

ANTICIPATED NOMINATION OF PAUL O'NEILL

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED SEVENTH CONGRESS
FIRST SESSION
ON THE
ANTICIPATED NOMINATION OF
PAUL O'NEILL TO BE SECRETARY OF THE TREASURY

JANUARY 17, 2001



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 2001

COMMITTEE ON FINANCE

CHARLES E. GRASSLEY, Iowa, *Chairman*

ORRIN G. HATCH, Utah	MAX BAUCUS, Montana
FRANK H. MURKOWSKI, Alaska	JOHN D. ROCKEFELLER IV, West Virginia
DON NICKLES, Oklahoma	TOM DASCHLE, South Dakota
PHIL GRAMM, Texas	JOHN BREAUX, Louisiana
TRENT LOTT, Mississippi	KENT CONRAD, North Dakota
JAMES M. JEFFORDS, Vermont	BOB GRAHAM, Florida
FRED THOMPSON, Tennessee	JEFF BINGAMAN, New Mexico
OLYMPIA J. SNOWE, Maine	JOHN F. KERRY, Massachusetts
JON KYL, Arizona	ROBERT G. TORRICELLI, New Jersey
	BLANCHE L. LINCOLN, Arkansas

KOLAN DAVIS, *Staff Director and Chief Counsel*
JOHN ANGELL, *Democratic Staff Director*

CONTENTS

OPENING STATEMENTS

	Page
Baucus, Hon. Max, a U.S. Senator from Montana, Chairman, Committee on Finance	1
Daschle, Hon. Tom, a U.S. Senator from South Dakota	7
Murkowski, Hon. Frank H., a U.S. Senator from Alaska	8
Breaux, Hon. John, a U.S. Senator from Louisiana	8
Kerry, Hon. John F., a U.S. Senator from Massachusetts	9
Snowe, Hon. Olympia J., a U.S. Senator from Maine	11
Lincoln, Hon. Blanche L., a U.S. Senator from Arkansas	12
Rockefeller, Hon. John D., IV, a U.S. Senator from West Virginia	13
Jeffords, Hon. James M., a U.S. Senator from Vermont	15
Thompson, Hon. Fred, a U.S. Senator from Tennessee	16
Lott, Hon. Trent, a U.S. Senator from Mississippi	24

ADMINISTRATION NOMINEE

O'Neill, Paul, Secretary-designate, Department of the Treasury	17
--	----

CONGRESSIONAL WITNESS

Specter, Hon. Arlen, a U.S. Senator from Pennsylvania	6
---	---

ALPHABETICAL LISTING AND APPENDIX MATERIAL

Baucus, Hon. Max:	
Opening statement	1
Breaux, Hon. John:	
Opening statement	8
Daschle, Hon. Tom:	
Opening statement	7
Hatch, Hon. Orrin G.:	
Prepared statement	57
Jeffords, Hon. James M.:	
Opening statement	15
Kerry, Hon. John F.:	
Opening statement	9
Lincoln, Hon. Blanche L.:	
Opening statement	12
Lott, Hon. Trent:	
Opening statement	24
Murkowski, Hon. Frank H.:	
Opening statement	8
O'Neill, Paul:	
Testimony	17
Prepared statement	57
Biographical	59
Responses to questions from committee members	66
Rockefeller, Hon. John D., IV:	
Opening statement	13
Santorum, Rick:	
Prepared statement	78
Specter, Hon. Arlen:	
Testimony	6

IV

	Page
Snowe, Hon. Olympia J.:	
Opening statement	11
Thompson, Hon. Fred:	
Opening statement	16

ANTICIPATED NOMINATION OF PAUL O'NEILL TO BE SECRETARY OF THE TREASURY

WEDNESDAY, JANUARY 17, 2001

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

The hearing was convened, pursuant to notice, at 9:30 a.m., in room SD-106, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Also present: Senators Rockefeller, Daschle, Breaux, Graham, Kerry, Lincoln, Grassley, Murkowski, Gramm, Lott, Jeffords, Thompson, Snowe, and Kyl.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. Good morning, everybody. I am pleased to convene the committee for the 107th Congress.

We have a great opportunity. We have a new President, a new Congress, a new Chairman, soon to be followed by another Chairman. We have an unprecedented situation in the Senate with 50-50 membership, requiring us, in essence, to accomplish our work together, or not at all. It is an invigorating challenge, one I know this committee is up to.

With that in mind, I would like to welcome our new members. First of all, we are rejoined by the Majority Leader, Tom Daschle. And, I might say, we are fortunate to have both our Leaders on this committee. It helps us because the committee will benefit from the judgment of both the Majority Leader, and the next Majority Leader.

We are also joined by Senator Bingaman, Senator Kerry, Senator Snowe, Senator Kyl, Senators Torricelli, and Lincoln. We are delighted to have such strong, new members on our committee and I look forward to working with each of you.

I would also like to welcome the new Ranking Member, Senator Grassley, who will become our Chairman in approximately 3 days, 2 hours, and 30 minutes. [Laughter.] And who is counting?

I have worked with Chuck Grassley for more than 20 years on everything from rural health, to agriculture, to international trade. Chuck is man of strong convictions. He is a man of balance, civility, and good judgment. I know that I speak for all of us on this side when I say we look forward to working with Chairman Grassley.

I must confess one misgiving. The prior Chairman, Bill Roth, and I are actually graduates of the same high school, that is, Helena High in Montana. So when he becomes Chairman next week, Sen-

ator Grassley will unfortunately bring an end to this precedent. But I am very confident, Mr. Chairman, that you are up to the task as a graduate of New Hartford Community High.

Let me now turn to the subject of today's hearing, the nomination of Paul O'Neill to be our Nation's seventy-second Secretary of the Treasury.

Mr. O'Neill, you have been nominated to one of the most important jobs in this country. After all, maintaining the integrity of our Nation's public finances is one of the primary functions of government.

That is why the Treasury Department was created at the very beginning, back in 1789, just a few months after the first Congress convened. That is why the position of Treasury Secretary has attracted some of our most distinguished public servants: Alexander Hamilton, John Sherman, Henry Morgenthau, Douglas Dillon, and Lloyd Bentsen.

In fact, I note that, like Mr. O'Neill, some of our greatest Treasury Secretaries were Pennsylvanians, including Albert Gallatin and Andrew Mellon. That bodes well.

In any event, you will have not only an important job, but a very difficult one. The new administration will inherit the longest economic expansion in history. We have had low unemployment, low interest rates, higher family incomes, and very little inflation. It did not happen overnight and it did not happen easily, it took tough decisions, hard votes on both sides of the aisle.

That is why I am concerned about how we handle the upcoming debate about budget and taxes. Yes, there are some troubling economic signs, but let us not overreact. I was here in 1981 during the last big tax cut, where I think we overreacted.

Now, others on the committee may disagree, but in retrospect I think, at that date, we went too far. We cut taxes too deeply and that played a part—not the entire part, but a part—in creating the budget deficits that bedeviled us for the next 15 years.

Keeping this history in mind, I think we should proceed carefully. We should be, if you will permit me, "conservative." Maybe we need a fiscal stimulus to prevent an economic slump. I would like to reserve judgment. I hope that we can hold hearings quickly on that subject so we can hear what leading economic thinkers have to say.

But if we do need a tax cut, it should be a tax cut that provides the right kind of economic medicine. It must leave room for other important priorities like Medicare, education, and of course, paying down the national debt, and must be fair. So, I look forward to a careful debate about the size and the structure of a tax cut.

Let me mention two other issues. First, the international economy. The world trading system will face serious challenges during your tenure. The Treasury Secretary will increasingly have to deal with the tension between the United States and the international economy.

We need to work together to rebuild our domestic consensus on trade liberalization, we need to work together to deal with our ballooning current account trade deficit, and we need to work together to expand the benefits of trade.

Second, the tax system. Under the leadership of former Chairman Roth, Senator Bob Kerrey, and Senator Grassley, this committee took the lead reforming the IRS. Now we need to follow through. We need to continue to make the tax system more simple, more administrable, and more fair. All in all, Mr. O'Neill, a tough job.

But in you, the President-elect appears to have found the right person for the job. You have impressive credentials, both in government and at the highest levels of the business world. You have an unchallenged reputation for hard work and straight talk.

I look forward to hearing your views this morning on the economy, tax policy, and other matters. But, more importantly, I look forward to working with you to address the challenges ahead.

I spoke earlier about tradition, and there is another tradition here on this committee, a tradition of bipartisanship. Sometimes we fall short, sometimes partisanship gets the best of us. For example, right now, partisan ads are being run against me and Senator Conrad about a tax cut we have not even yet seen.

So we need to rise to a higher standard and put the interests of the country first and partisan differences aside. That is what we did last Congress when we led a bipartisan effort to establish permanent normal trade relations with China, a tradition we should follow with this new Congress. I look forward to working in this tradition with you, Mr. O'Neill, and my friends on both sides of the aisle. I particularly thank my colleagues for their attention, and now recognize Chairman Grassley.

Senator GRASSLEY. Congratulations to you, Mr. Chairman, for your outstanding statement, more importantly your leadership on this committee, even before assuming the chairmanship.

It is a delight to work with you, both in the capacity these few days as a Minority member and as Chairman. It might seem, to say a delight, in a time when the Senate is 50/50 divided, that maybe I am not living in the real world.

But following on the tradition you have spoken of, this committee doing things in a bipartisan way and very seldom things reported out of this committee that were partisan not moving on the floor of the Senate, continuing that relationship with an even division or even with a Republican majority would be the vein in which we must proceed in order to accomplish the good that must be accomplished.

I think of working with you on rural health issues, I think of working with you on agricultural tax issues, and probably trade issues in most areas as well, as a relationship that we have had that, now in our positions of leadership, we can continue and hopefully even do more good.

So it is a delight, and also a challenge, but one in which power sharing also brings responsibility for the Minority as well as for the Majority. So I think, whether it is power sharing, balanced with sharing the responsibility, then that means that we will get things done.

I also have the privilege of welcoming people from your side of the aisle that are new to the committee: Senator Bingaman, who I have not served on any committees with before in the years that

we have been together in the U.S. Senate, but I felt a close friendship with him, regardless.

Senator KERRY. I worked with him very closely a few years ago on the P.O.W./M.I.A. committee. We practically lived together for a couple of years on that committee. I look forward to resuming that sort of relationship.

Senator Torricelli and I worked on one of the major pieces of legislation that passed the Congress last year, the Bankruptcy Reform bill, and that was a very pleasant experience.

Senator Lincoln was a faithful member of the Senate Aging Committee that I chaired, and I enjoyed that relationship and welcome this opportunity to work with her.

Senator Daschle and I, hopefully, have been spokesmen for mid-America, and particularly for agriculture, and that has been represented in our cooperation, whether it has been on this committee when he served previously or whether it has been just in the years that he has not been on the committee intervening.

Obviously, I welcome Senator Snowe and Senator Kyl. I know from their activities on other committees they have served on that they are going to be outstanding members of this committee as well.

I also would advise them that I had the opportunity in the 12 years that I serve in the Senate to be at that end of the horseshoe. I looked up here and thought, ye gods, I will never get to be chairman of this committee. I never really thought I ever would be, but things happen. So hold out hope and let us hope it does not happen because a lot of Republicans are defeated in the process. [Laughter.] So we welcome you to the work of this committee.

There is an old saying, Mr. Chairman: may you live in interesting times. I think there is no question that, for the Finance Committee, these certainly will be interesting times. The committee will be the focus of many of the legislative goals of President-elect Bush.

Here, I am referring to three objectives, among many that maybe we could list: (1) tax relief must be provided to over-taxed American people; (2) Medicare must be modernized, and coverage for prescription drugs need to be a part of that effort; (3) we must enhance retirement security, both on the pension side and the modernization of the Social Security system. I believe that we can find a lot of common ground on these matters and also realize our new President's goals.

However, I do not intend to sit by waiting for the phone to ring with a call from the other end of Pennsylvania Avenue. The Finance Committee, in the previous Congress, successfully crafted bipartisan tax relief on a very large number of important issues.

I am referring to a few of these, like the retirement security package, the Education Tax relief, elimination of the death tax, and other measures. Unfortunately, either a Presidential veto or a legislative gridlock prevented us from getting that tax relief to the people.

I look forward to working with you, Mr. Chairman, the members of the Senate Finance Committee, as well as the administration on improving and approving these bipartisan bills as quickly as possible.

I am confident this work can be done, while at the same time the committee acts on the President's important initiatives, as well as a lot of other initiatives that Senator Baucus has described in the area of trade, as an example.

Today, the Finance Committee considers the nomination of Paul O'Neill to be Secretary of the Treasury, and tomorrow we will have the nomination of Governor Thompson to be Secretary of Health and Human Services. Mr. O'Neill has run an international company through some very tough times and I think that he will be a good one to be serving as a Treasury Secretary who is comfortable at the controls.

Now, I would like to note that Mr. O'Neill's mother was born in Seymour, Iowa, his brother-in-law was a distinguished professor at Iowa State University, his wife was born in Iowa City. So Mr. O'Neill already has strong points, or three strong points, on his side as far as I am concerned.

Mr. O'Neill's first task as Secretary of the Treasury will be to help get our Nation's economy back on track. Recent reports indicate that the economic outlook is uncertain, with many troubling indicators such as reduced orders and profits, as well as declining consumer confidence.

It is important to note that the concerns about the economy are bipartisan. Even House Minority Leader Gephardt recently stated his concerns that a recession was looming. Happy talk and spin control will not make these very real problems with the health of our economy go away. Fortunately, President-elect Bush and his nominee, Mr. O'Neill, recognize that they must look towards immediate steps to improving the economy.

So, Mr. Chairman, I am sure that Mr. O'Neill and Mr. Thompson, two highly-qualified individuals, will receive the support of the committee and will be confirmed by the Senate. Thus, Mr. Chairman, you will be two-for-two, batting 1.000 during your brief tenure as Finance Chairman; a remarkable feat. Maybe it is good that you are having to stop while you still have a very perfect record.

Mr. Chairman, I am pleased that we will be together during these interesting times, and it is my hope that, when I hold the gavel, we can continue the committee's winning streak that you have established. Thank you.

The CHAIRMAN. Thank you very much, Senator.

Now I would like to turn to the Majority Leader of the Senate.

Senator SPECTER. Mr. Chairman?

The CHAIRMAN. Yes.

Senator SPECTER. I wonder if I might request special permission to speak early. The Judiciary Committee is convening at 10:00, and I am one of the early questioners.

The CHAIRMAN. Well, let us see. Maybe I can ask my members' permission. They seem to indicate it is all right. Why do you not go ahead, Senator?

Senator SPECTER. I thank you very much. I am really very pleased.

The CHAIRMAN. Senator Gramm is not sure yet. I had better temper that. [Laughter.]

**STATEMENT OF HON. ARLEN SPECTER, A U.S. SENATOR FROM
PENNSYLVANIA**

Senator SPECTER. Senator Grassley and I have sat together for 20 years on the Judiciary Committee, so I can understand his doubts.

It is a great pleasure to appear before this very distinguished committee where there is not only talk, but action, on bipartisan-ship. I will leave here to go to the hearings on Attorney General-designate John Ashcroft, and there is a fairly substantial different atmosphere. So, it is pleasant to be here for even a short time.

It is a pleasure for me to introduce Paul Henry O'Neill to this committee for the position of Secretary of the Treasury. He has an outstanding background. He has midwestern roots, and he is a Pennsylvanian, a background which I share.

He brings to this job an extraordinary combination of work in the public sector and work in the private sector. Pittsburgh is a corporate community which is almost unparalleled in America, and one of the corporate giants has been Alcoa, which has seen some difficult times. However, for the past 13 years, or up until last year, Paul O'Neill led Alcoa into a tremendous turnabout and rejuvenation.

Prior to that time, he was the President of International Paper and interspersed with government duties, as Deputy Director of the Office of Management and Budget and computer analyst many years ago with the Veterans Administration. It really is an extraordinary combination.

I have observed Paul O'Neill do really outstanding work in the private sector and know of his work in the public sector. In conversations with him yesterday talking about the issues of trade and the problems which the steel industry has, some of his experience and achievements in the aluminum industry may be a guideline, where he took the lead in very sensitive and delicate matters to decrease worldwide production of aluminum, which was a key factor in rejuvenating Alcoa. That may be a model for the steel industry, which is in deep need. I look to my co-chairman of the Senate Steel Caucus, Senator Rockefeller, on that subject.

We talked a little bit about a subject which you would not ordinarily expect, and that is medical errors and the experience which he has brought with his company in disclosing problems and finding cures when people around the world know of similar problems which have been solved. These are only two very brief illustrations of the kind of backgrounds and insights which I think Paul O'Neill brings to this job.

I am pleased to see the lay of the land here with Senator Grassley's prediction that Chairman Baucus will be two for two, and that includes the confirmation of Paul O'Neill. I thank the committee very much, and you, Mr. Chairman, for affording me the courtesy of speaking out of sequence.

The CHAIRMAN. Well, thank you very much, Senator. I appreciate your introduction, and I know Mr. O'Neill appreciates it even more than we. Thank you very much.

Senator SPECTER. Thank you.

The CHAIRMAN. Next, we turn to our Majority Leader, Tom Daschle.

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

Senator DASCHLE. Well, thank you, Mr. Chairman. Let me congratulate you and our soon-to-be Chairman, Senator Grassley, for your new leadership. I look forward to working closely with both of you. I have the highest regard for both of you. I might say, it has been a long time since this committee has been led by members from our part of the country, Montana, Iowa.

I do not know if it is any indication of the enthusiasm with which you have been received, but a lot of my people are already buying pick-ups, tractors, combines. [Laughter.]

But I really do look forward to working closely with both of you. It is an honor and I am grateful to have the opportunity to work again on this committee.

I also want to welcome, as you have, our nominee this morning. Two weeks ago, Mr. O'Neill and I had the chance to meet. That meeting confirmed for me that all of the good press that he has been getting is well-deserved. President-elect Bush is to be commended for nominating a Treasury Secretary who has such broad knowledge and experience in both the public and the private sectors.

It is important that you are the strong nominee that you are, because you have very big shoes to fill. Your predecessors in the current administration, our former Chairman Lloyd Bentsen, Bob Rubin, and Larry Summers, played critical roles in restoring the fiscal strength of the United States and responding to the financial crises around the globe.

In many ways, they redefined the job of Treasury Secretary for our increasingly global age. As a result, in significant measure of their insight and action, you are inheriting a remarkably strong fiscal situation; where Bob Rubin inherited record deficits, you will inherit record surpluses.

As you prepare to assume your new office, we should remember how hobbled our economy was a decade ago and how that economic weakness chipped away at Americans' faith in the future and Americans' influence around the world.

It is important to remember how hard Americans worked to put our economy back on a sound footing. We must also look to the future. In less than a decade, the first baby boomers will retire. Their retirement will have profound social and economic consequences for our Nation. We must prepare for it now. We cannot afford to dig ourselves into a fiscal hole, as we did in the 1980's.

We can afford to cut taxes, we can afford to provide the opportunities for prescription drug benefits under Medicare, but we all know we must not go too far. We cannot afford to return to the fiscal irresponsibility and weakness of times past.

So, Mr. O'Neill, we are ready to work with you to find bipartisan solutions to the challenges on America's horizon. I look forward to working with you on all of the challenges that we face as a country, and that you will face as Secretary.

Again, I commend President-elect Bush for sending us such a strong nominee, and I thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Leader.

The Chair now recognizes Senator Murkowski.

**OPENING STATEMENT OF HON. FRANK H. MURKOWSKI, A U.S.
SENATOR FROM ALASKA**

Senator MURKOWSKI. Good morning, Mr. Chairman, Senator Grassley, and my fellow colleagues. It is certainly a pleasure to be here today to participate in the confirmation hearing for Paul O'Neill.

You know, after I met Paul a couple of weeks ago I came away from our meeting with a view that Paul is surely one of the most outstanding choices of all the President-elect's cabinet selections. In looking at his resume, as outlined by Senator Specter briefly, he is a superbly talented individual.

