the exports are listed at \$104.5 billion, January through November 1976. If you leave out the foreign aid aspects of it, it would be about \$102.5 billion. The imports on a CIF basis are about \$117.6 billion. That would leave us with a real trade deficit of about \$15 billion.

On a CIF basis, if you count in the exports the foreign aid or soft currency sales, it would be a \$18.1 billion deficit. Energy imports are \$28.9 billion. Those imports alone are about twice as large as our trade deficit.



I would hope that under your leadership with the cooperation of others in the executive branch, you will try to bring us a program that will progressively reduce our energy imports.

Do you agree with me that we are going to have to find some way to produce a great deal more energy here if we are going to achieve our Nation's goals?

Mr. BLUMENTHAL. I agree that that would be highly desirable.

The CHAIRMAN. Would you undertake to see to it that we receive the information before this committee on the basis that I ask it?

If you want to go ahead and put it on the "good-news" basis where they claim to have a surplus, even though we know that they are losing money, that is all right with me, provided that in the same statement and in print equally as large in a footnote, you show what the bad news is, so that we can take our choice between which set of figures appeal to us the most.

Thank you very much for your statement. I have no further questions.

Senator BYRD. Mr. Chairman?

The CHAIRMAN. We have not finished with Mr. Blumenthal. I am going to call upon Senator Hansen.

Senator HANSEN. I yield to Senator Byrd.

Senator BYRD. I just did not want you to close the meeting.

Senator HANSEN. After having said that, let me observe, on behalf of a very small, shrinking and threatened minority, that no money was spent, or has been spent during the last 8 years, that was not first appropriated by the Congress of the United States. The Appropriations Committee is on the Hill, not at 1600 Pennsylvania Avenue.

I do not state this because I disagree at all with my good friend from Virginia. I do not disagree with him; I agree with him completely.

I make the point—and I join with him in deploring the deficits that we have—that I am aware of the fact that we are the people who spend the money. You know, too, that one of the earlier Presidents tried to do something about that. He impounded a little bit of the money.

Well, he got taken into court, because the Congress said, "What the hell do you mean you are not spending all that we have given you?" Congress wrote the Budget Act, they drafted some legislation in there so that this could not happen again. We are going to be sure that those people who reside down at 1600 Pennsylvania Avenue spend all the dough we appropriate for them.

I join with my colleague, the chairman of the committee, Senator Long, in paying tribute to Harry Byrd for the fine job that he has done in trying to hold the line.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Schmitt?

Senator SCHMITT. Two final questions, and I hope they will be short, because I know the hour is late.

One goes to the heart of the problem that I think the Senator from Virginia was getting to, and that is that there is an excess of plant capacity in this country in many areas, particularly in the industries that you are associated with.

One of the encouraging economic signs has been an increase in the investment capital for new plant and new equipment.

Do you feel that this increased deficit, this \$10 to \$15 billion that may be added as a result of the Carter administrations economic proposals, will, in fact, impede the continuation of that investment?

Mr. BLUMENTHAL. Senator, I believe that the growth in investment and the surveys of investment intention indicate that investment has been disappointing, it has been too slow. This is one of the reasons the economy has grown, but a real growth of only 4.5 percent, or slightly less, rather than at the higher figure that was originally expected and anticipated.

I know that even with regard to my own company, because we are in the capital goods business in part, and we had expected a much more rapid order intake in the machine tool area, for example. It is the goal of this package that the President-elect is suggesting to create more consumer demand; to provide some, although limited, tax relief for business; to make clear that some of the tax simplification that is being proposed is really permanent; until we begin to see a permanent trend that business can count on, so that all of this will lead to the acceleration of investment decision and therefore the creation of more jobs at a higher level of activity.

Yes; I believe that it is intended to do that and will do that.

Senator SCHMITT. The impact of capital investment in heavy goods and machine tools and the like is quite a bit delayed in comparison with the impact of at least major portions of the Carter proposals, as I understand them. As a matter of fact, we may not even have been given the time to see the effects of some investments made last year in the creation of jobs and accelerating economic activity. Isn't that true?

Mr. BLUMENTHAL. The heavy equipment and machine tool area is a lagging industry in that regard. The indicators are lagging. You begin to see it first by the rate of order intake, then the leadtime before you ship is quite long, a year and a half, 2 years. There has been an increase in order intake as compared to a year ago, but it has been slow and sluggish. It has begun to build, and the first shipments out of that growing backlog would presumably lead to rising shipments later in calendar 1977 and on into 1978.