His record at Alcoa speaks for itself. I think his deep background in the bureaucracy here in Washington as Deputy Director of the Office of Management and Budget will serve him well in his new position.

I think we have an individual who knows how tax law changes can impact the American economy, having served in two capital-intensive industries just before and after the 1986 Tax Reform Act.

I certainly have no doubt that Paul will be able to handle the challenges of the Treasury Department, especially the complex tax and international financial issues.

Now, I am not going to be outdone by Senator Grassley in his reference to Iowa, because there are some unique things about Paul that I would like to share with you. He is a graduate of the Anchorage, AK high school system. His wife, Nancy Jo, is an Alaskan.

When he started his career in Alaska, he was employed by Morrison-Knudsen as an engineer involved in the construction and siting of the White Alice system. That was a communication system that, although I am sure not too many people on this committee have ever heard of it, served this country well.

There were some 25 stations, a telecommunications system that was used from about 1956 to 1979. It linked the aircraft control and warning stations throughout Alaska and served as an interface point for what was referred to at that time in the Cold War as the DEW line, or the Distant Early Warning.

I am sure that your White Alice construction experience in some of the most remote and harshest places on the planet has served you well, Paul. I suggest to you that, when tensions and tempers begin to rise later this year when we begin to debate the tax cuts, when you are in the middle of the fray, think back to your days at White Alice and Ft. Yukon, or Galena, where among your concerns might have been frostbite. But I do not want to mislead you; there is some of that around Washington, DC as well. [Laughter.]

At any rate, Paul, I know you will serve with distinction as the Secretary of Treasury, and it is my pleasure to support your nomination.

The CHAIRMAN. Thank you, Senator.

The Chair recognizes Senator Breaux.

**OPENING STATEMENT OF HON. JOHN BREAUX, A U.S.
SENATOR FROM LOUISIANA**

Senator BREAUX. Thank you very much, Mr. Chairman, and soon-to-be Chairman. Thank you very much. I look forward to

working in our committee with a 50/50 split. I think it offers unique opportunities to get some things done.

Welcome to Mr. O'Neill. Paul, we had a good visit. I always try to identify, as much as I possibly can, with someone who would be as important as the Secretary of the Treasury, as the Senator from Alaska was pointing out all of the connections in Alaska with the Treasury Secretary-to-be.

I have never run a Fortune 500 company, so I do not have anything in common there. You are not from Louisiana, but you were president of International Paper, and we have got trees in Louisiana. [Laughter.] So, we are making progress there. He was chairman and CEO of Alcoa, and you have located down there as well.

But I think the thing that I noted in your statement that we had the most in common, we both got to Washington in sort of the same way. You mentioned in there, your first trip you put all of your belongings into a U-Haul trailer.

I did the same thing, except I was probably doing better than you because I had a truck. It was a U-Haul truck, and two kids, and everything we owned, and came up in 1967, I think. Interestingly, I went back in a U-Haul truck, too, after I left Washington the first time. [Laughter.] So, we do have some things in common.

But I have admired you, your government service. What you have been able to do in the private sector, I think, speaks very well of your ability to run a department as important as the Treasury Department.

What you did with Alcoa is nothing short of absolutely remarkable. It was a miraculous turnaround at a time when everybody else was going in the opposite direction.

Finally, I would just say how good it is for people who have been immensely successful in the private sector to have the willingness, the patience, and all that that entails in terms of sacrifice to come back into government and to offer your services. That is very, very notable. This committee will be better off for it, and I think, ultimately, the country will be better off.

Thank you.

The CHAIRMAN. Thank you, Senator.

Senator Kerry, you are next. Just for the information of all members and others who might be interested, we are following what we call an Early Bird Rule. That is, Senators are recognized in the order of their appearance.

Senator Kerry?

**OPENING STATEMENT OF HON. JOHN F. KERRY, A U.S.
SENATOR FROM MASSACHUSETTS**

Senator KERRY. Mr. Chairman, thank you very, very much. First of all, I want to thank you for your generous words of welcome, and also, Chairman Grassley, thank you for your words and remembering our travails with some other members here, Senator Daschle and others.

I am thrilled to be here on this committee. I was just thinking a moment ago, when I was on the Banking Committee I sat where Senator Daschle sits, so some might argue I am moving in the wrong direction.

But I think, in point of fact, given the issues in front of this committee and the remarkable opportunity this committee has to contribute to the economic well-being of the country, I am really delighted to be here and to join it.

Mr. O'Neill, welcome. I am delighted to support you, as others are here. As I mentioned to you earlier, you come with the highest recommendation in my world, that of my wife, from Pittsburgh.

I see you have a strong representation here from your family. I saw, I think, one of your grandchildren has already figured out this is pretty boring. He was doing the long stretch. [Laughter.] But that is perfectly understandable; it is.

If I could just share a very quick thought or two with you. Today's Washington Post has an article about the questions on the surplus. When you take the Social Security reserve and Medicare reserve and factor in inflation and some of the so-called temporary programs we may re-fund, it is argued that there may only be a surplus, over 10 years, of \$1.6 trillion.

I think most members of this committee would argue very strongly that what is important is not that we have political numbers, but that we have real, sound economic numbers.

We look to you, and we will look to your leadership and your extraordinary representation for probity that will help us to make certain that we have those kinds of numbers in front of us to make our decisions.

Many of us on our side of the aisle are well-disposed to vote for a tax cut, in the interest of assisting the economy to grow, if indeed we are on the brink of some difficulties, as some have suggested.

But I think if you measure that against the Bush tax cut, which is considerably back-ended, you have to question whether that is going to have the impact desired and whether it is directed in a way that will affect as desired.

Second, and finally, I just very quickly would say to you, there are also other ways to stimulate the economy, as we know. There are, despite these wonderful economic times—it has been referred to by my colleagues that you are coming in at a really prime moment.

I think Fortune magazine suggested that it is like taking over the Yankees after 3 years of winning the World Series. I hope I can dispel any doubts that some of us Democrats actually read Fortune magazine when I say that.

But, in point of fact, there are a huge set of demands, as you know: in 10 years, baby boomers retiring; 44 million Americans without any health care at all; huge demands for seniors to have a prescription drug plan; major demands for our education system, which I know and the corporate community have been a leader, arguing that it is one of the mainstays of any economic future for the country.

All of that, and including a shortage of nurses, these are major choices we have to make. I simply want to emphasize to you that I hope you will continue to be the voice of reason and independence that you have been in the corporate community where you have earned these plaudits to help this administration to present us with a set of balanced, fair-minded, and thoughtful long-term choices for the country.

If so, I suspect we will all be able to work in the bipartisanship that so many have heralded, and I look forward to doing that. I certainly look forward to supporting you and to working with you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

The Chair now recognizes the Senator from Maine, Senator Snowe.

**OPENING STATEMENT OF HON. OLYMPIA J. SNOWE, A U.S.
SENATOR FROM MAINE**

Senator SNOWE. Thank you, Mr. Chairman. I am delighted to be part of this committee. I am delighted, as well, to work with the future Chairman, Chairman Grassley, with whom I first served in the House of Representatives back in 1979 and 1980.

But, most especially, I am pleased to be part of this committee that will be addressing many of the key priorities, not only for President-elect Bush and the Congress, but also for the American people, whether it is tax cuts, prescription drugs, Social Security, and Medicare.

Mr. O'Neill, I want to welcome you as well to this committee. When President-elect Bush nominated you, he cited the fact, given the signals of a slow-down in the economy, that he would need somebody with vast experience, who had a steady hand, and could speak with conviction, knowledge, and authority.

And as others have mentioned on this committee, with your impeccable credentials from a long and distinguished career in both the public and the private sector, he clearly has chosen wisely.

As chairman of multinational companies, including International Paper, which is also located in my State, I know that you have done an outstanding job. But, most particularly is the fact that you chaired these companies at a time during economic boons, as well as downturns, so you have understood and felt the impact of differing economic policies both on businesses as well as workers.

I think that perspective will serve the Nation well as you confront your most critical responsibility as Treasury Secretary, and that is, of course, to manage a softening economy, as well as averting a recession. That is a challenging task, given the fact that this is the first real downturn since the advent of the new economy.

I think the numbers speak for themselves. I mean, whether we look at the precipitous drop in the GDP in a single quarter of the retail sales, and while economists may disagree or have difficulty predicting whether or not this downturn would actually lead to a recession, I think the fact of the matter is, we can ill afford a miscalculation, the consequences of which I think are very apparent, most notably the impact it would have on projected budget surpluses.

The surplus is the bedrock of our future, so we have a mutual obligation, the President and the Congress, to work together to ensure the responsible stewardship of these surpluses.

Most of them are projected, and even though they are estimated to be \$5 trillion over the next 10 years, we realize, according to CBO, in any event, we will have to sustain an average growth rate of 2.7 percent.

However, on the same token, recognizing the economic uncertainty, I do hope, Mr. Chairman and members of this committee, that we will be able to achieve a bipartisan agreement on tax cuts that serves as a fiscal stimulant, but at the same time being fiscally responsible.

Two years ago we were unable to achieve a bipartisan agreement and address some of the concerns that people had that it would over-stimulate an already robust economy. But I think that outcome, now, is unacceptable, and even many economists agree that a tax cut would probably be the right thing to do at this moment in time.

The bottom line, I think we all recognize very clearly: we need to have strong and sustained economic growth if we are going to address the future challenges associated with an aging population.

If we fail to find that common ground in bolstering the economy, we will not only be guilty of fiddling away while Rome burns, but we will fiddle away the surplus, which is our one best chance to strengthen and preserve Social Security, Medicare, and do the other things that will be so important to strengthen the future of this century of the American people.

So, Mr. O'Neill, I welcome you. I am looking forward to your testimony, as well as working with you in the future.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator, for that thoughtful statement, particularly trying to find ways to sustain growth and maintain surpluses. I appreciate your comments.

Senator SNOWE. Thank you.

The CHAIRMAN. The Chair will now recognize the Senator from Arkansas, Senator Lincoln.

**OPENING STATEMENT OF HON. BLANCHE L. LINCOLN, A U.S.
SENATOR FROM ARKANSAS**

Senator LINCOLN. A very special thanks to you, Mr. Chairman, for your leadership in this committee. I am pleased and honored to be able to join the Finance Committee, along with my other colleagues.

I want to also thank the incoming Chairman, Senator Grassley, who I did serve with and continue to serve with on the Aging Committee, an area where I have spent a great deal of time and research, and I appreciate his work there with me. Those issues are of particular interest to Arkansas, and I know that here on the Finance Committee we will be able to work even further on much of that.

My colleagues have expressed many of the concerns that I also hold, Mr. O'Neill. As Senator Breaux said, I guess my one link to you is trees and bauxite in Arkansas. [Laughter.]

But I, too, have a particular concern and would like to see us on this committee and in this Congress emphasize the importance of sound, responsible, and consistent fiscal policy, to act responsibly with the surplus, as Senator Snowe has mentioned, being a one-time opportunity for us to actually be able to bolster the economy and move forward.

I have mentioned to you in our conversations the importance of debt reduction, and how I feel that that can be an enormous part

of that stimulus. The issues that are of particular importance to Arkansas, when you talk about prescription drugs, we talk about caring for the elderly, the programs of Medicare, Social Security, how absolutely vital they are to the people of Arkansas, those are programs and issues that we cannot really discuss or deal with in this committee unless we do maintain a strong economy, because we do not have the luxury of being able to reinvest and make the kinds of changes in those programs that we need in order to keep them solvent and productive for the people that depend on them.

I look forward to working with you. I look forward to hearing your testimony and your input on these issues that are important to me and to my constituents in Arkansas, and certainly my colleagues on this panel.

But, to the Chairman, I thank you very much. To Senator Grassley, who mentioned having sat at this end of the horseshoe and watched himself climb up, I remember sitting in the audience, and I am just glad to be at this end of the horseshoe, quite frankly. [Laughter.]

So, thank you, Mr. Chairman, and thank you, Mr. O'Neill.

The CHAIRMAN. Thank you, Senator.

The Chair now recognizes the Senator from the great State of West Virginia, Senator Rockefeller.

**OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A
U.S. SENATOR FROM WEST VIRGINIA**

Senator ROCKEFELLER. Thank you, Mr. Chairman, Chairman Grassley. I certainly echo all of the laudatory comments that have been passed around in welcoming new members, and everything else.

Mr. O'Neill, we have had a chance to talk, and I enjoyed it very much. The Secretary of Treasury is obviously one of the two or three key positions in the administration. You will have a broad range of responsibilities: trade, tax policy, fiscal policy, all kinds. You have been very active in Medicare and Social Security on your own.

I am, on the Democratic side, Ranking on our Health Subcommittee, so the question of outpatient prescription drug benefits and other matters are very important, the reform of Medicare, all of these things.

I share with others some concern about tax cuts, and I will get to that in my questioning, as proposed by the President. On the other hand, that may be changing, and I am not sure. I think it is important that it affect those who will use it, not those who will save it.

I think it is also important that it have, in a \$10 trillion economy, an effect in order to justify whatever damage the size of it might do to paying down the national debt, which I consider the best tax cut of all, and the longest term tax cut. But that, we can talk about.

I want to focus my comments, and also my questions on what we discuss, and that is, steel. Your record, as has been pointed out, at Alcoa was extraordinary. You took it from essentially, I would judge here, a \$5 billion company up to a \$40 billion. You took it

from 49,000 employees up to 127,000 to 130,000 employees. That was during the period of 1985 to 1999.

This is exactly the opposite of what has happened to the steel industry, as you very well know, coming from Pittsburgh. You know my State, coming from Pittsburgh, also.

I am going to need to know, because it is my judgment, in the next 4 years or 8 years, whatever the political realities bring President-elect Bush, that we are either going to have a steel industry or we are not. I think we are at the point where we can count on our fingers the years that will happen, unless public policy decides that we want to have a steel industry.

Therefore, the question of, do we want to have, do we need to have a steel industry in this country, is a question I will ask you. If we do, what policies can we adopt to make sure that it happens and that all of the productivity gains that have been made in the steel industry have been paid for entirely by the steel industry, unlike any other steel industry in the entire rest of the world.

It has all been done by us, and therefore you cannot ask a whole lot more of the steel industry, except, as you discussed, using more of the new economy, so to speak, to increase productivity.

I stressed in our conversation that we have an oil industry that imports two-thirds of its product from overseas, and yet we would never consider for a moment in this country not producing the one-third that we do, much less alternative fuels.

We seem to be in the process of deciding that, although we import at this point 30 percent of our steel, it is, nevertheless, in the worst import and dumped import crisis in history, and has stayed that way and is getting worse.

We seem to be in the process of deciding, through inadvertent inaction, that we do not want a steel industry. That appears to be the direction, in the name of globalization, and the market will decide. So do we want it or not? If we do, then I think we are going to have to take action. I know we are going to have to take action, very strong action, very quick action.

I am going to probe with you a little bit about Section 201, which can be initiated by the President, by us, by a number of groups, but it goes to the International Trade Commission.

If they find injury, it goes on to the President, so the President always does have the final say on what he decides to do. But it is the only thing at this point that I can think of which addresses broadly the question of what other countries are doing.

You had suggested in our conversation that, in aluminum, that you had sort of brought other countries to decide together, let us reduce the total output. My suggestion would be, in the steel industry, that is going to be a very, very hard thing to do based upon the countries that I know.

So, I will be asking you a couple of questions about that, but within the context of an enormous amount of respect of you as a hands-on person who has produced goods during your lifetime, and understand the importance of the production of goods and the employment of people.

I thank you, sir.

The CHAIRMAN. Thank you, Senator.

The Chair now recognizes Senator Jeffords from Vermont.

**OPENING STATEMENT OF HON. JAMES M. JEFFORDS, A U.S.
SENATOR FROM VERMONT**

Senator JEFFORDS. Thank you, Mr. Chairman.

Mr. O'Neill, I really enjoyed our meeting yesterday and enjoyed talking with you. I admire what you have done and look forward to working with you.

I am presently a chairman-in-waiting, or in exile, I guess, of the Health, Education, Labor and Pensions Committee. I got on this committee because we have so much joint jurisdiction that I found it very valuable to be able to assist in making sure we do the best job possible.

The issues that I am most concerned about pertain to health care coverage and retirement security. I believe that, as a Nation, we must ensure that all Americans have health care coverage.

Members of the Finance Committee and my Health, Education, Labor and Pensions Committee will be hearing a lot about health care issues in Governor Thompson's confirmation hearings.

But, as you know, Mr. O'Neill, our Nation's private health insurance system is built on employer-based coverage that grew out of the wage and tax laws during World War II that favored and encouraged the growth of employer-based benefits.

Thus, the Treasury Department will play a critical role in determining whether we address the problem of the uninsured. Although we are a wealthy Nation with a strong economy, there are still 43 million Americans who have no health insurance. These 43 million Americans are hard-working people who tend to work in industries or for small employers that traditionally do not offer health care benefits.

Not only do these workers miss out on the advantages of group benefits in employer contributions, but if they buy health insurance on their own they must do so with after-tax dollars.

So, there are serious tax equity issues with respect to the tax treatment of health care benefits that I would like to pursue as we go into the process this coming year.

Last year, I introduced legislation with Senators Breaux, Frist, Snowe, and Lincoln that would provide a refundable tax credit to low- and moderate-income Americans who do not have employer-subsidized coverage. President-elect Bush included a similar proposal in his platform.

I look forward to working with President Bush, and you, on addressing the issue of health coverage. I believe our efforts should seek to achieve the dual policy goals of expanding health coverage and addressing the inequities in the tax treatment of health coverage.

I also believe that this proposal should be a central part of any major tax package, and which will provide tax relief to many moderate-income Americans, while simultaneously addressing the issue of the uninsured. Such an approach is essential to gaining the bipartisan support necessary to enact tax cut legislation.

As a former private sector employer, you are probably aware of the challenges of providing retiree health benefits, particularly for the pre-Medicare-eligible populations ages 55 to 64. Indeed, the GAO has found that employer-sponsored retiree health coverage

continues to decline and could reach crisis proportions in the near future.

I mention that here because, in addition to the tax credits for health insurance, there may be some additional things we can do in the pension area to help sustain and encourage employer-sponsored retiree health benefits.

A final concern I have that did not receive much discussion during the President campaign is the issue of retirement security. In the Congress, it has been a focal point and a point of real bipartisan cooperation. Unfortunately, last year we were not able to get a clean pension bill through the Senate.

There are a number of us on the committee who look forward to working with you and Labor Department Secretary-designate Elaine Chao on the important issue of retirement savings. We need to address the Nation's embarrassingly low savings rate, generally, but particularly for the baby boom generation who will be retiring in about 10 years.

In conclusion, I have long admired your work and have followed you at times in Vermont with some very interesting situations, but overall I am generally enthusiastic about IPC and what you have done. I am looking forward to working with you as we move into the future.

The CHAIRMAN. Thank you, Senator.

The Chair recognizes Senator Thompson.

**OPENING STATEMENT OF HON. FRED THOMPSON, A U.S.
SENATOR FROM TENNESSEE**

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

For the uninitiated, I guess you are wondering, when does the nominee get to talk? That time is just about to arrive.

But I did want to tell you how much I appreciated our conversation that we had. I think you bring a unique perspective to the job that you are undertaking which is so crucial, probably the most important one, with regard to maintaining a strong economy.

You come from a background that gives you insight into issues such as health care, regulatory policy, and government management. I was especially pleased to learn of your background with the OMB. I am sure that makes you aware that, in many respects, our government management operations are still in the 19th century, in some respects.

All of that is going to be very, very helpful and useful to you, I think, as you take on your duties at Treasury. I hope the President will allow you to have somewhat of an expanded portfolio that takes advantage of your expertise in these other areas.

As my colleagues have pointed out, of course, we are in many respects in good times and having to deal with surpluses instead of deficits. But I think, for you, it is probably a more challenging time than others of your predecessors have faced.

We have lulled ourselves somewhat into a false sense of security. We talk about problems looming ahead and challenges, and so forth, but there are a few of those that are extremely important and we do not seem to be making any progress at all. Others, again, have referred to the demographics; they are going to catch up with us.

We all want more of all things that are good for the American people, but there are very few things where you can look down the road and actually see where the lines cross. It is there. We all talk about it, and we spend a lot of time agonizing over it, and we form commissions, and we do not do anything about it. We have got to have reform in those areas, but we also have to have a strong economy.

There is nothing that we can do that would make for a more sound, long-term Social Security and Medicare system than to maintain a strong economy. Without that, nothing is really possible. With that, all things are possible in terms of looking at the reform measures we are going to have to take.

Of course, that has to do with sound monetary policy, but it also has to do with sound fiscal policy and sound tax policy, and a tax policy that encourages and rewards investment, which leads to growth, which of course we are going to have to have for that strong economy.

So you are going to be at the absolute center of what I think are the most important issues facing us domestically over perhaps the next several decades. I am glad we are going to have a person like you manning that chair. So, thank you for your service to your country.

The CHAIRMAN. Thank you very much, Senator.

Mr. O'Neill, the hour has arrived, finally. We would very much like to hear from you.

**STATEMENT OF PAUL O'NEILL, SECRETARY-DESIGNATE,
DEPARTMENT OF THE TREASURY**

Mr. O'NEILL. Chairman Baucus, Ranking Member Grassley, members of the committee, it is a great pleasure to appear before you, and I thank you for giving me the opportunity to appear in connection with my nomination to be the Secretary of the Treasury.

I am honored to have been nominated by President-elect Bush, and I look forward very much to working with you all, if you do choose to confirm me in this position.

I noted, in the last few weeks since my nomination was made, lots of media attention to a couple of issues. I thought, in the interest of not wasting a lot of television footage, I should say at the very outset, I am in favor of a strong dollar. I cannot imagine why anyone would think to the contrary, but perhaps we will get to that in your questions.

The CHAIRMAN. Well, Mr. O'Neill, before you go any further, it might be more appropriate at this time, if you would like, to introduce your family.

Mr. O'NEILL. Thank you so much.

Let me start with my brother and sister and spouses, and children and spouses. Yes, that is you. [Laughter.] Now we cannot see the grandchildren. Grandchildren, please.

The CHAIRMAN. There is one.

Mr. O'NEILL. This is only half of the grandchildren. And on the end is my wife of 45 years. It was mentioned by Senator Murkowski that my wife and I met in Alaska. I started junior high school in Hawaii, then went to New Mexico for a little bit more junior high school and some high school, and then to Fresno, Cali-

for 9 months for high school, and ended up in the middle of my junior year in Alaska. My wife and I were students in the senior English class together. So, we have been partners for a long time.

We are pretty proud of the associates that we have of our wonderful children and grandchildren, and their spouses. The grandchildren who are not here are either too old and busy with their own lives or too young and would be pretty restless here. But thank you for giving me the opportunity to introduce them.

[Applause].

Mr. O'NEILL. You probably cannot tell, but there are other people we brought as part of the cheering section, friends, acquaintances, and working colleagues.

The gentleman sitting here in the second row now is the chairman and CEO of Alcoa. He is a 28-, 30-year Alcoa employee. He was born in French Morocco. He was in Brazil when I came to Alcoa. About 5 years ago, I convinced him that he should leave Brazil and come to the U.S.

Over the years, he has had increasing responsibility. It follows on a notion that I really think is quite important in leading a major organization, and that is, the person who succeeds you should be better than you are.

I might say in that regard, Mr. Belda, even though I was still chairman until the 31st of December, he and his associates just turned in a 42 percent increase in profit, the best-ever profitable year in Alcoa.

It is a place where we make real things and real money. In fact, we made \$1.5 billion last year, which is really quite good, and it is because of the wonderful leadership of Mr. Belda and his associates. So, I thank you for letting me make introductions.

The CHAIRMAN. You are welcome. I know they are very, very proud of you, and we are glad to have them here. Thank you.

Mr. O'NEILL. Thank you.

I do have a prepared statement. It is fairly brief, but you have all had an opportunity to read it. I think I will just submit it for the record, if that pleases the Chair.

The CHAIRMAN. That is fine.

[The prepared statement of Mr. O'Neill appears in the appendix.]

Mr. O'NEILL. At the outset, before we do Q&A, I suppose it would be useful for me to say, so there is no ambiguity about the President-elect's view about tax policy, and maybe as well about Social Security.

He has made it very clear to me, it is his intent for us to put his tax reduction ideas into legislative form and to send it to the Congress as quickly as we can do that.

I think we all understand that there will be other views, some have been expressed here, about how exactly one deals with the tax system in the early days of this administration. But have no doubt, we will send you the President's tax proposals.

I might say in that regard, there are some important elements of those tax proposals that I think have not been well drawn out in the tax proposals that he has spoken about over them any months and formulated into a policy recommendation.

Four-person families with incomes under \$35,000 would be taken off the tax rolls, four-person families with incomes under \$50,000 would have their Federal taxes reduced by 50 percent, and four-person families with incomes under \$75,000 would have their taxes reduced by 25 percent.

So, again, I am really quite amazed at some of the things that I read and see on the television characterizing the ideas that were central to his campaign, because they do not comport at all with the facts that exist on the record.

The second thing I would say is this, and it is very much in the context of what several of you said, particularly Senator Thompson said quite sharply, pointing at the issue of Social Security.

I remember really quite vividly being here in January of 1973 with George Schultz to testify before the Senate Appropriations Committee and listening to George Shultz say, we are headed for a train wreck between the generations because one can look at the demographics and see we are not going to be able to deliver on our Social Security promises to future generations unless we attend to the issues of the inconsistency between the benefit structure and the revenue structure for Social Security, and if one holds the benefits constant, it is going to be necessary to raise the payroll taxes for the current working population so high that the younger generation is simply going to rebel.

I think it really is quite telling that 28 years have now passed and we are still facing a difficult problem of Social Security, and the intersection of the trains is coming in the year 2015.

Honestly, a part of the thing that convinced me that it was appropriate for me to accept the challenge of returning to public service is I do think that there are issues like this one that are really quite important. If we can draw ourselves together around principle, it should be possible for us to do our duty for future generations and not leave this train wreck to happen.

I must say, with all of the conversations I have had with individual members, I have been very heartened by the sense of principled approach to the issues that are in front of us right now.

I am very hopeful that I can play a useful role in working with all of you so that, when we are measured, people will say they did the right thing and they did it well when they had the responsibility.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. O'Neill.

At the outset, I have three standard questions that we ask every nominee, which I will now ask.

First, is there anything you are aware of in your background that might present a conflict of interest with the duties of the office to which you have been nominated?

Mr. O'NEILL. No, sir.

The CHAIRMAN. Thank you.

Second, do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Mr. O'NEILL. No, sir.

The CHAIRMAN. Third, do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of Congress, if you are confirmed?

Mr. O'NEILL. Yes, sir.

The CHAIRMAN. Is that a yes?

Mr. O'NEILL. I said, yes, sir. In the trial runs I said no, and they just went right along. [Laughter.]

The CHAIRMAN. The Chair notes a yes.

What I am struggling with, Mr. O'Neill, as I listen to the general question about the tax cut, is really the size. It is not whether, but the size of the cut, and also its composition.

As you know, we have been on a path of surpluses and debt reduction generally in the last seven, 8 years, and I think that has helped to stimulate the economy. It has given the market some security, some sense that those folks in Washington have some sense about our public finances, and it has certainly helped. Low jobless rates, moderate interest rates, and also strong investment, I think it has helped.

We now seem to be hearing some signals from the President-elect that maybe the emphasis on surpluses and debt reduction might not be as strong or as important, which could possibly have a negative effect on interest rates and on the strength of the economy.

Tied with that, is how do we accommodate a \$1.6 trillion tax cut—or who knows exactly what it is; as you say, it has not been submitted—along with other priorities like prescription drug benefits, expanding health insurance benefits, investments in education which are very important in this country, Social Security, as you mentioned, Medicare, increased military spending.

If you total all of that up, it equals about \$2–3 trillion over 10 years, right off the top, out of non-Social Security surplus. Add to that the uncertainty of budget projections. We do not know what the future has in store for us. It could be unforeseen military expenditures or natural disasters.

One of the biggest problems, frankly, is the unknown. It is what you do not know. I would just like your reaction of how you fit all of that together—that is, all those priorities—and still have a non-Social Security budget surplus? They really do not add up.

Mr. O'NEILL. All right. Let me begin by saying I am a great admirer of what Senator Bentsen, Bob Rubin, and Larry Summers have done as Secretaries of the Treasury. I think there is much to be admired. I think they have done a great job.

Particularly, when I talked to Bob Rubin, I was telling him what a great job he had done and what a great record he had. He said, do not discount the fact, Paul, that an awful lot of it was luck. So I said to him, well, wish me luck, then.

I say that at the beginning simply to make the point that again was made by many of you. Perhaps the single most important thing in economic policy is that we work to keep ourselves on a track of real growth rates at the upper end of what most people believe is possible, because without that we are so hobbled in doing the other things that we should care about as a society.

So I would stipulate, it is very, very important that we work in such a way that we create a sense of political confidence in the world, a reliability as people look in at the United States from out-

side, that we work very hard to keep the inflation rates where they are. This morning's report, if you take energy out, was a 0.1 percent increase in the CPI month-to-month, which is wonderful.

Then to your point of fiscal responsibility. I must say, I was here when we sent the 1969 fiscal year budget to the Congress. It was the last balanced budget until the ones of recent times. We were in a very long period of fiscal imbalance, and I personally would not like to see us return to that position, so I respect the point that you make.

One other thing. I would make just an observation. It is a little daunting, since I left, you have added three zeroes to everything. When we were talking about billions, we are now talking about a \$10 trillion economy, and that is really quite different from where we were in the past.

We have also adopted a convention, and I understand this was done some years ago, that we talk about these numbers in 10-year terms. So we take a number and then we multiply it times 10, and that is how you get \$1.3 trillion, or \$1.6 trillion. I am used to dealing with big numbers and I know about how to do billions and all the rest of that.

I must tell you, I do not run into very many human beings that resonate to \$1.6 or \$1.3 trillion. It does not make any sense to them, it is just an abstract concept. Then I would add, as one who necessarily has to make estimates about things, if one does not have humility with estimates one has not done enough estimates.

So I am not here to tell you that I can give you an exact glide path about where the economy is going to go. In truth, this is responding in a way to the point that was made. Someone said, we hope you will continue to be straight and clear in what you say. I very much want to do that. I would say, estimates are estimates.

But one has to make decisions in the context of estimates, and the estimate that I have looked at so far—and I have not had as much time as I will need or would like to examine this in the level of detail that I am accustomed to—that there is room to fit the President-elect's tax proposals into even the low end of economic assumptions and growth rates that I have looked at without touching any Social Security money. For him, this is an inviolate principle.

Now, if you examine the pieces of his——

The CHAIRMAN. I will have to ask you to sum up. My time has expired.

Mr. O'NEILL. I am sorry.

The CHAIRMAN. I want to be fair to all of the Senators.

Mr. O'NEILL. If you examine the pieces of his tax cut proposal, it has been observed that the weight of his tax proposals are what is called back-loaded, which is to say, they begin to take effect in the out years.

The amount of money associated with the marginal tax rate cuts that I spoke about earlier consolidating into four rates and eliminating taxes for people under \$35,000, on its initial basis, would have cost \$448 million.

So the question of acceleration, I think, is the question related to marginal rate reductions. For sure, there is room to put some

marginal rate reduction even earlier than when he proposed, if that is what he decides to do. He has not yet made a decision to do that.

The CHAIRMAN. One quick question. How important is it to continue to pay down the debt?

Mr. O'NEILL. I think it is one of the things that we should resolve that we will continue to do, that we will pay down the debt. In a way, if you look at the issue of marginal rate reductions and you look at the composition of family incomes and family obligations, it seems fairly clear now, if we were to provide marginal rate relief, the people probably under \$100,000 would choose to use a substantial part of that to reduce their outstanding credit card debt, so that from an economic point of view one could argue that the savings effect and the balance sheet effect would be stronger with marginal rate reductions than one would expect to see from a diffused reduction in the national debt.

The CHAIRMAN. Thank you.

Senator Grassley?

Senator GRASSLEY. President-elect Bush's tax plan does not include any retirement security incentives. Yet, on the campaign trail he had expressed some need of doing some things in that area, without being very specific.

Mr. O'Neill, enhanced retirement security being a goal of President-elect Bush, and also members on both sides of the aisle on this committee, is something that I want to look at.

A few months ago, this committee had unanimously approved a package of retirement security incentives. Unfortunately, we were not able to secure floor time on the Senate to get it passed. The House had passed a similar package with an overwhelming bipartisan vote.

These proposals generally would enhance individual retirement accounts and employer retirement plans. I, Chairman Baucus, and other members of the committee intend to reintroduce that popular legislation shortly.

Will the incoming administration consider these proposals?

Mr. O'NEILL. Indeed. We will take a look at all aspects of the Code, and particularly ideas advanced by yourself and Chairman Baucus, and see how these ideas can be considered in the broader scheme of things.

Senator GRASSLEY. Mr. O'Neill, like enhancing retirement security, improving the Nation's education system is a priority for President-elect Bush and members on both sides of the aisle.

Last year, the Senate approved a Finance Committee bill that included a broad array of education tax relief measures. Most of these proposals carry strong bipartisan support and have been improved several times.

As incoming administration's top tax policy official, could you indicate whether President-elect Bush's education tax cut agenda could be expanded to include these bipartisan proposals?

Mr. O'NEILL. We will take a look. In candor, I have been sufficiently busy, I have not had an opportunity to really look at the things that have been proposed in the last year or so. But, indeed, I will commit to you that we will look at all of the ideas that are abroad about Tax Code changes.

Senator GRASSLEY. In 1999, you gave a speech to the Aluminum Association. You characterized the tax system as a disaster due to its complexity. Of course, every member of this committee hears from its constituencies that the tax situation is complex.

I believe a person of your stature speaking of this complexity does public good. There is no question that, for the American taxpayer, these blizzards of forms and filings are a nightmare. The need for simplification is perhaps one of the few areas where the taxpayers and the IRS find some common cause.

When I served on the National Committee on Restructuring the Internal Revenue Service it was clear that complexity of the Code was one of the major difficulties that the IRS faced in administering tax collections.

The Joint Tax Committee has currently prepared recommendations on addressing complexity and simplifying the Tax Code. Those recommendations will be released, we believe, in about two to 3 months. The committee looks forward to that report and working with the administration on this matter.

So I would hope that we could count on your support and efforts to simplify the Code, and I would be interested in any specific areas of the Tax Code that you believe should be a point of focus for simplification.

Mr. O'NEILL. Some members of the committee will know, when Senators Nunn and Domenici were proposing Tax Code change, that I worked with Bob Lutz, who was then the president of Chrysler Corporation, to provide support and try to create interest for fundamental tax reform.

So, I am very much of a mind that we need fundamental tax reform, but I will tell you how I get to it. I get to it in two ways, the need to do something about this.

On the one hand, when I look at the cost that we impose on our society to operate our Tax Code and I look at the work that has been done, principally at the University of Michigan in costing the Tax Code impact on our economy, the numbers range between \$150 and \$200 billion a year that we are costing the economy in the form of some of the brightest minds in the country that, as I have said in other places, could otherwise be employed as engineers making things.

One could say that is the right of our society to impose costs and to create jobs of this kind, and we can afford it. As one who has spent most of the last two decades working around the world, I must tell you, every place that I see that we are imposing costs on our society that does not add value, I see it as a weakness in our ability to maintain our leadership position in the world, because others are getting better. I think we need to examine everything that we do that adds cost without value, and for me, this is one.

I have said, and I suppose as I am in transition I can still say it without getting too many brickbats, I think our tax system is not worthy of an advanced society and I really do think we need to do something about it.

The CHAIRMAN. If the Senator would yield. Did I hear you say some other countries are getting better in simplification?

Mr. O'NEILL. No, no, no.

The CHAIRMAN. I misunderstood.

Mr. O'NEILL. Some other countries are getting better at picking up the pace of productivity improvement.

The CHAIRMAN. Generally.

Mr. O'NEILL. Yes. I would take you back to 1980. There were lots of us out there in the world that makes things that went and looked at the rate of progress in some other countries around the world and were startled to find that, while we were beating our breasts about how good we were, we were not good.

One of the things we have done out there in the world where we make things, in the last 20 years many of us have recaptured the lead and we are not ever going to back down again, we are determined to lead the world. That is how we have actually gotten the huge tax surpluses that have come from people who make things and create productivity.

The CHAIRMAN. Thank you. I note that Majority Leader, Senator Lott, is here. The Chair is very honored to recognize the Senator.

**OPENING STATEMENT OF HON. TRENT LOTT, A U.S. SENATOR
FROM MISSISSIPPI**

Senator LOTT. Mr. Chairman, let me just thank you for giving me this opportunity. I came to listen and learn. I am looking forward to working with our new Secretary of Treasury. Several of the questions that I had in mind, I understand have already been asked about tax policy.

Just to welcome you and assure you of my support, and I look forward to working with you for the betterment of our economy in this country. Good luck.

Mr. O'NEILL. Thank you.

The CHAIRMAN. Thank you, Senator.

Senator Murkowski?

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

Mr. O'Neill, some of us believe there is an energy crisis occurring in this country. As you know, Southern California Edison technically defaulted on somewhere in the area of a half a billion dollars' debt. Some analysts suggest that PG&E, Pacific Gas & Electric, is in even worse shape.

I suppose we can argue the merits of California deregulation to some extent, a scheme that freed wholesale prices from regulation but maintained regulation on retail prices.

But in any event, whoever is to blame, we have a reality here that the sixth largest economy in the world, namely the State of California, is in an energy crisis.

Now, in the past Congress has bailed out some corporations, Chrysler for one. Five years ago, you will recall the former Secretary of Treasury proposed we bail out the Mexican tesobono holders, a debt held to a large degree by U.S. firms.

My question is, do you think Federal assistance should be used to help bail out these California utilities, and what role, if any, should guarantees play or should we just leave it up to the State of California to work out of this mess?

Mr. O'NEILL. I want to be really careful with what I say here, because I am reading in the newspapers that Governor Davis is fashioning an intervention which he believes will work.

Again, I have not sat down and read the FERC rules and regulations myself, so I do not think I am an authority on the scope of possible Federal action. Therefore, I do not have a judgment about what, if anything, the Federal Government needs to be out doing.

But I am reminded of something, again, that one of my mentors from OMB told me one time. I have forgotten what the issue was, but he said, basically, the President and the Congress have to be really careful when they hang out their shingle, because when they do they get all of the business.

So I think one needs to be cautious in a situation where I believe it is true, the State of California assumed that they could defeat economics, which is to say, telling someone that they could sell their goods on a free basis at wholesale and the retailers cannot accommodate what to them is a cost, is lunacy, frankly.

I mean, you do not have to have an economics degree to understand that this is an unworkable situation unless—unless—there is a great surplus of goods, which means the market will trade wholesale prices down, then you do not need to push at the retail level. But what was done makes no sense.

Who should deal with it? I think the first line of defense, obviously, rests with the Governor of California. It appears to me that he has the tools that he needs to fashion a solution, and it is not clear to me that there needs to be a Federal intervention, although, again, as I understand the FERC possibilities, there are some things that one might do to speed up environmental clearances so that it does not take so long once there is a decision on the part of the State to permit additional generating facilities, which they have not done for the last 10 years. That FERC could be very responsive. There is no reason why it ought to take 18 months, it ought to take 18 days.

Again, one of the things that is really interesting to me on the contrast between private sector and public sector, is I frankly think we have been too tolerant in accepting the length of time it takes to get anything done; under conditions of emergency, one should be able to act. I think, if there is a need for FERC action, it should be quick.

Senator MURKOWSKI. Mr. O'Neill, Congress created the Office of the Taxpayer Advocate at the IRS. In its annual report to Congress, the advocate cited the complexities of the individual Alternative Minimum Tax and recommended that the individual AMT be repealed.