The stimulus that would be as a result of the President's program, if enacted by the Congress, would hopefully lead to further order increases which would begin to bite in 1978, the second part of 1978, perhaps on to 1979.

Although there is a lag, I believe that there is nothing that makes investors in companies invest more than the ring of the cash register and the feeling that the ring of the cash register is going to continue.

Senator SCHMITT. Will not the deficit that Senator Byrd so ably pointed out tend to reduce the capital supply that is available for these kinds of orders, even though the ring of the cash register may be there in the future?

Mr. BLUMENTHAL. I do not believe that the amounts that we are talking about here, with the kind of slack in the economy, with the considerable capital resources presently available, with the relatively low level of loan demand that the banks have, that there is any serious risk at all for this period that we are talking about that there will be a crowding out of the private investor because of the additional amounts of money that are going to be spent by the Government.

Senator SCHMITT. The loan demand reduction is partly related to housing?

Mr. BLUMENTHAL. Housing, as a matter of fact, Senator, has been doing relatively well. Housing starts are at an annual rate of 1.7 million. The two brightest spots in the economy are housing and automobiles.

So I think that loan demand being low, to some extent, is due to the fact that companies have been cleaning up their balance sheet the last time around, when interest rates were very high, and they have been holding back on investment decisions. In our company, we looked at them very carefully, because we really were not sure about them.

I hope my successors will have a greater sense of security in the months to come.

Senator SCHMITT. One final question. I think that the answer could well be delayed, or submitted for the record, or at some future time when the subject comes up.

Your experience in international negotiations in trade and other things is well recognized. In my travels throughout the developing world in recent years, it has impressed me, first of all, that American companies should not accumulate equity in their investments in these areas, but that there is seemingly a great potential for contract services of various kinds over a fixed time frame with what one may call educational causes, that they are ready to take over the particular service that you are contracted for.

As you approach your new job, I hope you will examine just how extensive this kind of activity can be. I personally feel that it can be quite extensive and may, in fact, eventually form the cornerstone of a new foreign policy where the nonmilitary strengths of this country are being emphasized, rather than the military strengths, and maybe offer some hope for future generations.

I am sure that there are many complexities. What is the funding source, the World Bank, other sources like that may well be as important as anything we may contribute, more important. It is one way in which I think that the strengths of the American institutions, both private and industrial, can be applied to a very important problem in the world: That is, bringing the developing countries into the 20th century. If they are not part of the 20th century, we are going to continue to have problems. There is no answer necessarily required. You may comment, if you wish. But I hope that you will consider it.

Mr. BLUMENTHAL. I certainly will deal with these questions, Senator, and respond to them. There are some important opportunities in this area.

Senator SCHMITT. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Just a couple of brief questions.

First, I want to concur in what the Senator from Wyoming, Mr. Hansen, had to say. The Congress is, was and is, a major partner and the deficits of the past few years would even be larger if that major partner had its way completely.

Mr. Blumenthal, Treasury is responsible for financing and managing the national debt. It is understandable, therefore, that Treasury should be more concerned about the inflationary impact of Federal spending and regulation than other departments.

What is your outlook on the inflation rate over the next several years?

Mr. BLUMENTHAL. Senator, I hesitate to venture too many predictions going out several years; predictions of that kind are hazardous and by their very nature, very uncertain.

I would predict, however, that over the next year or two, with the kind of care and caution that I expect the incoming administration to exercise, certainly with the concerns that the Treasury will have about this matter, that as we move towards a higher level of economic activity, we will do so without any increase, and indeed, with a declining rate of inflation.

There may be individual months when that differs, and that trend does not occur. As a general trend, however, I would expect the rate of inflation not to increase, but to decrease.

Senator BYRD. Interest rates were mentioned earlier in the day. The Federal Reserve Board can have an effect on short-term interest rates. It can to use a word, manipulate, to hold down short-term interest rates.

Am I not correct that there is not much it can do, as a practical matter, to hold down the long-term interest rates?

Mr. BLUMENTHAL. Obviously, there is an interest-rate structure and there is a relationship between short term and long term rates, but I agree that the Federal Reserve has more impact on short-term rates as opposed to long-term rates. In an indirect way, I think it can affect long-term rates.

Of course, through a monetary policy, together with fiscal and economic policy, it does have an important impact on expectations, which again translate themselves into the cost of long-term money.

Senator BYRD. Should steps be taken to utilize the tax code as an instrument to foster higher rates of reinvestment? If so, how?