Would you support repeal for individuals or would you support repeal for corporate AMT?

Mr. O'NEILL. That is something I think we are going to have to look at very, very hard. If you accept the President-elect's recommendations on the marginal tax rate cuts, while his proposals would take people off the tax roles, the AMT would put them back on in a way that would mystify them beyond belief. So I think, yes, we need to look at the AMT, it is a great complexifier, and we will do that.

Senator MURKOWSKI. Finally, what areas of the Tax Code do you think would best encourage more business investment? Changing the depreciation schedule? Cutting the corporate rate or a combination of both?

Mr. O'NEILL. I am thinking about whether I can get away with still being a maverick for another couple of days.

Senator MURKOWSKI. Oh, you have got a couple of more days. Sure.

Mr. O'NEILL. Let me answer you this way. I guess I will be a maverick for the moment and tell you what I think about this. I never made an investment decision based on the Tax Code. If I did not think I knew how I was going to cover the cost of capital with an investment, whatever the effective tax rate was, I took that into consideration.

Frankly, with investments—not everyone is like this—but if you make an investment for 20 years and you do not know pretty well how that investment is going to pay for the cost of capital, assuming the status quo ante with the tax system, then you are not a businessman, you are a gambler.

Maybe I should say more directly to you, if you are giving money away I will take it. If you want to give me inducements for something I am going to do anyway, I will take it. But good business people do not do things because of inducements, they do it because they can see that they are going to be able to earn the cost of capital out of their own intelligence and organization of resources.

Senator MURKOWSKI. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Breaux?

Senator BREAU. Thank you very much, Mr. Secretary-to-be. You are entering into a job which is going to be one of the toughest in government. You have to predict the economy, and it is easier to predict the weather than it is to predict the economy.

A story in the Washington Post this morning talked about how all of the Presidential and private sector experts over the last nine recessions since the end of World War II have failed to predict accurately that they were forthcoming. Yet, we now are faced with a similar situation; whether it is private sector, public sector, or independent economists, they just miss it more often than they get it right.

So you are in a position to have to take actions to address these things which are so very unpredictable. Hopefully you will be in a position with good advisors to make the proper decisions.

Let me ask a question. It seems to me that if you talk about a slow-down in the economy there is a difference in opinion as to the best way to address it. I mean, some would argue that, well, the best way is an across-the-board tax cut, others would say that, no, a better way to address that is monetary policy through the Federal Reserve, through a reduction in interest rates.

For those who say that it is better for a tax cut across the board, those who disagree point out that much of such a tax cut basically stimulates more savings for people in the upper income as opposed to spending it and moving the economy forward, whereas, interest rate reductions would tend to stimulate all forms of business investment.

So when you have the choice, in your position, to make a recommendation for an economy that is slowing down, does Paul

O'Neill say I think we should move towards a monetary policy fix or towards a broad-based tax cut fix?

Mr. O'NEILL. I think I would liken my answer to what I call a belts and suspenders approach. What I mean by that, is this. First of all, with regard to where the economy is, there is no doubt that we are experiencing a slow-down. You do not have to get the 40 CEOs that the President-elect had in Austin to find that out.

In talking with many of you, you are hearing from your own constituents that order books are not what they were. I think there is a consensus among people who know about these things. I would say from my own experience, observations, and an opportunity to look into individual companies, there is a slow-down in order rates.

Now, if you looked beyond the slow-down in order rates and see what occasioned that, there are some industries that I would say to you that have, in effect, borrowed from the future; they provided financial incentives that brought forward demand that was probably going to occur in the first 6 months of this year and they got it actualized in the last 6 months of the year.

Senator BREAUX. Let us assume, Mr. O'Neill, for the sake of argument, that there is a slow-down.

Mr. O'NEILL. All right.

Senator BREAUX. Let us assume that. The question I am really trying to get at is, does Paul O'Neill view monetary policy in the Federal Reserve as a better and quicker way to address that, or do you think a broad-based tax cut can accomplish that? If so, how does that work?

Mr. O'NEILL. I think the first line of action is monetary policy. My point is this. If we are going to have a tax reduction, which I am hearing more and more people say they are in favor of a tax reduction, then I do not know why we would not want it now. Not because it is a major component to drive the economy, but because it will not hurt.

Six months ago if you had asked this question, you would have been able to get 98 percent of the knowledgeable people to say, oh, my God, we cannot have a tax cut because we are going to fuel added demand, and that means we are going to have inflation, so we should not do it. That argument is off the table from people who know what they are talking about.

So the question, to me, is if we are going to have a tax cut anyway, why do we not reduce the risk that what may be an inventory correction turns into a recession by front-ending the marginal tax rates, helping individuals with low and middle incomes to improve their balance sheets by reducing their outstanding credit debt, and we'll get ready for the next round of expansion in our economy.

Senator BREAUX. Would you favor targeting it to low and middle income, if it is across the board?

Mr. O'NEILL. Well, the rate reductions do that. The rate reductions do that. As we discussed, and I discussed with many of you, again, my amazement at the way the conversation is had about the tax system. If you look at what has happened to our tax system in the last 9 years, we have permitted the marginal rates to go up substantially so that, 9 years ago, 8 years ago, the top marginal tax rate was about 31 or 32 percent, and today it is almost 40 percent. This creep has happened through the whole tax curve.

Then I say to myself, we have this convention that we say, oh, we cannot lower the taxes for high-income people; they sent the money in. We have this notion somehow that I must say, even with my experience in Washington, I still do not quite understand. That is, people send their money in and, depending on where you are in the rate structure, you send in your proportional amount.

But when we talk about, how are we going to provide relief, then we turn around and say, well, we cannot send it back to the people who sent it in. We want to change the distribution on the way back.

That is not to say that it is inappropriate to have a conversation about equity in the incidence of how we impose the cost of public goods and services on the population, but as a starting position it really is quite startling to me that we have this convention that says, once it gets here, the government owns it.

Somehow, the government is not "we, the people," it is some other floating institution that performs this magic act of, we are going to change where it came from, we are not going to give it back to those people, we are going to give it to somebody else.

Senator BREAU. And the answer to my question was a yes or a no?

Mr. O'NEILL. I am working really hard to figure out how Alan Greenspan says all these things and nobody is really sure what he has said. [Laughter.]

Senator BREAU. I think you are doing really well. [Laughter.]

The CHAIRMAN. That is true, but that is a separate function in government, too. He is supposed to be ambiguous, as others are not supposed to be ambiguous.

Mr. O'NEILL. All right.

The CHAIRMAN. At least, it does not help if they are.

Senator SNOWE?

Senator SNOWE. Thank you, Mr. Chairman.

Mr. O'Neill, to follow up on the tax cut issue, do you think that President-elect Bush is going to adjust his strategy in response to this slowing economy, for example, by making it retroactive?

I noted that, for example, Robert Samuelson, in his column recently, who had been initially opposed to a tax cut, now says that it makes eminent sense and that it should be retroactive, and compressing some of those tax cuts, especially when it comes to marginal tax rates, into 2 years.

Is that something that is being considered by President-elect Bush and you?

Mr. O'NEILL. You asked, first, was he going to do it. I cannot give you a straight answer to that; it has not been decided yet. Is he considering it? Yes.

Senator SNOWE. So it is obviously part of redesigning this strategy.

To what extent do you think this tax cut will serve as a fiscal stimulus, and how important is it to do it, assuming or anticipating there will be a further reduction in interest rates, which some people say that it may take 6 to 12 months to feel the impact of an interest rate reduction?

Mr. O'NEILL. First, and you all know more about this than I do because you have dealt with tax relief on a retroactive basis before,

but again, I have played on this ground sometimes in the past. It is my recollection that it is possible to fairly quickly change the withholding rates so that you could have quite a quick impact if the President-elect chooses to propose that.

With the marginal rate reductions included in his discussion over the last couple of years, for low- and moderate-income people the amounts could be significant and they could be quick.

Now, would I do it with an expectation that this would somehow provide the boom economy? No, I would not do it for that reason, but I would go back to what I said in answer to Senator Breaux.

I guess I am conservative. I think, if there is a way that you can take action that is directionally correct for the economy and it does not have any of the negatives that people were saying 6 months ago of over-stimulation and creating inflation, then I say, why not? What is the reason not to give the taxpayers back some of their money? I do not know that.

Senator SNOWE. What about household debt and business debt that obviously has been rising considerably? As you well know, consumer spending and business spending are really the engine that drives the economy. How will these tax cuts factor into alleviating that debt and, again, reigniting the economy?

Mr. O'NEILL. Well, for individuals, money could be applied directly to what looks like a stretched consumer. I promise you, when I come back I will have all of the numbers in my head and be able to adroitly deal with classifications of income structure and outstanding debt. I really have not had time to make that switch from what I have been doing to what I will be doing.

But my sense is that, over the last 6 months, consumers have been accumulating a credit, or taking credit, at an unsustainable rate.

In fact, the average outstanding consumer credit is equal to disposable income, from one piece of evidence I saw, and that says that says consumers are stretched out. So one should not be too surprised that they have backed down from their consumption pattern.

So one would think that, with a marginal tax rate reduction early on, that people would take advantage of the opportunity to reduce their outstanding consumer credit and, as I said earlier, get ready for the next expansion of the economy.

Senator SNOWE. One final question. Based on the article this morning concerning conflicts in numbers over the estimated surplus and projection of economic growth, which frankly, I think, is going to be a very fundamental issue here as we design the budget resolution and upon which we predicate our assumptions.

There really is a vast difference currently between CBO and OMB. I mean, OMB has much higher economic projections and probably \$1 trillion less in terms of estimated surpluses over the next 10 years, compared to CBO's, as mentioned earlier, suggesting a 2.7 percent annual economic growth over the next 10 years in order to sustain a \$5 trillion surplus.

So I think it is going to be absolutely important that we have confidence in the numbers, and with the new administration designing those numbers, so we make sure they are absolutely as sure as possible under the circumstances.

We understand how there is a lot of uncertainty when we are calculating these projections, but we need to be absolutely certain of those numbers as we proceed with a tax cut and other spending assumptions.

Mr. O'NEILL. Shall I respond?

Senator SNOWE. Yes.

Mr. O'NEILL. I remember how important numbers are in this town, and people latch onto them and hold onto them like pit bulls, so I appreciate their importance.

But I hope you all will forgive me going forward of also being a truth-teller, in telling you that while I think at the end of the day, as Tom Korologus—all of you know Tom Korologus—said to me, you know, Paul, at the end of the day they cannot vote “maybe” in the Senate, which is an important way of saying, at the end of the day you have got to say, in my best judgment, this is the stream of numbers we should pay attention to.

I hope you will forgive me if I make your life more complicated by showing a range and tell you why I am where I am, because I do not think it is intelligent for us to act as though we got our numbers from God, because we did not. So you will see a range of numbers. I will stand up and maybe say as forcefully as I know how, this is what I believe and this is why I believe it.

Senator SNOWE. Thank you.

The CHAIRMAN. Thank you.

Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman.

I would like to echo some of what was brought up by Senator Murkowski. I was pleased with your answer in terms of the Alternative Minimum Tax. I certainly do feel like the Hope scholarship, the dependent child care credit, credit for elderly and disabled, and adoption credits are very important.

I would really hate for us as a Nation to lessen the importance of those credits by not paying attention to the complexity that has evolved in that situation and not doing something about the Alternative Minimum Tax. So, I am encouraged by what you had to say there, but hope that you will work further with us on that this year.

I, for one, believe it is something we can do, and should do, on behalf of the American people who are getting caught, especially the middle income people, between those cross-hairs, as I do not think that they should be.

I would also like to touch just a little bit about the tax cut when we talked briefly yesterday, as well as what you have said here today.

Your comments about the marginal rate reductions and tax cuts should happen relatively soon, but as Senator Snowe was talking and seeing the rate reductions from the Federal Reserve, does it not seem fair that we would want to give that time, understanding the length of time that it takes us here in the U.S. Senate to pass tax law, that we would not want to rush into something without being able to give the time necessary to see what the results are going to be from those reductions and what it could possibly do for the economy?

I will just link that with another comment that you have made a couple of times, and that is that we have these numbers, then we multiply them by 10. A lot of that comes from the fact that, really from the corporate community, we get the word that it is so important to be able to depend on tax policy.

You certainly do not make your decisions and investments strictly on policy, but without a doubt, being able to have some consistency in what you can expect from the Federal Tax Code over a period of 10 years is important, and we cannot make those decisions unless we can make those projections.

So I would just say, to get from you an idea whether it would not be wise or prudent to be somewhat cautious to see what those rate reductions are going to do before we jump into tax policy that is not easy for us to move or to change.

Mr. O'NEILL. I know it is difficult, but the tax proposals that the President-elect has made and the ones that I have spoken about this morning do not touch corporations, they all have to do with individuals.

Senator LINCOLN. Right.

Mr. O'NEILL. So corporations are not going to be destabilized as this conversation goes forward with the things that he has proposed.

Senator LINCOLN. Those that invest in them.

Mr. O'NEILL. Pardon me?

Senator LINCOLN. But those that invest in them, obviously, are going to be affected by the tax structure that we are talking about.

Mr. O'NEILL. From an individual, personal point of view, people, hopefully, will be positively affected. I am thinking hard again about how deeply I want to get into this.

In an ideal system, and personally I like to think about ideal systems because it tells you how far away you are from what is possible, we should not change the tax system often, in my judgment. It should be as simple as it is possible to be.

I honestly think we know how to do that. Individually, every one of you would agree with me, but somehow we have not been able to approach the subject of how we get real simplification. We maintain the fiction that corporations pay taxes. As many of you have observed, I have run two Fortune 50 companies. Corporations collect taxes, they do not pay them.

The idea somewhat that capital will stand still for the idea of getting less than the market rate of return because some government chooses to impose taxes is a fiction and it is more and more a fiction if you live in the world that I do, with operations in 36 countries, with something some of you have worried about, hot money, current account deficits, and all of the rest of that. The world that we entertain ourselves with is simply not a real world.

The idea that corporations pay taxes, from that follows the notion that we have some of the brightest minds in America out there trying to figure out how to cope with a corporate tax system, because it is not all right for us to say to each other, at the end of the day, individual human beings pay all of the taxes.

If corporations do not make enough money to service the cost of capital and pay taxes, they go out of business. I am probably going to get into trouble for telling you the truth, but I am going to con-

tinue to tell the truth until somebody tells me, shut up, do not do that anymore.

The CHAIRMAN. Senator Rockefeller.

Senator LINCOLN. Has my time expired? I had one more question.

The CHAIRMAN. It has expired.

Senator LINCOLN. Thank you, Mr. Chairman.

The CHAIRMAN. There will be another round.

Senator LINCOLN. All right.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Continuing a little bit on that line, if you go out of business, you go out of business. That is one prospect. Another, is do you get into business, and where would you choose to?

Chairman Baucus and I, as we discussed, come from the two States that have the lowest per capita income of any of the 50, so the question of, do people choose to go into business is also important.

Mr. O'NEILL. Right.

Senator ROCKEFELLER. We passed, in the last session, and it is now law, the New Markets Tax Credit bill. It is specifically designed for under-served areas across this country where companies could come and would come because of the ability of the labor force, which would be associated with poorer States, but would not come because of the cost of capital.

Now, that is law already, so I am not asking, so much, your view on it. What I want to know is that you will make this program, already law, Mr. O'Neill, a priority during your administration.

Mr. O'NEILL. I do not know about it, but I will. Maybe it does not need to be said, but you can count on me following the law and doing the things that you, as representatives of the people, have decided we should do, without fail.

Senator ROCKEFELLER. I thank you for that.

I would note also simply for the record, but it is much more than that to me, the conversation we had when we talked about retired coal miners' health benefits. I would just put that on the record.

Now, for steel. Do you believe that the United States should have a healthy or significant steel industry, that it needs it?

Mr. O'NEILL. I do.

Senator ROCKEFELLER. Secretary Cheney was in Wierret, West Virginia just before the campaign and said that we cannot have a country that does not have a steel industry because we cannot have a national defense which does not have access to a domestic steel industry. Do you agree with him?

Mr. O'NEILL. I said yes to the first question. I would not tie it so much to national defense as I would for a need for a balanced economy, to have a representation in the things that are fundamental to the society, and certainly, steel is still a very basic and fundamental material. It is all right with me to reach for the national defense connection, but I would not necessarily do that.

Senator ROCKEFELLER. Your first question, in a sense, subsumes the second one.

Mr. O'NEILL. It does.

Senator ROCKEFELLER. I am pleased with that.

Following on that then, I need to ask you, will you be, as Treasury Secretary, an advocate for your first answer, that is, a steel industry?

The reason I ask that, is what we had in our discussion. That is, that the people I represent, where steel is not only steel but also metallurgical coal and is the psychology of the whole State—one accepts that, and you understand that because of where you come from—that the same Mr. Rubin that you were praising, and others, more or less in their desire for globalization put it so far ahead—that is, globalization—of everything else that the health of the steel industry, and in some ways the health of other industries, but I am talking now about manufacture, job-creating, hands-on steel industry, was something they simply did not want to hear about. I would have to assume then that I can approach you with the expectation of more sympathy than I could them.

Mr. O'NEILL. If you do not mind, I am going to give you an answer that may take me four or 5 minutes that broadens the subject.

Senator ROCKEFELLER. I do mind.

Mr. O'NEILL. How much time can I have to answer your question?

Senator ROCKEFELLER. The Chairman is quite strict.

Mr. O'NEILL. Two minutes. All right. Let me do it as quickly as I can.

The CHAIRMAN. It will have to be about two because we have other Senators.

Mr. O'NEILL. First of all, I do not think some of the problems that are attendant to the question you are asking about the steel industry can be truly solved in the microcosm. If you look at where the world is in steel on an around-world basis, we simply have too much manufacturing capacity for steel in the world.

What we have demonstrated in the last 20 years is, left to its own devices with a lack of reinvestment in the most modern technology and the utilization of the best leadership ideas about how to combine resources, the world is going to do a brutal job of reconfiguring the world's steel industry.

As it does that, it is going to do significant damage to individual human beings. It is going to basically run companies down to the point where we are now, where the price of steel is being set at the operating cost of the lowest cost producer in the world. That means everyone who is making product in the world, except the low-cost producer, is giving their capital away.

Now, because of the laws that we have that deal with antitrust, it is not all right in the conventional thought process for steel companies to talk to each other, even in the presence of lawyers, about, how do we reconcile this huge overhang of capacity, because we have all these rules made by men that end up torturing individual human beings? So we cannot even have a conversation about how we solve the right problem rather than, how do we create protection for our people and things like that.

Senator ROCKEFELLER. Mr. O'Neill, my time is up and I just need to conclude on this statement.

Mr. O'NEILL. All right. Fine.

Senator ROCKEFELLER. I think the difference between what you are saying and what I am strongly feeling is that supply and demand, when we say them, ordinarily imply equity and fair behavior on all parties. They normally do.

Americans are unique in not so thinking. We allow dumped steel, circumvented steel, through third or fourth country steel to come into this country in many, many forms, and thus undermine what would be called a sound economic principle, that is, a market system. That is a matter of law, the 1974 trade law. It is not a matter of sort of opinion, it is a matter of law. I just choose to make that distinction while honoring your answer to my very first question.

The CHAIRMAN. Thank you, Senator.

Senator ROCKEFELLER. Thank you, sir.

The CHAIRMAN. Senator Jeffords?

Senator JEFFORDS. Thank you, Mr. Chairman.

I would like to take a look at the area of where our public policy and business policy seems to be somewhat in conflict. First, the Nation has abysmally low savings rates. Life expectancies are increasing such that, through the middle of this century, it will be 84 for women and 80 for men. The national savings rate indicates that these people are likely to outlive their savings.

Second, the early retirement policies of corporations encourage workers to leave their jobs earlier, and the decline in defined benefit retirement plan coverage means there are fewer guaranteed benefits retirees can rely upon, in part because defined contribution plans have the problem of market risk. In addition, employer-sponsored retiree health coverage is declining for early retirees age 54-64. Indeed, the GAO has found that a steady decline in coverage could reach a crisis situation down the road when current workers retire.

Third, our public policy provides Medicare benefits starting at age 65, and the Social Security eligibility age will be increasing from age 65 to 67 in the future. Thus, we are building a big gap between retirement age and our social programs, and therein lies the conflict.

I realize that this is a complex set of concerns, and I am not going to ask you what the answer is. But sitting on the two committees that deal with these issues, I find myself with some responsibility for trying to pull all the pieces together before things blow up. I would like to hear your comments on these concerns.

Mr. O'NEILL. I agree with you completely. I think we should put these issues together and we should look at them in their totality.

But it also causes me to say to you, one of the things that I find really appealing about the notion the President-elect has proposed with regard to creating individual ownership for accounts, is the notion that is associated with the magic of compounding, which is to say, over a lifetime of work, small sums can grow to very large sums.

Importantly, as distinguished from Social Security, one could look forward to the creation of a substantial nest egg that could be passed on. It need not be consumed as Social Security ends when you die. The idea of filling out retirement protection for human beings seems to me to be a really important thing, and it fits very nicely into the context of what you are saying.

Senator JEFFORDS. Thank you, Mr. Chairman.

Senator LOTT. Mr. Chairman?

The CHAIRMAN. Senator Lott.

Senator LOTT. I think Senator Thompson would allow me to just ask a couple of questions.

The CHAIRMAN. Sure.

Senator LOTT. I found this very interesting, and we are going to have to have a lot more discussions. But within the next few weeks or months, we are going to have to make a decision here on this committee, from the leadership of the committee on down the line, as to exactly how we are going to proceed with a tax cut proposal.

It will take a lot of forms. One, exactly how much is it going to be, then what would be the make-up? President-elect Bush has got some specific proposals. But events are beginning to affect that now. For the state of the economy, new suggestions are being raised. One of them, of course, is that some portions of it be retroactive.

One of the decisions we are going to have to make, is how much of this is going to be focused at trying to make the Tax Code fairer and how much of it is going to be focused on trying to help the economy and help the economy grow?

I mean, we can all come up with a long list of things we want to do to make the Tax Code fairer. We have been arguing or talking, I do not know, 10 years, about how we are going to do something about the marriage penalty. Last year we came close to it, but not quite any cigar. How you do that also affects who gets it and how much it costs, and whether it is phased in, how fast it is phased in. Of course, the death tax. We have talked a lot about that.

We probably could have gotten both of those done last year if the circumstances had been a little different politically. Then there is a long list of other things, health care tax credits, the Coverdell savings accounts for education.

I like that, because you get triple benefits there. You encourage people to save a little bit more, it helps the family, and it also helps with the education of America and we get the benefit from the education. That is all well and good, but in terms of helping the economy grow, that is of dubious value, I would presume.

Then the other question is, what do we do that has a positive economic impact? Obviously, most economists—and I presume you—would say that you do that better with across-the-board rate cuts.

Mr. O'NEILL. Right.

Senator LOTT. So I would have two questions. One, in terms of trying to focus the benefits, what is the most important thing that we do?

Second, while you are at that, I raised the other day, and others have raised, a suggestion that if we really want to have an impact on the economy, some reduction of the capital gains rate would be helpful. It helped in the Kennedy Administration, the Reagan years, and even when we did it in 1997. Would you focus on that part of this equation: what is the best thing we can do that would have the most possible benefit for the economy?

Mr. O'NEILL. I think, far and away, the marginal rate reductions are the cleanest and simplest instrument that we have available to have an impact quickly.

As I said, and perhaps you were out of the room when I was talking to Senator Lincoln, I would not make a huge case that this is the instrument to ensure that we do not go into a recession. But it is an added instrument that I think we would be well-advised to employ because there is room for it. If we are going to do rate reductions anyway, in a way, the sooner, the better.

Now, in saying that I also want to say that the President-elect has not yet made a decision about what he is going to recommend about starting date. But if you look at what he has said over the last couple of years, the marginal rate reductions were early on in his idea of what we should begin doing, and the so-called death taxes, the marriage penalty, and the child credit were phased in over time. It seems to me the logic of that still holds.

Senator LOTT. You want to talk about capital gains?

Mr. O'NEILL. Capital gains taxes. I guess I would say, anything that reduces the effective tax rate when it is all rolled together reduces the cost of capital over time. So, I would expect capital gains rate tax reductions to have a useful effect in the context of decisions that are made in companies like mine, but it would be over time.

Senator LOTT. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Thompson?

Senator THOMPSON. Thank you, Mr. Chairman.

Mr. O'Neill, following up on Senator Breaux's questions about monetary policy and fiscal policy, it seems to me like there is an important distinction there and that monetary policy has to do with something that we have very little control over. Fiscal policy has to do with something that we have a great deal of control over, number one. Monetary policy has to do with reacting, usually. The policy can change in ways that we cannot predict.

With regard to fiscal policy, I wonder sometimes whether or not we, in our conversations that we are having now, are paying too much attention to the reactive aspect of it. We are talking about it almost totally in terms now of a downturn in the economy and, therefore, we need a tax cut. I think that is a valid observation.

But when considering our fiscal policy, how much should we be trying to affect current circumstances versus just sound, long-term fiscal policy in terms of making our Nation stronger, making our economy stronger over the next decade? It looks to me like that is the real case for tax cuts.

I would be interested in your thoughts about that. I would also be interested in your thoughts about the significance of tax policy in terms of that because, as we know, regulatory policy enters into that equation, trade policy all enters into that equation.

So the second part of that would be importance of tax policy as opposed to these other important policies in looking long-term.

Mr. O'NEILL. Thank you very much for your question. Again, this reflects forty years' worth of being in the system and receiving the decisions of the system. As a matter of policy and as a matter of

principle, I believe that our tax system should be structured so that, at growth rates of, say, zero or 1 percent, we are in balance.

That is to say that the tax system produces enough revenue under conditions of low or no growth that we are not borrowing from our children, that we are paying on a current basis for the things we have said are the appropriate object of public spending.

What that means, in logic, is that when we are experiencing growth rates that we want, more than 2 percent, more than 3 percent, that we will, in effect, have more revenue than we have agreed public purposes for spending.

Then I would argue that it would be a pretty intelligent thing to do, to say to people in our society, when our economy is running well at, say, 2.5 or 3.5 percent real growth and the revenue system produces more than we need for agreed public spending, we ought to send back the marginal amount to the people who sent it in.

Doing that would create a constituency against decisions to add more targeted tax reductions or to add more spending, because the citizens out there would have a basis for saying, if they do not spend everything we sent in we are going to get it back, which I think would be a desirable involvement of the polity in the decisions that we make.

Then I would say, other uses besides sending it back to the people who sent it in when we are running at good growth rates is to deal with issues like Social Security, prescription drugs for Medicare, and other emerging agreed purposes of shared public spending. But, under ideal conditions, we should be in balance when the economy is not doing very well.

Senator THOMPSON. We hear a lot of talk about our savings rate, our private savings rate or lack thereof. I do not know if we are in a negative state now or what, but close to it. I know in times past we had the lowest personal savings rate, certainly among our competitors worldwide.

What is the significance of that; does that really matter that much, in your opinion?

Mr. O'NEILL. I grew up, like most of you did, with the benefits of the invention of Simon Kusnitz and his associates in the late 1930's and early 1940's, which is when we created the national income accounts.

As a consequence of creating the ideas of the national income accounts, we got people started worrying about what I would call third derivatives of national income accounts, which means there are people who are really alarmed out there in society about current account deficits. The current account deficit is really a function of the fact that people in other countries are sending their money here.

Now, as a capitalist, I must say to you I am really glad they are sending their money here, because it is a signal that they think this is a place of political stability, where money is going to be treated well, and the possibility of achieving the highest rate of real return is in the United States.

I think we should love that. This is a marker from the world that is translated every day with people sitting in front of green, flickering screens and deciding where the money is going to go.

Senator THOMPSON. As long as they do not decide to stop.

Mr. O'NEILL. All right. And why would they decide to stop it? Because we show a lack of stability, because we show we cannot manage fiscal affairs, inflation is getting out of control.

As long as we do a great job down on the ground of increasing relentlessly our productivity rate, leading the world in productivity growth and providing goods and services that people want, the money will keep coming. It is the way capitalism is supposed to work.

So, no, I am not alarmed. Hundreds of millions of individuals in the United States are deciding every day to buy or save. What we have got, is a composite decision, and it seems to me, that is the way markets are supposed to work. Individuals can make their own decisions. I think we just need to be careful at the Federal level that we do not create destabilization with the best of intentions.

There was a recent piece of work done by Alan Sinai. It is a study about that thick that I read the other night, and believe me, it was not quite as good as some other things I have read for entertainment, because it is all econometric tables.

But it is an examination of what would have happened to our economy if we had decided as a deliberate matter of policy that we were going to reduce the current account deficit. Every econometric trial that they did to show what would happen if we deliberately reduced our current account deficit resulted in lower real growth in the United States.

Senator THOMPSON. Japan has a rather high rate and it is not doing them much good today, is it?

Mr. O'NEILL. I look at that and say, why would we deliberately reduce our real growth rate in the United States out of some slavish interpretation that the current account deficit is a bad thing? I do not think that is an intelligent policy.

Senator THOMPSON. Thank you very much.

The CHAIRMAN. Thank you, Senator.

On that point, I think, though, it is a little, not bothersome, but one should note the rising trend in our current account deficit.

Mr. O'NEILL. Sure.

The CHAIRMAN. I am not saying it is like a Japanese bubble or a stock market bubble, but the more this continues, I have a hunch that something is going to happen and it is not going to be good. That is, it is a trend, whether it is a soft landing change, or what-not.

But at some point, all that borrowing is going to add up just to a heavy load, a heavy burden on this country, and it seems to me that is something we have to be very cognizant of.

Now, having said that, it does not answer how we deal with it. One way, I think, to deal with it is to be a lot more aggressive in our trade laws. We do not wear a white hat. We are not Simon Pure when it comes to trade, and other countries are not Darth Vaders and only wear black hats, but I think it is clear that the shade of gray of our hats is still a lot lighter than the shade of gray of theirs.

There is a lot we can do to have a stronger economic policy to make sure we can export products, or the manufactured products,

or whatnot, or agricultural products, or services overseas and knock down a lot of these trade barriers.

Let me give you an example in agriculture. I think 85 percent of the agricultural export subsidies are EU. We Americans only have about 4, 5, 6 percent, something like that. Even though agriculture is a surplus in trade, it could be a lot greater surplus if some of these trade barriers were knocked down.

I mention that because, as you well know, there is some talk during the selection of the USTR that the position of USTR be downgraded. I was very glad to see the President-elect finally say, after a lot of talk around town, at least in trade circles—well, first of all, he is going to appoint Bob Zoellick, a very good appointment. Second, the status will not be downgraded, and will still retain the cabinet position.

But the mere mention or the signals in the transition office from somebody around the President-elect of that possibility sent signals that trade might not be as important as it has been in the current administration, or as important as I think it should be. It sends a very negative signal to countries around the world; hey, we could handle those Americans. All we have to do is just be tough, stiff-arm them, and we can keep them away.

I mention that also because trade has often been the handmaiden of foreign policy in this country. USTR has done a great job—Carla Hills, under previous administrations, et cetera—but the office is often trumped by the State Department, by Treasury, by the Defense Department.

Now, you have a great, strong history in manufacturing and know the value of trade. I wonder if you could just tell us a little bit about how you see the role of Treasury in trade, or how strong U.S. trade policy should be, given the burgeoning trade deficit, the potential downgrade of USTR, the steel industry.

What are your thoughts, please?

Mr. O'NEILL. All right. Those of you who know Bob Zoellick will appreciate my comment that trade has for sure has not been downgraded. Bob Zoellick will take care of representing the importance of trade in this administration.

I am a free trader. Ten years ago, I testified before this committee about a concept that I believe in, which is what I called zero-for-zero, which means in an ideal world the United States has no trade and tariff barriers and no one in the world has trade and tariff barriers.

It seems to me so obvious that we are sufficiently good and should hold ourselves to a high enough standard that we should not fear absolute free trade. I know that is a problem for some of you because of the circumstances that are represented in industries that are in your constituencies. But in the right kind of world, in the world that we should dream of, we should be thinking free trade, absolute free trade without trade and tariff barriers, anywhere.

I do not think you need to be concerned about this administration's devotion to the idea of free trade. I think, also, I know there is not fair trade in some places and you should expect that there will be vigorous enforcement of trade laws where there are viola-

tions and people are dumping them and doing things that are of economic disadvantage to us.

I wonder if I may return for a moment to the conversation about the current account deficit and to create this picture in your mind. If you can imagine applying the current account deficit idea to the 50 States, you would find lots of imbalances, and they are long-standing imbalances.

As you think about that, you can imagine, why in the world would you go do something between the 50 States to change the trade balances that exist between our 50 States? You would not.

I believe, in the world that we live in now, it is not perfect, at least the world I have worked in in 36 countries for the last 13 years, and 23 counting International Paper, these concepts of economic nationalism are not the real world anymore for those of us who live in the world, who are not anchored to the ground here.

I do not want to ship aluminum for some applications from here to Hungary, because I can make it in Hungary. We are privileged to have U.S. capital that is—I want to say this carefully—an important force in Europe with ownership of positions in Spain, Italy, and Hungary.

And recognize, now, we have the largest company. If you add up all of Europe, we are the largest company in Europe. We are the largest company in America. Our ambition is to be, not out of a sense of dominance or monopoly, but to be so good at what we do that we are the best everywhere, and we own it everywhere.

If you think about where this world is going 100 years from now, America needs to be represented everywhere, not as a nationalistic force but as an exporter of a value system that lets people all over the world live at the standard of living that we have achieved, and beyond. The way to do that is to export our values and use our capital to help other people develop.

As we do that, we should know that people will be producing goods and services. The magic of the economic system will help to raise everybody's standard of living.

I guess what I'm saying to you is, I do not believe that the world is a zero-sum game, and that for us to do well others need to do badly. I just do not believe it. I demonstrated, I think, with what I have been doing for the last 23 years, that doing good creates great wealth and economic benefit to the whole world.

The CHAIRMAN. Well, I appreciate that. I do not think anybody here thinks it is a zero-sum game. Clearly, it is not. I understand, with the forces of globalization, some questions of nationalism arise. That is, what is the role of economic nationalism?

But we have to remember that we are still Americans, first, and we are here to represent American people. I mean, I am elected or un-elected by Americans, Montanans, as is everybody else up here on the dais, as is the President by the country.

So I just urge us, as we are looking at global questions like this and recognizing the value of globalism and that capital travels at the speed of light and irrespective of national boundaries and seeks the greatest rate of return, you have to remember, we are Americans. There is a backlash against globalization in this country, a big backlash, among the people who feel they are not part of the deal. Companies are, but a lot of the people feel they are not.

So, as Treasury Secretary, I urge you very strongly, when we are talking about all this big, high-falutin' economic stuff, is to remember that all this really comes down to the basics. The basics are, more American people get more jobs and more high-paying jobs while we are trying to solve these problems. I know you believe that.

Mr. O'NEILL. I do.

The CHAIRMAN. But I think it is as important to remember it.

Senator Kerry?

Senator KERRY. Thank you, Mr. Chairman.

I was interested in your answer to Chairman Baucus a moment ago about not wanting to change any of the relationships between the States with respect to trade. Obviously, that is more than true.

But I think it is also worth pointing out that it took us quite a few years in this country to get to the point where we did not have to.

I mean, we have got a lot of roads connecting Connecticut and Massachusetts still called toll roads, and there is a reason they were toll roads. We had different currencies between the States. We actually had tariffs. Then we sort of worked through all that.

But it took the Supreme Court of the United States, one currency, and an arbiter, the interpretation of the Commerce clause, and a whole lot of other things to get us there. That is obviously where we are with the WTO today and sort of struggling to set the rules of the road.

But, for a lot of industries, as you well know, and for a lot of entities, those rules are not clear. A lot of countries still do not practice the same openness or the approach that we do.

So half of the battle has been breaking down those barriers, and that will be a remaining significant challenge, I think, for you to help us create the broad-based acceptance internationally that allows us to get to that ultimate point of acceptability.

I say that because I think one of the tensions increasingly is going to be, we talk about the export of our values and economic nationalism. I have attended, I think, gosh, about 10 years, the World Economic Forum, and I will be going over again in the next few days.

I find that one of the best places to get a quick take, one-stop shopping, if you will, on what is happening with industrialized countries, developed countries, developing countries, less-developed countries.

An awful lot of the leaders that I talk to in those places are finding their leadership challenged by some of the cultural invasion that comes with this global world. The export of our values may be terrific for us, but it ain't so great for some of them in some ways. It presents each of those countries with their own set of challenges.

The reason I have not been here for this whole hearing, Mr. O'Neill, is that we are upstairs with Colin Powell in the Foreign Relations Committee talking about some of these impacts and the way it will affect our policy.

So I would like to just sort of touch on a couple of those things, if I may, and get your sense of where we are heading. Obviously, the departing administration intervened in Mexico, against the desires of everybody in this institution—most people, but no every-

body—and they did so at risk. They bailed out Mexico with an enormous loan, and it has been providential. It has been repaid, and it has been critical, I think, to stability in this hemisphere.

We have just now seen a major loan to Argentina. There may be increasing lack of stability in Latin America. Asia has recovered to some degree, but there are still signs of weakness. All of this is critical to our economy, too.

So would you share with the committee, perhaps, how you anticipate weighing in on and how you view our responsibility with respect to this global society we live in, and particularly with respect to the potential of intervention and the world financial institutions and the role you might play with those.

Mr. O'NEILL. All right. I am glad you cite the Mexican experience, because I think there is an important lesson to be learned. It does seem very, very clear that Secretary Rubin was right, in retrospect. Yet, he had to go to extraordinary lengths. As I recall, he used the Exchange Stabilization Fund, and there were some legal questions about whether he really had the power to do that.

I hope, when my Mexico occurs, you will give me enough free board to do the thing that seems necessary to do. I think if you had prevented Secretary Rubin from doing it, the consequences could have been really quite serious.

So, believe me, to go back to the more basic part of your question, when a Mexico occurs, or an Indonesia, or even an Argentina, I think we should take that as a failure of our system, because these things do not truly happen overnight. They are a consequence of a build-up of circumstances, and when we read about it in the media, it has been happening for a long period of time.

So my notion—I may have to eat these words—of what we at the Treasury should do, is to work hard to perfect the sensing mechanisms that we have and to raise the alarm before we have a crisis condition.

Stopping a crisis from spreading is a lot harder, in my judgment, than getting at a problem and causing some change to be made before it turns into a crisis that has the danger of infection for the world financial system.

It is my hope that we do not have triggers that get us into these kinds of problems. We may have some down the road, but again, in an ideal sense, our information systems, I think, should be good enough that we can see it coming and intervene without a crisis having to unfold.

Again, this is going to take wilful cooperation on the part of those in the executive and the Congress, because it may mean taking some action that is not apparent to everyone needs to be taken.

Senator KERRY. So you would envision, to some degree, a proactive role with respect to that.

Mr. O'NEILL. Absolutely.

Senator KERRY. In keeping with that view of things, I have admired your leadership with respect to the global warming issue as a corporate chieftain. I think you have exhibited, through your company, significant—oh, is my time up? I apologize. I am sorry. I did not realize. Thank you.

The CHAIRMAN. Senator Gramm?

Senator GRAMM. Thank you, Mr. Chairman.

Let me say, Paul, that I was chairing a hearing at the Banking Committee. We are in the process of holding hearings for the new HUD Secretary, so I have been forced to run back and forth.

Let me just raise a couple of issues. First of all, our new President ran on a campaign platform of cutting taxes, really three major changes: reducing marginal rates, repealing the marriage penalty, and repealing the death tax.

Since he was elected, it seems to me that you could make a strong argument the economy is weaker today than it was on election day. The Congressional Budget Office will be out in a couple of weeks with its new revenue estimate, and it is clear, they have already announced, in essence, that the surplus, even with the slower economy, will be over a half a trillion dollars bigger than the OMB estimate.