Mr. BLUMENTHAL. I believe that in our review of the system of taxation, and in our efforts to reform and simplify, that we should very much bear in mind the need for a faster and higher rate of capital formation in this country. If there are ways that can be done through the tax code, I would favor it.

Senator BYRD. How do you feel about depreciation rates? Canada has gone to a very high depreciation. I believe that it runs 50 percent the first year. It writes off investment in 2 years.

Does that appear practical to you?

Mr. BLUMENTHAL. I would have some question whether we could go to a 50 percent rate the first year. I think the question of depreciation rates ought to be looked at as a part of the overall tax review, yes, sir.

Senator BYRD. Thank you, Mr. Secretary.

Mr. Chairman, I may have some questions I would like to submit for the record.

The CHAIRMAN. I would propose, Mr. Secretary, that all members have the privilege of submitting additional questions that you could answer in writing for our benefit.

I do not feel that we should close this record without exploring one other matter. You have come here, Mr. Secretary, at a very great financial sacrifice. I do not believe a man would do that unless he felt that he had a chance to do something for his country for which he would be remembered.

Your life is a modern Horatio Alger story, an inspiration to all those who come to this country of what can be done with their lives.

I have detected, in visiting with you, that you have the belief that American capitalism should be a very good deal for others who lack the fantastic intellectual talents that were bestowed upon you, and I believe that this record should reflect a little bit of your feeling along that line.

I know that the President, in choosing you, was in the hope that you would appeal to the business community as one who understands their problems. But I believe we are also fortunate in that you reflect a philosophy that I hope will grow in the business community. I think you should give us a little of your views about what your objectives are and what your goal is for this country, insofar as you can contribute to it.

Mr. BLUMENTHAL. Senator, I was privileged to come into this country as an immigrant at the age of 21 and I came here as a refugee from persecution and as someone who had the opportunity to see at firsthand what injustice and human suffering can mean to people, and what the lack of opportunity and discrimination of people, innocent people, can mean.

I am proud of the fact that I was able to come to this country and that I was allowed to develop my talents, get an education—I had to work for it, but I got it—and to use it usefully. And in the various things that I have done essentially in this country, people have not asked me where I came from and who my father was, but have looked at who I was and what I could do and have rewarded me accordingly.

I therefore, certainly consider it a privilege to have the opportunity to serve. I feel I have been amply rewarded in the past for my work and, although my income will be substantially less, it really does not worry me that much. I appreciate the opportunity to serve.

My past background and experience, and I think the kinds of things that I was pleased to do within the private sector and in particular with Bendix over the last few years are, I think, evidence of the fact that I feel that the kind of opportunity that I have had in this country should be bestowed on all citizens and all citizens of this country are entitled to have it. And wherever we find injustices, discrimination, or where we find the cards stacked against a particular group of citizens from an economic or social viewpoint, we have a responsibility to see that that situation is corrected.

I fully intend, in discharging my duties as Secretary of the Treasury, to work toward that end, and having worked at all levels of this country, all the way from a \$40-a-week billing clerk and an elevator operator

on up to the chief executive of a very large corporation, I think I understand what the aspirations of people are and what the elements of discrimination are that remain in this country. And I can assure you, in providing my advice to the President with regard to the formulation of policies that he must decide upon and in which I have a role to play, that my life's experience will always be a major part of my motivation and of my thinking, and of my advice.

The CHAIRMAN. I, for one, have been concerned that so much of our corporate stock is held by so few and so many have so little of it, and that the opportunities of this land have altogether too often been rather limited.

What is your attitude toward that type of concept?

What attitude have you evolved toward stock ownership in your company?

Mr. BLUMENTHAL. I have strongly believed in the most broadly based participation in the free enterprise system and the most participation that we can achieve. In the Bendix Corp., we instituted the salaried employees savings and stock ownership plan. Under that program, we made it possible for people to put aside a certain portion of their earnings, and we match that to the extent of 50 percent of what they put aside, up to a certain level.

And that money was invested. People could choose whether to invest it in Government bonds or in stock of the company.

Since our people had confidence in Bendix, some 90-some percent, I believe, chose to invest it in Bendix stock, such that today, if my memory serves me right, something like 17 percent of the stock of the Bendix Corp. is owned by the employees of the Bendix Corp. The largest single shareholder of the Bendix Corp. is the salaried employees savings and stock ownership plan.