Finally, now that we are beginning to total up spending for last year, it is clear that, despite all of the talk about paying down the debt, if you take the spending growth of the last 3 years and project it into the future, we have more than spent the Bush tax cut on new government programs. There is every reason to believe that if we do not give some of this money back to the taxpayers, that we will end up spending it.

So as I look at these three changes, it seems to me that the argument for the Bush tax cut is stronger than it was on election day and that, in fact, speeding up the tax cut which would cost more money during the 10-year period but have no impact on the long-term effect of the tax cut in terms of the fiscal policy of the country, that a strong argument could be made for doing that.

I would like to get your response to that.

Mr. O'NEILL. I agree with you. I think you have said it well and correctly. The President-elect, as I said earlier, has not yet made a decision about implementation dates, but I expect that we are going to be able to present something to you within six weeks or so, converting the proposals that he made during the campaign into a legislative proposal so that we can deal with it quickly.

Senator GRAMM. Well, let me say that I think looking at speeding up some parts of it is a good idea. Let me make it clear that I do not buy into the idea that you have got to put money in people's hands for it to have an economic impact.

One of the driving forces behind consumer spending in the last five or 6 years has been the run-up in equity values, where people have looked at their IRAs, their 401(k)s, their various retirement programs and basically concluded that they were potentially much wealthier than they expected to be, and as a result the savings rate has been minus 2 percent, on average, for the last three years, living proof that if people know something is different they'll respond to it whether they have the money in hand or not.

So if we are going to eliminate the marriage penalty, the death tax, and reduce everybody's rate whether or not it gives them more money in their pockets today, we have living proof from this wealth effect that they will respond.

I want to say something and pose a question about economic nationalism. I would say the role of economic nationalism is creating poverty, misery, and death in the world. Few concepts have been more abused in the economic history of mankind than economic na-

tionalism. But it is incredible to me that there are still people who believe that, for example, if Japan is richer, we are poorer, that somehow developing eastern Europe threatens us.

My conception of the world is that having poor neighbors lowers your property values. [Laughter.] I want rich people living next to me. It seems to me that whatever we do to create world wealth ultimately accrues to our benefit as the greatest trading Nation in the history of the world.

I would like to just get your response to the following point. One of the problems the Clinton Administration had was that on the big, national issues on trade they were good, on all the little issues, they were bad. So they were protecting avocados while they were claiming that they wanted trade. They put us in a position of being hypocrites constantly.

I just want to pose the following question. Does it seem to you, given that we are the world's largest exporter and the world's largest importer by a big margin, does it seem to you that we could gain more if we stop cheating and demand that others open up their trade than we gain from the benefit to one particular part of our economy by violating the very rules we preach?

Mr. O'NEILL. Conceptually, I am with you. I think in some ways we have not closed the circle because, even though long ago we developed and implemented the idea of trade adjustment assistance, I think if one looks at the profound effects that some decisions can have on individuals or local communities, we have not been willing to face up to a societal responsibility to deal with a change in policy. Conceptually, I am exactly with you.

I would get rid of all trade and tariff barriers, and then I would assign to the society—which means all of us as we collect money to do public purposes—and would buy out the interests that are affected by a change in trade policy.

I personally believe that it would greatly strengthen our hand in the world to be able to say you cannot find the deviation from what we believe to be the right policy that will permit people in every place in the world to advance their standard of living. I think what we do weakens our negotiating stance.

Senator GRAMM. Well, Mr. Chairman, let me conclude by just simply saying that I think the good news that I observe in looking at the country that we are privileged to live in, is that many of the areas which have lost industry as a result of trade have become far more prosperous as a result of trade than they ever were, whether you are talking about New England which lost textiles to the South, or the South which lost textiles to Asia, to Korea, and Korea, which lost textiles to Indonesia and China. I mean, the whole history of the world is the history of high-wage areas losing the textile industry.

But the good news is, if you look at South Carolina, South Carolina has become a beacon for foreign investment. Jobs at the BMW plant are better than the jobs that were lost in textiles ever were. So I agree with you that we want to try to cushion the impact of foreign trade and the negative side that it does have. There are clearly winners and losers, no question about it.

But I think the good news, at least in terms of casual empiricism, is that areas that were "blighted" by losing a particular in-

dustry have often been the very areas that have developed new industry from international trade and investment that far exceeds what the old industry produced in terms of happiness, wages, prosperity, and fulfillment.

So, I commend you, Paul, and I look forward to supporting your nomination and working with you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Mr. O'NEILL. Thank you.

The CHAIRMAN. Senator Snowe?

Senator SNOWE. Thank you, Mr. Chairman.

Just a couple of additional questions, Mr. O'Neill, getting back to the impact of interest rates cuts and the timing of a tax cut.

What is the risk inherent in a wait-and-see attitude on our part, or if there is a delay in implementing a tax cut if we were just to determine, anticipating a further rate reduction, what impact that would have on the economy?

Particularly, I ask that question because, obviously, we are in a global economy. I was reading an article the other day that suggested that Singapore, for example, is predicating their economic growth on our economic growth. I guess that is not a surprise, but the global economy is intertwined ever more so because of what we have been able to do.

So what would be the risk inherent if we were to wait and see on what the true effect would be of an interest rate cut or a further reduction in addition to the one that occurred in December?

Also, I should add to that the fact that we have failed to predict the last nine recessions, so obviously the forecasting of a recession is very difficult. So what are the risks involved if we fail to take action or reach an agreement in a timely fashion?

Mr. O'NEILL. I am thinking about how one quantifies the risk. I would maybe start with your observation about Singapore. Singapore is not the only place in the world that uses the U.S. and the U.S. rate of real growth as a basis for thinking about their own policy.

More and more, the world is connected and governments everywhere are making decisions about what their rate of growth will be as a derivative of what we are doing in the United States, and what is happening in Western Europe and Japan.

So I think, to the degree that there is a lingering uncertainty about whether this is an inventory correction or the possible unfolding of a recession, it will cause caution and people will have a tendency to wait and see. Again, I am really mindful of the fact that monetary policy and interest rates are Alan's province, and I dare not tread there.

But I think, on a fiscal policy side, that you and your colleagues have responsibility for what I said earlier I would stand by. It is not that I think fiscal policy or rate reductions are the be all and end all, but if we are going to do it, it is not clear to me why one would wait 6 months or 12 months while we go about our normal deliberations if there is even a suggestion that some rate reduction would be beneficial to assuring that this is only an inventory correction and we are sailing back into a 3 to 3.5 percent real growth

fairly soon, because it is so fundamentally important to everything else.

Senator SNOWE. One other question. On this new economy, is there anything we should be looking at differently or regarding in terms of indicators? I know Senator Gramm mentioned the wealth effect. Obviously more households than ever have investments in the stock market, so we know that that has made a difference, but also, with the information technology.

So should we consider the new economy consistent with the traditional business cycles or is there something else we should be looking at with respect to the economy in that regard?

Mr. O'NEILL. Oh, boy. That opens up a torrent of ideas. First of all, I find it strange to say we have an old economy and a new economy, and I will illustrate that for you.

Do you know who closes their books faster than any other company in the country? Alcoa. Motorola closes three or 4 days after we do, and there are other people stretched out. Today is the 17th, and General Electric announced their earnings today; Intel announced theirs yesterday.

Do you know how we close the books in two and a half days and we are working on what we call a virtual close? We have a worldwide information system that connects 270 locations. In order to do this really fast we had to simplify the systems and make them human-friendly so that people did not have to do what we call re-work. If you go look at why it takes people so long to close their books, it is because the systems were not designed for human beings, they were designed to torture intelligent human beings, and then they do re-work, and re-work, and re-work.

There are a couple of things really important about this. The people who have to do the re-work resent it. It is an affront to their right to make a contribution and have meaning in their life, and the systems take it away from them because that is the way it is in most places.

So it is important from a human point of view. It reduces the amount of time that people spend doing this chore by a huge amount, from 10, 11, or 12 days to 2 days, so that they are free to use their intelligence for something that improves profitability.

So when I see this distinction about new economy and old economy, I say I do not really know what this is all about, except for one thing. Those who, when they say new economy, think about the bubbles of billions of dollars' worth of market capitalization that disappeared, I do not know why anybody is confused about that. That is because there is not a new economy. The standards of people who have capital, the requirement to have their capital service, never changed.

What we have seen happen is they called in their chips. When they did, it still turned out to be true that it is not all right to have revenue without knowing when you are ever going to have profitability, because eventually the people who supplied the capital say, wait a minute, I could do better in a bank. This is all a fiction. You see share prices go down from \$165—I have a company in mind—to \$2. Two dollars is probably over-valued. [Laughter.]

I have watched with amusement. Maybe I am getting too old. I watch with amusement all of this hot talk, the magazines are full

of all of this stuff. If you believe it, you have not been around long enough.

Senator SNOWE. Thank you.

The CHAIRMAN. Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman.

Mr. O'Neill, I just have three, what I hope will be brief, questions.

In the last question I presented we got into the corporate tax, which I did not intend to do, but I just wanted to make sure that I was reading correctly what your response was. That would be that we should make the corrections to the economy with the difficult-to-change fiscal policy and not wait and see. As Senator Snowe asked that question, you pretty much confirmed that.

But what I would ask you, is there a risk on the flip side of that? Is there a risk in those tax cuts preventing an over-stimulation?

Mr. O'NEILL. I cannot imagine that in the current context, if it is done quickly. The amounts of money in a \$10 trillion economy that might be put into the front end are relatively small. Again, I would represent this to you as a belts and suspenders approach.

Senator LINCOLN. Right.

Mr. O'NEILL. It is not something that, by itself, will make a huge difference. It could make a contributing difference.

Senator LINCOLN. It is an awfully large amount when you look at the amount of debt that we are servicing.

Mr. O'NEILL. Well, that is, again, because we are multiplying it times 10 and we are including in it things that will not take effect for 5 or 6 years.

Senator LINCOLN. You mentioned, and I agree with Chairman Baucus, that it is not a zero-sum game. You looked at international versus our interstate trade. There is a sizeable difference. We do have a central bank, we have a common currency, we have a common government, so it is not exactly parallel.

I would just ask, in terms of those trade issues, representing a State where well over 25 percent of our economy is based in agriculture, do you see in those trade perspectives any one area of trade that may need some different considerations or dealings when you are talking internationally? We tend to be the ping-pong ball, lots of times, in policy in terms of agriculture.

Mr. O'NEILL. Yes, I think you are right. It does bother me, as was suggested by Senator Gramm, that our house is not as clean as it might be, because I do think it weakens our position in dealing with other trading partners.

The parts of the economy that I think I know something about, and I know a little bit about agriculture, I think as I go around the world and look at what other people do, we really do have a great standing.

A year or so ago I had an opportunity to go out at harvesting time and ride on a combine out in Iowa with one of my wife's relatives and see how information technology is being deployed.

As the harvest is being done, it is sensing what the moisture content is, putting it into the computer, and assessing how much fertilizer needs to be put down on the next pass. It is just astounding, what is going on. So I believe, from what I have seen in agriculture, that we are the world beacon of excellence.

Senator LINCOLN. But it costs to be that beacon.

Mr. O'NEILL. Well, not in the sense that it matters in the marketplace. The fact that we are a beacon comes from our being the most productive and increasing our productivity at a faster rate than other places.

I mean, if you go out and look in Siberia at how they are farming and how they are trying to feed their people, or go to Guinea in Northwest Africa and see how they have become an importing nation since colonialism stopped and the people are destitute beyond our belief, you have no doubt about our standing in the world in this important part of civilization.

I, frankly, do not think we have anything to fear from the rest of the world because of the momentum we have, and the experience and productivity we have in agriculture. We have nothing to fear at all, we only have opportunities in front of us.

Senator LINCOLN. I hope that is true. But when I look at 30 and 40 percent of our farmers going out of business in our State, it is sometimes really difficult to see that.

But just to get to my last question before my time is up. I know you are aware of the existing moratorium on the Internet access taxes that expires in October of 2001. I just wanted to see a few of your comments about, do you believe the incoming administration should encourage an extension of this moratorium?

Mr. O'NEILL. I think so, but I have not studied it carefully.

Senator LINCOLN. All right. Or should the legislation be used as an opportunity at some point to put Internet and local sellers of goods on a level playing field, help States enforce their current tax laws?

Mr. O'NEILL. I do not know enough about it to have an informed opinion yet, but I will for you.

Senator LINCOLN. All right. Great. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Kerry?

Senator KERRY. Mr. O'Neill, I happen to agree with Senator Gramm's judgment about the impact of transition in trade. I have voted for fast track, for NAFTA, for MFN, and so forth, but increasingly I find that some of the dislocation taking place may have certain kinds of longer term implications for us.

I wonder if there are any industries, any disciplines within manufacturing that you believe are essential to national security and might somehow be separated out and treated differently in any context?

Mr. O'NEILL. Clearly, there are some industries that are essential to national security, the leading-edge things that are being done in information technology, communications.

I was on the Eastman Kodak board, and the things that are being done with satellite imagery and things of that nature are important; it's important that we have a home capability to stay on the leading edge of technology and deploy technology.

Senator KERRY. Do you view any so-called low-tech enterprises that are the first to go as you go through this sort of pure market, transitional process, as something worth—I mean, Senator Rockefeller raised steel, for instance, as a concept.

Mr. O'NEILL. Indeed, I think there are some. I do not think they need Congressional action, they need leadership. Where we are going to win is on the ground with people who have skill in organizing complex systems, even in low-tech industries. By complex systems, I mean the human beings who bring capability to adjust and respond to outside influences, along with the appropriate level of technology. I really do believe our great strength and an essential thing we need to work on is constantly elevating the educational attainment of our population and better equipping it to go forward, because at the end of the day that is going to determine where the best living standard in the world exists, is what we have in people's brains.

Everybody can buy equipment. I can take you to the 36 countries where we are and show you the same piece of equipment, and actually equipment that was run by other companies before we bought it. The difference between their inability to service the cost of capital and to provide a decent level of living for their people is leadership.

Senator KERRY. Now, with respect to both leadership and the values that you talked about exporting, a significant component of the debate with respect to trade has been the unfairness of the playing field.

Many American workers are particularly sensitive to the lack of standards, work standards, children, and so forth, the level of pay, the lack of any kinds of requirements within manufacturing firms abroad for safety standards, work standards, and so forth, unlike the requirements here, obviously. Likewise, with respect to the environment, the lack of standards, so that they particularly feel an unfairness in the transition they are forced to endure.

It would seem to me—and this has always been a tension up here between sort of the pure free trader and those who want to try to find some sensitivity to those things—that part of the export of our values is to try to promote in some way adherence to the highest standards of engagement and capitalism.

There is a difference between robber baron capitalism and enlightened capitalism, and we obviously, in our value system, want to promote enlightened capitalism.

In that regard, are there any innovations, any feelings about how we can maintain our "purity" with respect to the trade effort, but eliminate the potential for global backlash such as we saw in Seattle and here in Washington, and this may grow elsewhere, particularly if there were an economic downturn globally, on those issues which I know concern you, both the labor and environment issues?

Do you see this administration trying to bridge that gap a little bit and find a way of formalizing, while not necessarily directly within WTO, some dual track that begins to export our values more effectively?

Mr. O'NEILL. I honestly do not know yet how, if in any way, we should be involved in projecting these values from a governmental point of view. But it really is very clear to me from my own experience now with Alcoa and with International Paper, but more particularly with Alcoa, that it is really important to take your values with you.

The standard we thought of, if I have a couple of minutes to tell you about this, is basically to say, we do not need a government to tell us what we should do. We can figure out, and we should personally be responsible for assuring that we are not doing damage to the environment and that we are not using equipment that we could not use, or would not in the United States.

If you go look at our places around the world, you could eat off the floor in all of them. You would find that the level of workplace safety is so good, that we are in a class by ourselves everywhere in the world—not just in Davenport, Iowa, but in every place we have in Spain, in every place we have in Brazil, in every place we have in Mexico. These places are world-class. It is not just Alcoa.

Again, Eastman Kodak. I was in Shao-Minh in China a couple of months ago. The plant they have in Shao-Minh in China is absolutely beautiful. They did not export a robber baron capitalism, they took the very best technology, they did a magnificent job of training the people, and they are making film for the Chinese market now. Lots of American companies have exported the values, environmental values, workplace safety values.

Now, one point about level of compensation. You cannot live far outside the level of compensation that is associated with the political leadership and the financial system that exists in the country.

That is to say, there is an imaginary line in the sand between the United States and Mexico. It is not a real line, it is just an imaginary line. The difference in the living standard on the two sides of that line is really quite amazing. Why is that?

The easy answer, or the true answer, is it is a function of an accumulation of political experience and system, or lack of political experience and system. There is nothing bad about the people, there is nothing wrong with the people. There is nothing about their inability to learn things. A general proposition: every place in the world, with the right kind of enablement, people can do what we do here.

The CHAIRMAN. Thank you.
Senator Grassley?

Senator GRASSLEY. Before I ask a question about Social Security and another one about international finance, he has already emphasized a point that I would like to follow-up on.

In his opening statement, he spoke about the work of this committee on trade. He and I will have a lot of work to do to get the legislation, at least the encompassing legislation that is needed, passed. He and I start out as free traders, so it might not be easy for us to do, but we are going to at least be working for the same goal.

In the meantime, I hope the administration will not wait for significant legislation to get passed. I would like to see the President of the United States, in the first couple of months or earlier in office, make a major speech on foreign trade, international trade, his attitude for it, which I think is very much like the work of this committee and the leadership of the United States for the last 50 years, that he would ask for a new round of WTO talks.

He can institute some negotiations, he just cannot conclude negotiations without legislation—some people would dispute that he cannot conclude it, but I think anything as major as a WTO is very

much more difficult than some bilateral things he could do without legislation—so that the world knows that the United States is ready to resume leadership under a new President on international trade, promoting it and accomplishing a great deal, specifically, about a WTO round at the next ministerial and his belief in the multilateral trade negotiating regime we have had since 1947.

Another thing that I think would be very beneficial for the President to do would be to personally appear at Quebec City at the Free Trade of the Americas meeting that is going to take place. To the extent to which you are advising the President on international trade issues beyond Mr. Zoellick doing it, because it is a multidiscipline sort of thing, it does not just affect one department, that you will encourage him to do that if you think it is a good idea. I hope you think it is a good idea. You do not have to respond whether or not you think it is a good idea.

On Social Security, President-elect Bush intends to convene a commission to examine Social Security reform. How would you interact with a commission as Secretary of Treasury, and what would your role be in improvement of Social Security?

A related question, but kind of a follow-on question as well. Some policymakers fear that modernizing Social Security by including personal accounts in which workers could invest a small portion of their contributions in stocks, bonds, money markets, something outside of Treasury bills, would inject too much risk into the retirement income safety net program. Do you have some concern about that, and how would you respond to that?

Mr. O'NEILL. I am the statutory chairman of the Social Security Trust Fund boards, which includes the Secretary of Labor and the Secretary of HHS. So, for sure I will have an opportunity to express a point of view about these things.

The President-elect has made it clear; he has laid down the principles that he thinks should govern our approach to securing Social Security.

I am quite certain that, as he appoints a commission, he will expect that they will bring back a solution that is framed within those principles, which basically say we will not reduce benefits to people that they are expecting, that we will take care of people with disabilities, that we will not raise the payroll taxes, and somehow we must fashion a solution that brings all of these things to reality, and at the same time, moves in the direction of creating asset holdings for people in a new, what I would call top-off retirement account for individuals. I know there has been enormous debate within the Congress about how one deals with these things.

My expectation is that this commission will not go on for too long, but will rather be paced to bring this issue before the Congress fairly soon, because there has been so much work done on these issues over the last 30 years. I think it is more a question of assorting and refining than it is looking for a new discovery.

Senator GRASSLEY. And on international finance, one of the problems that we have not dealt with very successfully on the international front is the use of subsidies by countries to underwrite expansion of industries, and steel would be probably an outstanding example, particularly in industries where there are already global excess capacities that distort markets.