You cannot imagine what that has done to morale and to the interest of my colleagues, from the lowest salaried employee on up. They watch the stock market—they watch it too much, I think—and you go to many offices and you actually see a sign at the door with today's noon price, because they all have an interest in it.

I have gone around and instituted employee meetings where I discuss with employees what we are doing and why we are doing it; and what we expect from them; why we have certain problems; certain things that we cannot do that they want us to do; the fact that they are themselves shareholders has been a very important factor in the success of my company. I have no doubt about it. It is very hard to prove; I just know that that is the case.

I would strongly support similar measures. We are not unique. Other companies are doing the same thing. The expansion of that notion on the widest possible basis, I think, is a very excellent way to help provide a sense of participation, a stake in the system that we have, and better productivity and contributions from all concerned.

The CHAIRMAN. I believe we are going to have to have an improvement on this system of ours or see it go down the drain, and I believe that the answer is improvement. I think that we can either be the hope of the whole world, or we can be the disappointment of the whole wide world. I believe from your service, Mr. Secretary, that you want to move us in the right direction. I will be very proud to vote for your confirmation.

Mr. BLUMENTHAL. Thank you.

The CHAIRMAN. Are there any further questions, gentlemen?

Thank you very much, Mr. Secretary.

We do have another witness to testify here, Mr. Ronald Kokinda. I will call him as the next witness.

### STATEMENT OF RONALD S. KOKINDA, NATIONAL COMMITTEE OF THE U.S. LABOR PARTY

Mr. KOKINDA. Thank you, Mr. Chairman, Senators. My name is Ronald Kokinda and I am testifying here today on behalf of the U.S. Labor Party. I want to urge that the Senate not confirm the nomination of W. Michael Blumenthal as Secretary of the Treasury.

The incoming Secretary of the Treasury has the awesome responsibility of reasserting the role of the United States as a leading industrialized country, committed to policies which foster capital-intensive industrial and agricultural growth throughout the world. Mr. Blumenthal, however, together with other members of the Trilateral Commission on which he sits, has through his career, demonstrated his commitment to a policy broadly defined as zero growth. If this policy prevails, it will mean further rapid disintegration of the industrial and agricultural potential of not only the United States but of the entire world economy.

To competently judge whether Mr. Blumenthal is suited to hold the position of Treasury Secretary, we must first look closely at what the requirements of that office are at this time. The world economy has not recovered from the new depression which it visibly entered in late 1974. The illusory recovery which began in the spring of 1974 was premised entirely on unsustainable Government deficit spending and consumer credit expansion in the United States. The slight effects of the 1975 tax cut and related measures on the business activity of the United States and its trading partners had dwindled by February of 1976, as could have been expected.

The 1975 tax cut was doomed to failure—as is the new tax cut proposal made by President-elect Carter and his economic advisers including Mr. Blumenthal—because it ignored the real cause of the depression—an obsolete international monetary system which strangles world production. Hundreds of billions of dollars are diverted annually from productive purposes to the payment of debt service on some \$3 to \$5 trillion of outstanding dollar liabilities.

The policies of budget balancing and austerity which have been enforced with a vengeance over the last 2 years by the New York commercial banks and their allies at the investment banks to protect their paper holdings hasten the demise of the productive economy. The steady deterioration of the condition of our cities, the economies of the developing sector, and the work force and plant and equipment of the industrialized countries attests to the criminal incompetence of austerity.

U.S. economic policy must deal with the real source of the world economic crisis. To do so, our Nation need merely accept the proposals already put forward by European and developing sector nations, proposals enunciated at the Colombo, Sri Lanka, meeting of the non-aligned countries last August and since then repeated in other inter-

national forums. These proposals advocate the sweeping aside of the current bankrupt international monetary system by the declaration of debt moratoriums and the establishment of a new financial and economic system whose primary goal would be the fostering of world industrial and agricultural development.

The declaration of debt moratoriums and the establishment of new credit arrangements would immediately reverse the present stagnation by creating an unprecedented demand for U.S. industrial and agricultural exports as well as technological expertise.

Central to the new system would be the creation of an international development bank to fund major agricultural and urban development projects at low interest rates for the developing sector. These programs would be carried out through government-to-government treaties among the developing countries, the OECD nations, and the Comecon nations. An essential element of such an economic development program would have to be an international crash program for the development of thermonuclear fusion power, as the rate of expansion of the world economy under the International Development Bank will rapidly exhaust all presently available energy supplies.

We have every reason to believe that Mr. Blumenthal would implement economic policies that are diametrically opposed to what is now required for the good of the country. Mr. Blumenthal, throughout his career as an economist and business leader, has acted on behalf of those narrow interests of the New York banks, especially those connected with the Rockefeller family and against the actual industrial interests of this Nation. This charge is borne out, first of all, by Mr. Blumenthal's participation in a long list of Rockefeller-dominated Atlanticist institutions: the Rockefeller Foundation, the Trilateral Commission, on which Mr. Carter and Mr. Mondale also sit, the New York Council on Foreign Relations, the Atlanta Council, the Atlantic Institute, and the now-disbanded Initiatives Committee for National Economic Planning. Mr. Blumenthal, of course, shares the dubious distinction of belonging to the Trilateral Commission.

The Rockefeller Foundation, of which Mr. Blumenthal is a trustee, has been chiefly responsible for spreading the myth that the world economy has reached the limits to growth and that the populations of the world must be sharply reduced. Studies funded by the Rockefeller Foundation advocate the reduction of the Third World's imports of capital goods and the substitution of labor-intensive production modes.

The Trilateral Commission, chaired by David Rockefeller, is presently engaged in an effort to maintain the financial and political power of the Lower Manhattan forces by forcing a two-sided program of deflation and austerity on the world. Such a policy must necessarily be wildly inflationary and destructive of real economic growth as it involves unending paper creation on the one hand and unending depletion of productive potential on the other.

Throughout Mr. Blumenthal's career his specialty has been the field of "labor relations." Mr. Blumenthal has worked on a number of research projects in the field of labor relations such as a report on "codetermination in the German steel industry." As an executive and finally chairman of Bendix Corp., labor relations, which is a com-



pletely bogus field funded by various Rockefeller outlets, has thrived since the 1957 recession stagnation of the U.S. economy.

At the point at which the cancerous growth of debt obligations began strangely real-income growth—it was left to labor relations experts like Mr. Blumenthal to arrange labor contracts that gouged profits out of working people's income. This policy is as much anti-business as it is antilabor, since the destruction of labor power undermines the long-range growth potential of the economy.

The logical conclusion of the labor relations experts outlook is no less than the commitment to full-fledged Fascist economics—the imposing of levels of wage austerity that make it impossible for labor to reproduce itself. This goal was actually enunciated by the Initiatives Committee National Economic Planning to which Mr. Blumenthal belonged with Wassily Leontief, Leonard Woodcock, and others. In early 1975, ICNEP called for the creation of an office of national economic planning whose purpose would be to reorient the economy away from a commitment to capital-intensive development.

At a public forum in the spring of 1975, ICNEP boldly distributed the reprint of an article called "The Coming Corporations" from the March 1975 issue of Challenge magazine. The article states "corporatism is fascism with a human face." The article describes the four goals of corporatism as: (1) order achieved "through imposing intensive State control in all areas of major economic activity"; (2) markets and some attempt to control strikes, ultimately perhaps through coercion"; (3) nationalism or "the elevation of the 'general unity, based on "corporatist intervention and State regulation of labor welfare' to complete priority over self-interest or sectional advantage"; (4) finally, success, defined as giving conscious direction of the economy by establishing priorities and targets and by restricting work done toward alternative objectives."

"Let us not mince words," says the article, "corporatism is fascism with a human face."

Before I finish my statement, I would like to refer to a special report to the U.S. population that was published by the Labor Party. It is called "Carter and the Party of International Terrorism." That quotes a little bit more extensively from the Challenge article, whose editor, publisher, and editor of Challenge, was Sharp who sat on ICNEP with Mr. Blumenthal and a section of the article bluntly reads:

The four goals of corporatism have become increasingly explicit during the coming economic crisis. Order, unity, nationalism, and success. These, then are the four aims. Let us not mince words. Corporatism is fascism with a human face. The economic strategy that the Italian Fascists, the Phalange in Spain, Portugal and the inter-war crisis for workers corporatism has a certain short-term appeal. Corporatism, government should certainly guarantee full employment. The parts of the guarantee would, of course, be wage control and restraints on the freedom of industrial action.

The questions I urge the committee to ask the nominee before you close your deliberations:

Does Mr. Blumenthal, as nominee for Treasury Secretary, still adhere to the ideas publicly endorsed by ICNEP, which describes itself in favor of the finance policies of Hitler's Finance Minister Hjalmar Schacht—ideas at variance with the traditions of our industrial democracy?