So you are very much involved with the financial international institutions like the IMF and World Bank. How will you, as Secretary of the Treasury Department, ensure that these financial institutions do not further subsidize global excess capacity?

Mr. O'NEILL. I need to spend some time understanding where the levers are in these organizations. I know we are providing a substantial amount of the economic resources, but not enough to have a majority. My understanding is, these institutions are very sensitive to the opinions that they get from the U.S., and particularly from the Secretary of the Treasury.

I must tell you, even in my own personal experience, I have seen cases where they were proudly providing financing for capacity that was not needed in the world, but they were doing it because they had a narrow view of the world. They had a view that material produced in one country that needed economic development, somehow, their product was not going to end up in the world. It is just hard to understand how anyone could intentionally do this kind of thing.

But I think it is not an unusual example of mistakes made with the best of intentions without an understanding of the collateral consequences. It is not an unheard of story. Many of the things we have done in the last 30 or 40 years we have done with the very best of intentions and without understanding what the consequences were going to be, and we reaped the harvest.

I think this idea is true in what we have done in our international financial organizations and, where we do that kind of thing, we need to do it intentionally with an understanding of the consequences rather than accidentally and somehow let the system pick up the pieces from the consequences.

Senator GRASSLEY. I will ask my remaining questions in writing, and would appreciate your answers.

Mr. O'NEILL. Thank you.

[The questions and answers appear in the appendix.]

The CHAIRMAN. Thank you.

Mr. O'Neill, I would just like to explore a little bit more the rationale for a tax cut, how much. Generally, in the last 40 years, President Kennedy suggested reduction, reduce capital gains; President Reagan, tax cuts. But, otherwise, this Congress has never used taxes as fiscal policy to either stimulate or to retard the economy. It just has not. Tax legislation has been enacted for other purposes, to get people money, to try to accomplish certain social objectives, and so forth.

When one looks at the only real effort to stimulate the economy in modern times, that is, in the last 40 years, as the Reagan years, I am sure that the tax cut did stimulate the economy. We had some high interest rates we were facing at that time, and I am sure the tax reductions helped.

But, arguably, they went a little far because in subsequent years we had to raise taxes because we had these huge budget deficits in the 1980's, and they were huge, \$280 billion, close to \$300 billion annually, which accounts for the huge national debt that we are now facing.

So we really have two reasons for a tax cut: one is a fiscal stimulus reason, the other is to give money back to people or to accom-

plish other social objectives, that is, non-stimulus reasons. There really are only two basic reasons. We have only used the stimulus, in the last 40 years, once.

Now, if we use tax cuts as a stimulus, my guess is it will not go into effect, or at least legislation will not pass, until June, July, August of this year. I say that because we will probably go through this process, as you know, called reconciliation.

We have to wait for that process, and to get there we have to wait until the budget. We do not have to, but my guess is that by then President Bush will want to wait because there is more control over the process, which means it does not get signed into law until sometime later.

I am just wondering what the condition of this country will be in June, July, August, September, and how much of a stimulus really makes sense. I say that in conjunction with, I think, the very salutary efforts of Chairman Greenspan at the Federal Reserve.

As you know, the Federal Open Market Committee meets every six weeks to determine the Federal discount rate, or Fed funds rate, and they also have the authority in the interim to adjust rates if they so choose.

Right away, saying the Fed funds rate, that gives immediately stimulus to businessmen if the rates are cut, because capital is just a lot cheaper. You can invest more easily.

It is because of the frequency with which the Fed operates, and because it has a wealth of data. It is incredible, the data that the Federal Reserve system has, not only inflation rates, but it is just disaggregated down to all kinds of different sectors.

Arguably, they have got a better handle on the economy than anybody here in Congress, much more data, much more independent, theoretically able to do what is right, and looking at lots of factors that can go into what is the right thing to do.

So I am just curious, looking only at the reason of fiscal stimulus, in comparing the two, monetary versus fiscal, does it not make sense to kind of go a little light on tax cuts for the purposes of fiscal stimulus?

Now, we could also be a little heavier on tax cuts and put money back in people's pockets because we have more revenue than we need, consistent with meeting our budgetary goals and consistent with continuing to pay down the debt.

But just isolating tax cuts only from the point of view of fiscal policy, it just seems to me it might make a little more sense to lead a little more toward what Chairman Greenspan continues doing, what he has been doing so well, as he has a better handle on it, more closely than we have, than worrying about a tax cut which will not go into effect until quite a bit later.

Economic conditions could be different later; it is very hard to predict. The models are very, very difficult in trying to predict, what is the fiscal effect of individual income tax cuts? They are very, very squishy.

Mr. O'NEILL. I think it is a very good question, and I think you framed it very well.

When I think about the answer, I roll myself forward to August or September. Out there in August and September I can see two possibilities. One possibility, is we have gone through an inventory

correction and everything is great and we are back up to 3 or 3.5 percent annualized growth rates, and that is all fine, and we did not do anything about accelerating by giving people back some of their money.

The other alternative, is we get out there in August and September and we have not done anything, and what we have got is more than an inventory adjustment. Then we say to ourselves, well, we could not act in time.

Coming out of where I am coming from, I must tell you, it is really hard for me to accept what I know are probably imperatives about how this all works. But I have got to tell you, if I had a fire in one of my mills I would not say, well, we are going to deal with it when the shift comes in because they only work 9:00 to 5:00.

If you think there is any legitimacy to the idea that this could be more than an inventory correction, then I think it makes great good sense to think about acting outside of the normal process. I do not know why one would say we are a slave to the normal process and we just cannot do anything about it. I really do think the economy is slowing down.

The CHAIRMAN. That is my question. Do you think there is enough of a slow-down or enough of an emergency to act on it?

Mr. O'NEILL. I do not know yet. I would like to have more data.

The CHAIRMAN. To act outside of the normal process.

Mr. O'NEILL. I would like to have more data. I will tell you why I would like to have more data, because one thing is true, and I am sure you all know this. When things like this start to occur, people, as I say, take in each other's laundry. You go talk to somebody and it is like they are passing around the same story.

I am one who really likes facts and I would like to be more sure of the facts. But we are not going to get extra time and the luxury of waiting. Either we are going to do something fairly soon or we are going to take the consequences of not acting. I think those are the choices.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. If I had a chance to answer the Chairman's question, I would also——

The CHAIRMAN. You have a chance right now.

Senator GRASSLEY. I would also factor in that, considering lower interest rates' impact on the economy, we had much higher rates during the mid-1980's, and for a couple of years we had much more economic growth than we did during this period of low inflation rate. It was not quite as steady of growth as we had this decade, but we had much higher growth at higher interest rates, and much higher interest rates.

The second thing, is the prudence of the issue of tax cuts. It seems to me that it is necessary for Congress to build confidence and respect for our fiscal policy and tax policy, the same way Greenspan has built confidence in the economy, more so than specifically raising or lowering interest rates by one-quarter. I think the confidence that people have in him has more to do with economic growth than specifically what he does.

The prudence for some sort of change in taxes, outside of the fairness issue, is related to the fact that now recent estimates are bringing in more income than we have had before, so there is more

justification for letting the taxpayers spend their money, not just because we want to be good to the taxpayers but because their spending the money does more good and turns over many more times in the economy than if we make a political decision of how to divide up the goods and services. I think that is a prudent reason.

Another prudent reason for doing it is because we are an historical higher level of taxation, 20.6 percent of gross national product. Historically, we have been between 18.5 and 19 percent, and I think we would be better off if we had our taxation coming in at that level for the reason that there is a tolerance of people of taxation at that level, and there is also no harm to the economy since we have done so well at that level of taxation, whereas, we are inhibiting investment by Congress making a determination.

The last thing is related to the fact that economic stimulus is probably need, and with these other two factors being in place, even if it does not have the impact that we might intend, and he can legitimately ask a question about because there is nothing intellectually wrong with these questions, we have got it in place then because there are two other good reasons for doing it, so even if it does not work I do not see harm being done as a result of more economic freedom for our people.

Also, though, I think we saw, with the growth of domestic spending last time at 13.4 percent this year over last year, that when there is more money coming in then Congress is going to spend more, and you have a chance of building up your level of spending beyond the 18.5 to 19 percent of the income that normally comes in.

So I would like to keep it within that historical point, to make Congress responsible to build confidence in our system of taxation and fiscal policy of the Federal Government, so that we can help the economy somewhat the same way Greenspan has helped the economy, confidence building as opposed to just the statistical things we have done.

Mr. O'NEILL. I think your answer is much better than mine. Thank you.

Senator GRASSLEY. Well, I did not think it was better than yours. I guess, really what I want to do, is to give my colleagues some food for thought.

The CHAIRMAN. Good. Give it to me.

Senator SNOWE?

Senator SNOWE. I am done, Mr. Chairman.

Senator GRASSLEY. And I should have mentioned, too, for our side, that the reason Senator Hatch was not here, Mr. O'Neill, is because he is Ranking Republican on the Judiciary Committee in the very important Ashcroft hearings. I just came from there, because I was asking my questions on antitrust. He asked if I would be remembered to you, then tell his constituents why he is not at this hearing.

Mr. O'NEILL. Thank you.

The CHAIRMAN. Mr. O'Neill, I think it has been a good hearing and I very much appreciate your responses.

I would mention one point, though, not being partisan at all. It just seemed to me that this last administration, compared with

previous administrations, Republican or Democrat, was a little more honest with its data, with its figures.

When we looked at OMB data and projections, they were more honest, I thought, about the assumptions that they used, unemployment rates, inflation rates, GDP, et cetera, and I just very much appreciate it. I think I can speak for all members of this committee.

Senator GRASSLEY. I would support you in that.

The CHAIRMAN. I would just encourage you not to get political with the assumptions, but just be straight with the facts, as you mentioned, because we will go a lot farther if you do. Again, it is deeply appreciated.

Senator GRASSLEY. I would agree with him, but I would add that I am not sure it is a case of being honest or dishonest. It is a case that I think enough of us on the Budget Committee, over the last 20 years, have finally preached enough not to have the rosy projections that we had during the decades of the 1980's, and people have refined the process of making these.

For instance, we have projected growth for our current budget projections, CBO, administration, blue chip, assuming an economy slowing down from 5.2 percent in the year 2000 to 3 percent in the year 2001, and then CBO has done estimates based on a recession of average duration with real growth of only 1.3 percent in the year 2003. You would have never had those assumptions in the 1980's. We have those assumptions now, and it does bring the results he suggests.

Mr. O'NEILL. Right.

The CHAIRMAN. Thank you.

I might say for all members of the committee, those who wish to prepare more questions, written questions, I would like to have them in by the close of business today, and answers, if we could, Mr. O'Neill, by Friday.

Mr. O'NEILL. All right.

The CHAIRMAN. I look forward to a very good term serving with you.

Mr. O'NEILL. Thank you for such a gracious morning. I really appreciated what you all said and the questions you asked, and I look forward to working with you.

The CHAIRMAN. I appreciate that.

One question I did not ask, is why do you want this job? [Laughter.]

Mr. O'NEILL. Do not ask my wife. [Laughter.]

The CHAIRMAN. All right. The hearing is adjourned.

[Whereupon, at 12:47 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. ORRIN G. HATCH

Thank you, Mr. Chairman. I appreciate your scheduling today's hearing on the confirmation of Paul O'Neill as Treasury Secretary quickly so we can hopefully have the full Senate vote on Saturday. I believe it is critical that we have the Treasury Department up and running from the first week of the new Administration.

I applaud President-elect Bush's choice of Paul O'Neill as Treasury Secretary. Mr. O'Neill has a strong track record of high-level experience in both government service and in the private sector. He has worked in the highest levels of the White House, and he has done a remarkable job at the helm of two major corporations. Moreover, Paul has shown that he has what it takes to lead a major organization through a difficult transition to meet a changing environment. Perhaps most important, he knows the importance of surrounding himself with the best people, which is an attribute President-elect Bush is also demonstrating with his cabinet choices.

We need Paul O'Neill's kind of experience and leadership at the helm of Treasury. Our economy is strong, but there is little doubt that major challenges lie ahead. The Bush team will need a strong hand in pushing a major tax cut through Congress, in dealing with the other industrialized nations, and in helping to keep American businesses competitive in the face of ever-increasing globalization.

I look forward to the hearing and to a strong favorable vote in this committee for the nominee. Thank you, Mr. Chairman.

PREPARED STATEMENT OF PAUL H. O'NEILL

Chairman Baucus, Ranking Member Grassley, and members of the Committee on Finance, I am grateful for the opportunity to appear before you today in connection with my nomination to be the Secretary of the Treasury. I am honored that President-elect Bush has asked me to serve in this important position.

If I am confirmed, this will be my second tour of duty in the Federal Government. Nearly forty years ago, my wife and I came to Washington to begin my first government career as a management intern with the U.S. Veterans Administration. In that first trip, all of our belongings fit into a 4x6 U-haul trailer. In 1967, I moved to the Bureau of the Budget and spent ten years there, rising through the ranks to become the Deputy Director of the Office of Management and Budget in 1974.

With the change of administration in 1977, I entered the private sector, joining the International Paper Company in New York as Vice-President, Strategic Planning. Through a series of promotions, I became President of International Paper in 1985.

In 1987, I was asked to join Alcoa to assume the position of Chairman of the Board of Directors and Chief Executive Officer.

Over this forty-year period, I have had the extraordinary privilege of having the opportunity to make a difference. No work I have done was more difficult and demanding than the work I did when I worked in the Executive Office of the President. In fact, I have frequently said, "leading a Fortune 100 company is a walk in the park compared to the top jobs in government because the consequence of decisions in the government can be so much greater than those that impact even a large company."

On the other hand, no work has been more fulfilling than the work I have done over the last 23 years in the private sector because it has been possible to create

exceptional organizational performance based on a values calculus that begins with treating every person with dignity and respect.

I have decided to accept the challenge of public service again because I believe in the visions President-elect Bush has outlined for economic prosperity and security for our nation. I strongly support the tenets of his plan: tax cuts that tear down the barriers to the middle class, debt reduction, increased incentives for saving and investment, a secure Social Security system. Those are principles upon which I am certain we can agree. I look forward to working with you on turning these principles into legislative reality.

Many of my predecessors in their confirmation hearings have laid out their goals. Secretaries Robert Rubin and Larry Summers talked about maintaining fiscal discipline, promoting productivity, supporting international cooperation, ensuring the safety and soundness of our financial system and continuing Treasury's history of professional excellence. I share these goals, and pledge to you today that I will work to achieve them.

Thank you once again, Mr. Chairman, for bringing me before the committee. I welcome the chance to participate in this process, and I look forward to working closely with you and the members of the Committee in the coming months. I would be pleased to respond to questions.

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)
Paul Henry O'Neill
2. Position to which will be nominated:
Secretary of the Treasury
3. Date of announcement of intent to nominate:
December 20, 2000
4. Address: (List current residence, office, and mailing addresses.)
Residence: 3 Von Lent Place, Pittsburgh, PA 15232
Office: Alcoa Inc., 201 Isabella Street, Pittsburgh, PA 15212-5858
5. Date and place of birth:
December 4, 1935 – St. Louis, MO
6. Marital status: (include maiden name of wife or husband's name.)
Married to Nancy Jo Wolfe
7. Names and ages of children:
Patti Jo Wilcox – Age 44
Margaret Ann Tatro – Age 41
Julie O'Neill Kloo – Age 37
Paul H. O'Neill – Age 35
8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)
Indiana University (9/65-6/66) – M.P.A. (6/66)
The George Washington University (1962-65) Grad Studies
Claremont Graduate School (6/60-9/61) Grad. Studies in Economics
Fresno State College (9/57-9/60) – B.A. Economics (9/60)
Anchorage High School (9/52-6/54) – Diploma awarded (6/54)
9. Employment record: (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)
Alcoa Inc.
201 Isabella Street
Pittsburgh, PA 15212-5858
Chairman/Director 5/99-12/00

Chairman/CEO/Director 6/87-5/99

International Paper Company
2 Manhattanville Road
Purchase, NY 10577

President	1985-1987
Senior VP	1983-1985
Chief Financial Officer	1981-1983
VP and Senior VP-Planning	1977-1983

Office of Management and Budget
Washington, DC

Deputy Director	1974-1977
Staff	1967-1974

U.S. Veterans Admin.
Computer Systems Analyst 1961-1967

Morrison-Knudsen, Inc.
Anchorage, AK
Engineer 1955-1957

10. Government experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)

President Bush's Education Advisory Committee
Competitive Pittsburgh Task Force
Pittsburgh's Riverlife Task Force
Pennsylvania State Education Standards Commission
State Department's Overseas Presence Advisory Committee
Social Security Quadrennial Review Commission
Reagan Productivity Commission
U.S. General Accounting Office
U.S. Trade Representative's Investment Policy Advisory Committee
Advisory Council on Social Security
National Leadership Commission on Health Care
UNOPS Advisory Council (United Nations Office for Project Services)

11. Business relationships: (List all positions held [for the past 10 years] as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)

Allegheny Conference on Community Development - Former President/Board Member
American Enterprise Institute - Former Trustee
American Council for Capital Formation (Former Director)
American Red Cross (Former Member at Large to the Board)

Business Council – Former Member
 Business Roundtable (previous member of Policy Council)
 Carnegie Institute - Former Trustee
 Children's Hospital (Former Board Member)
 Ayco Foundation Board – Former Board Member
 California State University Foundation (Former Member of Regional Advisory Board)
 Committee for Economic Development - Former Trustee
 Commission on Presidential Debates – Former Director
 The Conference Board - Former Trustee
 Council for Excellence – Former Director
 Duke University's Institute for Policy Sciences and Public Affairs (formerly on the Board of Visitors)
 Education Policy and Issues Center (Epicenter) – Former Co-Chairman
 Gerald R. Ford Foundation – Former Director
 Harvard University (Formerly on JFK School Advisory Committee)
 Hofstra University (Former Trustee)
 H. John Heinz III Center for Science, Economics and the Environment – Former Trustee
 Joint Council on Economic Education (Former Trustee)
 Eastman Kodak Company – Former Director
 General Motors Corporation - Former Director
 GSCP Inv. LLC – Former Advisory Board Member
 Institute for International Economics – Former Director
 Hitachi Foundation - Formerly on Advisory Council
 Hospital Chaplaincy, Inc. - Formerly on Business Advisory Council
 International Primary Aluminium Institute - Formerly Chairman/Director
 Lucent Technologies – Former Director
 Management Executive Society – Former Member
 Manpower Demonstration Research Corporation – Former Director
 National Association of Securities Dealers, Inc. (NASD) – Former Member Board of Governors
 National Westminster Bank USA– Former Director
 National Westminster International Advisory Board - Former Member
 National Leadership Commission on Health Care (Formerly on Advisory Group)
 National Museum of American History – Smithsonian Institution – Former Capital Campaign Chairman
 National Quality Forum – Former Director
 Pittsburgh Regional Healthcare Initiative – Former Co-Chairman
 United Way of Allegheny County (Former Director)
 University of Pittsburgh (Former Special Trustee)
 University of Pittsburgh Graduate School of Public and Int'l Affairs (Former Trustee, Chairman of Board of Visitors)
 University of Rochester William E. Simon Graduate School of Business (Formerly part of Executive Advisory Board)
 University of Virginia Miller Center of Public Affairs (Former Member)
 Pittsburgh Baseball, Inc. - Former Director
 Public Oversight Board AICPA Subsidiary – Former Board Member
 RAND Corporation – Former Chairman Board of Trustees

12. Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)

American Academy of Arts and Sciences – Member
 Collective Bargaining Forum – Member
 National Academy of Social Insurance – Founding Member
 National Commission on the Public Service – Member
 National Academy of Public Administration – Member
 Pittsburgh Golf Club - Member
 Duquesne Club - Member
 Rolling Rock Club - Member

13. Political affiliations and activities:

- a. List all public offices for which you have been a candidate.

None

- b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None

- c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 10 years.

The Alliance for American Leadership – \$5,000
 James Roddy, Allegheny County, PA County Executive - \$1,000
 Bush-Quayle '92 Primary Committee - \$1,000

14. Honors and Awards: (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognitions for outstanding service or achievement.)