Does Mr. Blumenthal believe that his longstanding ties with the Rockefeller family-dominated institutions would make it difficult for him to equitably pursue the economic interests of this Nation as Secretary of the Treasury?

The CHAIRMAN. Thank you.

That concludes this hearing.

Are there any questions?

Senator HANSEN. No questions, Mr. Chairman.

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow.

[Thereupon, at 1:10 p.m. the committee recessed, to reconvene Thursday, January 13, 1977, at 10 a.m.]

[By direction of the chairman, the following communications were made a part of the printed record:]

[Maligram]

ANN ARBOR, MICH., January 8, 1977.

Senator RUSSELL LONG, *Chairman,*  
*Senate Committee on Finance, Senate Office Building,*  
*Washington, D.C.:*

Strongly endorse the nomination of Michael Blumenthal as Secretary of the Treasury. I have known him personally as family friend, business colleague, and community leader. He is a person of unquestioned integrity and outstanding ability and leadership. He has a well balanced view on the responsibilities of both the private and public sectors in the development of national policies. I have full confidence in his pragmatic and socially conscious approach. It is my judgment that he will carry out his duties as a member of the cabinet with competence and capability.

WILBUR J. COHEN,  
*Dean, School of Education, University of Michigan.*

WOMEN EMPLOYED,  
*Chicago, Ill.*

STATEMENT BY WOMEN EMPLOYED REGARDING CONFIRMATION OF W. MICHAEL  
BLUMENTHAL AS SECRETARY OF TREASURY, JANUARY 12, 1977

Women Employed is an organization of 1,000 working women in Chicago's downtown area which has been active in dealing with sex discrimination in employment for the past four years. We are pleased with the selection of W. Michael Blumenthal for Secretary of Treasury and are hopeful that his appointment and confirmation will lead the Treasury Department in new directions. Specifically, we are concerned with Treasury's responsibility for contract compliance mandated by Executive Order 11246. Over the years, Treasury, has been severely criticized for its lack of enforcement activity in this area. Given Mr. Blumenthal's past record at Bendix Corporation, we are optimistic that he will devote his attention to improving Treasury's performance in promoting equal employment opportunity in the banking industry. We look forward to working with him in order to achieve such a goal.

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**Questions Submitted by Senators With the Response of  
Mr. Blumenthal**

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## QUESTIONS OF SENATOR HARRY F. BYRD, JR.

### GOLD RESERVES

*Question.* From time to time, some citizens have voiced concern about reports that the U.S. Treasury does not actually have the gold reserves it claims to have. Would an audit of the reserves, conducted by a non-government firm of good reputation, be useful?

*Answer.* I do not believe an audit of gold reserves by a non-government firm would be useful. In February of 1975 the Government Accounting Office submitted its study on the "Accountability and Fiscal Controls of Gold Bullion Reserves" which thoroughly covered every aspect of our six gold depositories. Additionally, in June of 1975, Secretary Simon initiated a continuing audit of U.S. gold reserves which is being carried out by the Treasury's Government Financial Operations Office in cooperation with the Bureau of the Mint. This ongoing audit is thoroughly reviewing each gold depository.

At the present time the Treasury can state without reservation that allegations concerning the unlawful removal of gold from any U.S. Government depository are unfounded. The above mentioned recent audits and published statistics show that such changes are baseless. All of the gold ever stored in the Fort Knox depository remains in its vaults or is accounted for either in changes in the volume of gold stored in other depositories or in changes in the total United States gold stock as publicly reported.

### INTERNATIONAL FINANCE

*Question.* Mr. Blumenthal, you have extensive experience in the field of international finance. And as Secretary of the Treasury, you will be the President's chief adviser in this field, as well as chairman of the important National Advisory Council on International Monetary and Financial Policies.

I happen to chair the subcommittee of this committee which deals with International Finance and Resources, so I share your interest in this area, although certainly not your expertise.

I have some questions in this area.

First, there is the issue of the indebtedness of less developed countries.

Private banks in the United States, and their foreign branches, have a large and growing exposure to loans to developing nations. Concern has been voiced about the recipients' ability to pay. Do you see any danger in this situation, and is there any appropriate government action which might help counter a potential danger?

*Answer.* The growing debt of a number of countries to U.S. banks, and their foreign branches, requires close monitoring by the U.S. Government to be sure that it does not lead to major economic or financial problems. As Secretary of Treasury, I will assure that such monitoring takes place. The appropriate government action is to promote the adoption of responsible policies on the part of debtor and creditor countries alike, and the provision of sound financial support for such programs.

*Question.* Given the heavy indebtedness of the developing countries to private lenders, is there a possibility that U.S. foreign assistance to these countries may constitute, in part, a "bailout" of private banks?

*Answer.* U.S. foreign assistance is extended to support specific projects or responsible development programs in recipient countries. It should not be used to "bail out" private banks.

*Question.* As of mid-1976, the oil producing countries of the Middle East had some \$18 billion in deposits in U.S. banks and their foreign branches, much of it on short term. Do you feel this constitutes a hazard?

*Answer.* The United States and the oil producing countries have a common interest in stable international financial arrangements. Both they and we benefit from these deposits. I see no hazard from them for the United States.

**Question.** The International Monetary Fund recently approved a \$3.9 billion loan to Great Britain. About \$2 billion of that sum will come from the U.S. Treasury. What are the terms of that loan?

**Answer.** I understand that the amount which the U.S. has agreed to lend to the IMF in connection with its \$3.9 billion standby arrangement with the UK is SDR 945 million—about \$1.1 billion. The UK can draw on its arrangement with the IMF over the next two years, provided that the UK is meeting the terms and conditions agreed with the IMF to resolve its balance of payments problems over a medium-term period. The IMF will finance the arrangement in large part by utilization of the General Arrangements to Borrow (GAB) and the U.S. loan to the IMF is provided under these arrangements pursuant to legislation enacted by the Congress in 1962. The IMF will repay these loans over 3 to 5 years. They will bear interest equivalent to the charges on UK borrowings from the IMF, currently 4 to 6 percent, depending on the length of time the borrowing is outstanding.

**Question.** As Secretary of the Treasury, you will control the Exchange Stabilization Fund, which now has assets of some \$3.5 billion, I believe. In your view, should this Fund be utilized to help the British prop up the value of the pound?

**Answer.** The Exchange Stabilization Fund (ESF) provides the financial resources with which the United States participates in a series of financial arrangements with other countries. All of these arrangements are undertaken in the national interest of the United States, the other country involved, and the stability of the international monetary system. I would oppose any use of ESF resources which sought to maintain the exchange rate of any currency above the level justified by underlying economic conditions.

**Question.** During recent years the World Bank has drawn criticism for heavy emphasis on loan volume, and for relatively less attention to financial soundness. What is your view as to the proper future course for the World Bank?

**Answer.** The World Bank must follow a course which both supports the development programs of the poorer countries and preserves its own financially sound position. Upon taking office, I will review the Bank's current plans to assess whether they conform to these criteria.

#### DOMESTIC ECONOMIC POLICY

As far as can be determined from press reports to date, the economic stimulus package being prepared by the new administration consists of some \$80 billion in combined tax reductions and spending increases, spread over the current fiscal year and the next. A few questions about this approach:

**Question.** First, the package is weighted in favor of stimulus of demand, as opposed to stimulus of production. Will not this weighting risk severe inflation?

**Answer.** We will be very careful about this matter. Since the economy is working well under its capacity and there is no tightness in capital markets, and no evidence of significant materials shortages or other bottlenecks, we believe that policies to encourage growth will not favor inflation. As the stimulus program creates greater demand and production to satisfy it, the stimulus program can be adjusted to assure that it does not add to inflationary pressures.

**Question.** Second, the stimulus is to be carried forward as far as September of 1978. What evidence is there that stimulus will be needed at that late date?

**Answer.** We are very conscious of the need to attune the total spending program and the budget to the condition of the economy. If the economy is moving well in 1978 with lessening evidence of a need for additional stimulus, I would expect that steps will be taken to reflect this progress on the spending programs being considered. Some elements of the stimulus program have been devised precisely with elements of flexibility in them.

**Question.** Traditionally, Congress has attempted to compensate for automatic tax increases due to inflation by periodically enacting broad tax cuts or rebates. In view of what seems to be an exclusion of middle-class wage earners from President-elect Carter's tax reduction package this year, what effect do you feel the substantial tax increases due to inflation will have on your attempts to stimulate the economy?

**Answer.** The tax program, which is still being formulated in detail, by no means excludes middle-class wage earners from tax reductions and rebates. Those reductions will help to offset the increases that some suffer because of inflation. In any case, as we undertake a basic look at our tax structures, we

will be keenly aware of the need to address the issue of the impact of inflation upon tax increases on those in various income groups.

**Question.** Third, one tax measure under consideration would give employers credit against corporate income taxes equal to 5% of their Social Security payroll tax. Mr. Hobart Rowen, writing in the Washington Post of January 9, described this proposal as "the first step toward Treasury financing of Social Security benefits." Do you believe this is wise policy, and if so, what are your reasons?

**Answer.** The proposal to give employers credit against corporate income taxes equal to 5% of the payroll tax is designed to provide tax relief to the business sector. It is hoped that lower taxes for business will lead to more spending to increase investment and productivity, thereby creating more private industry jobs and reducing the rate of unemployment. This particular proposal is not to be viewed as a first step toward Treasury financing of Social Security benefits. Payments to the Social Security fund would remain unchanged. It is my view that preserving the integrity of the Social Security fund is of great importance.

## QUESTIONS SUBMITTED BY SENATOR HELMS

*Question.* As you know, the IMF agreement ratified by Congress last year calls for "firm surveillance" of member nation's actions with regard to exchange rate manipulation. The French central bank head has said that this surveillance should include domestic monetary policies which lead to balance of payments surpluses or deficits. What is your opinion of IMF surveillance of our monetary policy?

*Answer.* Under the amended Articles, the IMF will be charged with insuring the effective operation of the international monetary system and overseeing compliance of members with a series of obligations designed to promote an open world trade and payments system and a sound world economy. Thus, the IMF is the appropriate forum for discussion of the international implications of a broad range of international economic policies. That does not mean, however, that the Fund will have the authority to determine U.S. monetary or other national economic policies.

*Question.* The IMF has been selling off about 25,000,000 ounces of its gold and returning to the nations that contributed the gold in the first place. If the question comes up, would you favor returning, to the original donors, the remainder of the IMF gold stocks?

*Answer.* I have not yet addressed myself to the whole range of questions concerning the arrangements on gold which have been negotiated during the past few years. I will do so upon taking office, and will look specifically at the question of possible further restitutions of IMF gold.

*Question.* Last year, during the consideration of the IMF bill, the Secretary of the Treasury endorsed a proposal which would allow for the restoration of the freedom of Americans to enter into contracts that call for payment in gold or in dollars measured in gold—just as we can now enter into contracts calling for payment in any other commodity. Will you uphold the commitment Treasury made last year to this legislation?

*Answer.* As indicated in my answer to the previous question, I have not yet considered the wide variety of issues relating to gold which have been under discussion, both domestically and internationally, in the recent past. I will do so promptly upon taking office.

*Question.* Will it be your intention to attempt to increase the maturity of the national debt? I understand that it is just over 3 years at this time. That is a lot of federal intervention in the credit markets. Would such an increase in the maturity tend to increase or decrease the cost of capital to the private sector? To the federal government?

*Answer.* The strategy concerning maturities in federal debt financing must change periodically, in response to conditions in the debt markets. These markets have been unusually strong during the past year, remain generally strong now, and have permitted the Treasury to extend the maturity of the national debt without placing undue pressure on short or long term interest rates. In general, if the debt markets remain strong, extending this average maturity makes sense. The longer the maturity of the national debt, the less pressure is placed on the debt market by constant refundings of maturing short term debt.

In weaker markets, however, it may not be sound to continue these efforts to extend the maturity of the national debt. As economic activity increases and private borrowings increase in proportion, the Treasury may be advised to cut back on its use of long maturities to avoid competing unduly with those private borrowers.

Market conditions also determine whether the use of long maturities increases or decreases the borrowing costs of the private sector. For example the supply of investible funds is so large relative to today's slack demand, that using long maturities today does not increase private borrowing costs materially. This is evidenced by the present level of interest rates, which is low by standards of the past 4 years.



In addition, a Treasury policy of short term borrowing does not indirectly increase borrowing costs for the private sector. Reliance on short term maturities obviously places upward pressure on short term interest rates. In general, a rise in short term interest rates triggers rises in medium and long term interest rates, including those for private borrowers.

Lastly, using long term maturities increases the Federal Government's borrowing costs, over the short term, but may decrease them over the long term. Specifically, on any given day, short term interest rates normally are lower than long term interest rates. For a given borrowing therefore, using short term maturities results in lower interest costs for that borrowing. On the other hand, long term Treasury bonds presently can be sold at fairly low rates. Two years from now, if economic activity has increased and interest rates have followed suit, short term rates at that time conceivably could be higher than the present level of long term rates. In that event, using long term maturities now would have proved to be the cheaper two year strategy for the overall Federal borrowing program.