Honorary Doctor of Science Degree – Clarkson University – 1993
 Honorary Doctor of Public Service Degree – Edinboro University - 1997
 Honorary Doctor of Public Service Degree – California University – 1998
 Honorary Doctor of Business Leadership, honoris causis, Palumbo School of Business Commencement – Duquesne University – 1999
 Honorary Doctor of Humane Letters (L.H.D.) – California State University – 1999
 Historical Society of Western Pennsylvania – PHO honored
 National Institute of Public Affairs Career Education Award – 1965
 William A. Jump Meritorious Award – 1971
 Indiana University Alumni Award
 Private Sector Council 1991 Leadership Award

15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)
 “Establishing a Culture of Excellence”, recommendations of the Competitive

Pittsburgh Task Force Report (10/96) (Chairman of Task Force) –
(Publisher – City of Pittsburgh)
Carnegie Report on Presidential Transitions (Publisher – Carnegie, date
unavailable))
State Department's Overseas Presence Advisory Panel Report (Publisher – State
Department, date unavailable)
Book, The Global Marketplace, "Quality and Efficiency – The Keys to the Global
Market – 1989 (Publisher – Work in America Institute, Inc.)

16. Speeches: (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)

In my position as Chairman/CEO of Alcoa Inc., I have given numerous speeches over the years on many different subjects. On most of those occasions I have spoken without a prepared text. Of those speeches of which I do have a prepared text and are focused on subjects of relevance to the Committee, I have enclosed.

Aluminum Association Speech, "Critical Challenges in the New Millennium" - 1999
Science, Politics & Global Climate Change - 1998

17. Qualifications: (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

I have been the Chairman/CEO of Alcoa, a global corporation employing 143,000 employees in 36 countries for about 13 years. In that role and in my previous 10-year employment at International Paper where I served as President, and in several other positions, including Chief Financial Officer, I have had daily contact with world financial markets and transactions. In addition, my involvement with various boards, including boards of large financial institutions, has resulted in engagement with fiscal, monetary and financial issues in many countries. My ten years of experience at the Office of Management and Budget provided a direct engagement in the financial and programmatic affairs of the Federal Government.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, associations, or organizations if you are confirmed by the Senate? If not, provide details.

Yes – except as noted on Schedule C, Part II of the Office of Government Ethics form 278.

2. Do you have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, provide details.

No

3. Has any person or entity made a commitment or agreement to employ your services in any capacity after you leave government service? If so, provide details.

No

4. If you are confirmed by the Senate, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, explain.

Yes

C. POTENTIAL CONFLICTS OF INTEREST

1. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

None, we will divest our full interest in General Motors; Citigroup; the Merger Fund; The Granum Fund; GSCP Investments, LLC (Greenwich Street Partners, II) and Greenwich Street Employee Fund, LP (Greenwich Street Partners). I have no other conflicts of interest.

2. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None

3. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat, or modification of any legislation or affecting the administration and execution of law or public policy. Activities performed as an employee of the Federal government need not be listed.

I have testified before Congress and have also publicly advocated policy positions on a number of occasions.

4. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with **two** copies of any trust or other agreements.)

I do not foresee any potential conflict of interest. Should any potential conflict issue arise, I will consult promptly with the Treasury Ethics Officials.

5. **Two** copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been nominated and by the Office of Government Ethics concerning potential conflicts

of interest or any legal impediments to your serving in this position.

6. The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:

Have you ever represented, advised, or otherwise aided a foreign government or a foreign political organization with respect to any international trade matter? If so, provide the name of the foreign entity, a description of the work performed (including any work you supervised), the time frame of the work (e.g., March to December 1995), and the number of hours spent on the representation.

D. LEGAL AND OTHER MATTERS

1. Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

The publicly traded companies that I have been associated with either as an officer (Alcoa Inc.) or as a director (Alcoa Inc.; General Motors; Lucent Technologies; Eastman Kodak; NASD; National Westminster Bank USA) have been involved in various legal matters. If you need more information, please contact the company involved.

4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense? If so, provide details.

No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

None.

E. TESTIFYING BEFORE CONGRESS

1. If you are confirmed by the Senate, are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be, reasonably requested to do so?
Yes.

2. If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?

Yes.

RESPONSES TO QUESTIONS FROM CHAIRMAN BAUCUS

Health Question: Mr. O'Neill, I understand that during the 2000 campaign Candidate Bush proposed about \$10 billion per year in tax subsidies to reduce the number of uninsured, by providing a \$1000 per-individual and \$2000 per-family tax credit for health insurance. Taken over 10 years, that would amount to about \$100 billion of his proposed \$1.6 trillion tax cut, or just over 6% of the package.

A study released last year showed that a \$4000 per-family tax credit twice the size of the President-elect's proposal—would only reduce the uninsured by about 7 or 8 million people, leaving another 35 million or so uninsured. And Dr. Mark Pauly, an expert in this field, said last week that the Bush proposal would need to cover at least 50% of the cost of a basic policy to make a significant dent in the number of uninsured.

Mr. O'Neill, given the data we have on tax credits as a means for reducing the number of uninsured, I am concerned that they may not be the single most efficient means of extending health care coverage. Are you prepared to work with me to complement tax credit legislation with expansions of Medicaid and CHIP, in order to make significant progress in the problem of the uninsured?

Answer: The President-elect is committed to making significant progress in the problem of the uninsured. That is why he has promoted the idea of a health tax credit for low- and moderate-income individuals and families that are caught in the gap between government programs and employer-provided insurance. The details of such a proposal are still under discussion. The Administration will, of course, be willing to work with you on an overall strategy to address this pressing problem.

Trade Question: One of the little recognized trade achievements of the Clinton administration in 1994–1995 was the negotiation of a global aluminum market sharing agreement. Political changes in Russia brought their enormous aluminum capacity onto the world market, threatening to depress prices dramatically.

Treasury Bob Rubin negotiated a market sharing agreement among the world's major aluminum producers so that Russian capacity could slowly enter the market while preserving market shares for traditional producers, notably U.S. companies. The agreement had the largely unforeseen consequence of U.S. companies purchasing much of the Russian capacity.

This departure from pure free market principles is an interesting precedent. It was supported by all major U.S. aluminum companies; including Alcoa, and received virtually no criticism. It now raises the question of whether a similar agreement could be negotiated to address the current steel import crisis, which is similar in that it is largely the result of Russia and China entering the world steel market. I would appreciate your thoughts.

Answer: I agree that it is important for America to have a viable steel industry. However, the U.S. steel industry is subject to the effects of severe worldwide production overcapacity. I believe that any approach to the steel question must recognize that underlying phenomenon and the resulting world market dynamics. The agreement reached by then Secretary of Treasury Robert Rubin regarding aluminum production was made at a time when Russia and the former Soviet Union countries were beginning to open their economies to the rest of the world. The approach taken

was appropriate to the time and the circumstances that existed after the Soviet Union broke apart. A similar concept might be explored for the steel industry but it would have to take into account the differences that exist now in the current economic situation and the differences in the steel industry.

RESPONSES TO QUESTIONS FROM SENATOR CHARLES GRASSLEY

IRS REFORM AND RESTRUCTURING

Question 1: Mr. O'Neill, this Committee has spent a significant amount of time recently performing oversight of the IRS and in passing legislation to restructure and reform the IRS.

The Committee's goal has been, in part, to make dealing with the IRS an easier and fairer process. With the IRS being for millions of Americans, their only extensive contact with the federal government, this is critical.

While recent Treasury Secretaries have each brought to the position their own unique set of talents, you will be the first Secretary in some time who brings to the Department significant management experience on a large scale.

As CEO of Alcoa you oversaw a workforce of approximately 140,000 and were successful in turning the company around.

While Mr. Rossotti, the Commissioner of the IRS, also has strong management experience and is making good efforts at the IRS, I hope we can count on you bringing your wealth of knowledge to bear on the problems facing the IRS—and that management of the IRS is a priority during your time as Secretary.

Answer: I can assure you that management of the IRS and support for IRS reform and modernization will be a priority for me, should I be confirmed.

Question 2: Mr. O'Neill, in your visit to my office a couple of weeks ago, you expressed a strong commitment to improving the environment. That's a commitment I share with you. As you know, there are many tax incentives for the production of energy from conventional sources such as oil and gas. There are also incentives for the production of environmentally friendly energy, like ethanol.

One environmentally friendly incentive deals with production of electricity from wind, closed loop biomass, and poultry waste. This provision expires at the end of 2001. There is bipartisan support on this committee for a proposal of mine to extend this tax credit and expand it to include all renewable energy sources.

With your interest in environmental protection, would you consider this proposal to provide more tax incentives for renewable energy worthy of the incoming Administration's support?

Answer: I would be pleased to work with you on tax matters that would both benefit the environment and contribute toward the nation's energy needs.

Question 3: Mr. O'Neill, over the past year this Committee has issued two bipartisan proposals to address the growing problem of tax shelter transactions. This month, the Department of Treasury issued proposed regulations under Circular 230 to modernize tax opinion standards, limit contingent fee arrangements, and impose other requirements in an attempt to discourage tax advisors from participating in or furthering tax shelter arrangements. Treasury also issued additional regulations last year to address the shelter problem.

I am concerned about the growth of tax shelters and I am deeply disturbed by the participation of tax professionals in those shelters. Do you anticipate that your Treasury will continue its efforts in this area?

Answer: I believe that the government should pursue aggressively those who would market or implement illegal tax schemes. I would be pleased to review the Finance Committee proposal in that context.

TRADE POLICY & THE ADMINISTRATION'S ECONOMIC STRATEGY

Question 4: Mr. O'Neill, a major reason why the United States has enjoyed such a robust economy is that international trade has contributed significantly to the longest and most remarkable expansion in American history. In 1975, trade in goods and services as a percentage of our Gross Domestic Product was just under 16 percent. Today, goods and services trade is just over 24 percent of GDP, and growing.

Because of this economic performance, every American family is better off. Millions of new jobs have been created. Lives all across America have been improved.

Yet in spite of the astonishing economic contribution of international trade to the American economy, we have not always done such a good job of putting trade policy at the center of our overall economic strategy.

The failure of the Seattle WTO Ministerial last year is a good example. The Seattle talks didn't collapse just because of what happened in Seattle. The failure in

Seattle began long before we needed to accomplish for our long-term economic well-being.

President-elect Bush said that the Treasury Secretary is the "CEO for the American economy." Given that role, how will you work to make certain that trade policy goals are part of our overall national economic strategy?

Answer: You correctly point out the significant role of international trade in contributing to the sustained growth of the American economy over the last few decades. I firmly believe that free trade is in the interest of every American and that it raises the standard of living for everyone. You will be glad to know that increased free trade has been a central theme of the President-elect's campaign and will be a high priority under his leadership. I will work closely with the U.S. Trade Representative and the other agencies involved as we help the President advance his very ambitious trade agenda.

MANAGEMENT ISSUES AND THE CUSTOMS SERVICE

Question 5: The Customs Service has faced tremendous growth in its workload and service demands since 1995. As a result of this increased workload, and higher position costs in its work force, Customs has been forced to find new ways to make up for budget shortfalls. Some have suggested that we need to develop more effective long-term strategies on how Customs can make better use of its resources, as well as to develop new ways to increase available funding for this like inspectional services, and the procurement of new technology and equipment.

How will you respond to these needs, and what strategies will you put into place to deal with them?

Answer: Cross-border commerce and international travel have increased exponentially in recent years. This trend is expected to continue and it presents challenges for Customs' enforcement capabilities and its ability to facilitate the free flow of goods and people across the border. A strategy to deal with this situation will have to look at both modernization of Customs' automated systems and the capacity for inspections at border ports of entry. I look forward to an opportunity to reviewing this issue more in depth and working with you towards a solution.

Question 6 (Part I): Alcoa has a very sizeable plant near Davenport, Iowa, located in Riverdale, Iowa. The Mississippi river suffered from PCB contamination traced to the Alcoa Davenport Works plant. Recently, the Iowa Department of Natural Resources stated that after significant cleanup efforts, paid for by Alcoa, the river's water quality has improved to a level where fish consumption of carp and carp suckers from the Mississippi River between Davenport and LeClair are now allowed.

Please inform me of what steps Alcoa is taking, or has taken, to ensure that there is not a repeat of the Alcoa Davenport Works plant unlawfully contaminating the river.

Answer: This problem had its origins decades ago. PCBs were lawfully used by many businesses, including Alcoa, as a fire retardant fluid to protect life and physical structures for many decades. Alcoa began so using PCBs at its Davenport Iowa Operations in the mid 1950's. After PCBs were later banned in the 1970's and Alcoa identified the presence of PCBs in its Davenport facility, it engaged in an extensive effort to eliminate any releases to the environment and to control or remove PCBs at the facility. The plant, comprising more than 120 acres under roof, spent more than \$10 million to install water treatment systems to virtually eliminate industrial process water discharges so that a future release will not occur. This state-of-the-art closed treatment system is the best way known to prevent any problems going forward.

The company's efforts first began when it discovered the presence of PCBs and conducted extensive investigations to identify sources and appropriate solutions. Results intensified during the past decade as treatment systems have been installed. In addition to the new water treatment systems, the company spent substantially more than \$10 million during the past decade in an aggressive effort to remove and control contaminants at the plant. These efforts have borne fruit during 2000 as the Iowa Department of Natural Resources determined that PCB levels in fish in the Mississippi River pool adjacent to Alcoa's plant had decreased dramatically, sufficient to lift the previous advisory on fish consumption due to PCBs.

Question 6 (Part II): Several years ago, the Alcoa Davenport Works plant was, unfortunately, subject to charges of discrimination and the creation of a hostile work environment. In settling this litigation in 1997, newspaper reports state that Alcoa provided a monetary settlement to the plaintiffs, African-American employees at the plant, and that Alcoa also established a program at the Davenport plant to emphasize Alcoa's zero-tolerance of racial and sexual harassment.

Please inform me of Alcoa's ongoing efforts to ensure that the company's zero-tolerance against racial and sexual harassment is practiced at the Davenport plant.

Answer: Alcoa's Davenport (Iowa) Works now has a continuing, comprehensive program to ensure that the company's zero-tolerance against racial and sexual harassment. The many components of this comprehensive plan include:

- Communication, distribution and posting Alcoa's zero-tolerance policy, which includes discipline, up to and including termination, for any racial or sexual harassment.
- Institution of plant-wide diversity and racial tolerance training for all employees.
- Institution of Conflict Resolution Training.
- Use of a consultant to review and make recommendations on certain employment practices, including testing and hiring of African-American applicants.
- Establishment of an Equal Access Committee to review and resolve incidents involving harassment or discrimination. There are five members from management, including one African-American male and one African-American female. Included in its responsibilities is the review of any proposed terminations of African-American employees.
- Establishment of a First Response Team in every department, which involves hourly employees in investigating any allegations of racial or sexual harassment.
- Creation of the position of Diversity Advisor to whom African-American employees may go to for help with employment concerns or harassment, discrimination and equal employment opportunities.
- Institution of a mentoring process for all new employees, both hourly and salary.
- Creation of an Assessment Center for first-line supervisors.
- Make the plant's Diversity Plan part of the operating plan; and create a Diversity Deployment Team.

RESPONSES TO QUESTIONS FROM JOHN D. ROCKEFELLER IV

Tax Question: I want to express to you my strong doubts about the wisdom of President-elect Bush's proposed tax cut. I have two main concerns. First that the tax cut is far too large; it is unsound fiscal policy that threatens our ability to pay down the national debt. Second, that the tax cut is far too weighted toward higher income families.

The state I represent, West Virginia, ranks near the absolute bottom in national income. It is clear to me that we just are not going to get much benefit from a tax cut where 60% of the lost revenue cost goes to families with incomes in excess of \$100,000. I support responsible tax cuts that can be reasonably accommodated within the projected budget surplus, but I cannot support a tax cut that is so weighted toward the most comfortable people in society; the very same people who have done so well financially over the last few years.

In recent days there has been a lot of talk coming out of the Bush transition about the slowdown in the economy and the need to use the Bush tax cut as a means of economic stimulus. There has been talk in the transition and among the Republican Congressional leadership about speeding up the tax cut, perhaps making it retroactive to the beginning of this year.

I can understand your desire to build political support for your tax plan but it seems to me your reasoning does not make economic sense. I believe you will agree that it is a given among economists—from the right to the left—that wealthier people save more than those of modest means. And following that, economists are in complete agreement that the wealthy will save, rather than spend, their tax cut. If you want to create economic stimulus, more of your tax cut needs to go to middle income families.

According to the economist Allen Sinai who is quoted in last Thursday's Washington Post, people in the income range over \$100,000 (and that is where approximately 60% of the revenue cost of the Bush plan goes) save about 90 percent of a tax cut. Dr. Sinai estimates that only about 40% of the Bush tax cut will find its way back in the economy in the form of additional consumer spending.

Here's what I would recommend. Reduce the cost of the Bush tax cut and target it more to middle and lower income families. This will be the most fiscally responsible approach. It would be much fairer. And, it would create the kind of economic stimulus that the President-elect has recently identified as a justification for the tax cut.

Do you have any reaction to that?

[The Washington Post article, referred to above, appears at the end of Mr. O'Neill's answer.]

Answer: I appreciate your thoughtful question. However, I want to make clear that I fully support the President's tax cut plan was the right thing to do for America both back when it was proposed last year, and even more so now in the face of an economic slowdown.

The tax cut plan is the right thing to do first and foremost as an issue of basic fairness. The President-elect's tax cut plan starts from the premise that Federal taxes are the highest they have ever been during peacetime. High taxes unfairly limit the participation of low-income earners, middle-class families, and seniors in today's prosperity, and act as a success tax on entrepreneurs. It is beyond me why the government should continue to take in more money than it needs to finance agreed upon public purposes. That is why we need to return at least some of this money—roughly one-quarter of the surplus—to the people who earned it and sent it to Washington to begin with. Otherwise, the temptation to spend it will be overwhelming. The President-elect has proposed a bold tax cut plan that will ensure continued prosperity while leaving the Social Security surplus untouched. His plan will promote economic growth and increase access to the middle class by cutting high marginal rates. It will also double the child credit, eliminate the death tax, reduce the marriage penalty, and expand Education Savings Accounts and charitable deductions. The largest percentage cuts will go to the lowest income earners. As a result, 6 million families will no longer pay federal income tax. The highest percentage cuts will go to taxpayers with the lowest incomes. For example, a family of four making \$35,000 a year will receive a 100 percent income tax cut. A family of four making \$50,000 a year will receive a 50 percent income tax cut. A family of four making \$75,000 a year will receive a 25 percent income tax cut. Overall, the marginal income tax rate on low-income families will fall by over 40 percent, and six million American families—one in five taxpaying families with children—will no longer pay any income tax at all.

The tax cut plan is even more appropriate now in the face of an economic slowdown. As U.S. economic growth continues to slow sharply now at the end of the Clinton Administration, the tax cut plan is a meaningful way to improve consumer confidence and encourage more spending. That is why the President-elect and I are reviewing options for speeding up the tax cut into this year. No decisions have yet been made. However, I believe that we will regret it if we look back nine months from now and find that we could have acted on the clear warning signs in the economy when we had the chance.

[Washington Post, Jan. 11, 2001]

GOP Chiefs Consider Fast Action on Taxes

Early Cuts Eyed as Economic Stimulant

By *Eric Pianin and Glenn Kessler*

Washington Post Staff Writers

Thursday, January 11, 2001; Page A01

Support is building among Republican leaders for overhauling President-elect Bush's tax cut plan and for seeking early congressional action as a means of stimulating an economy that appears headed for a downturn.

Bush advisers and Republicans on Capitol Hill acknowledge that Bush's plan would do little to spur the economy this year because it was designed to be phased in slowly. As a result, congressional Republicans are considering several measures—including increasing the \$500-per-child tax credit, providing tax rebates and decreasing withholdings from workers' paychecks—to complement Bush's across-the-board tax cut and possibly attract Democratic support.

The slowdown in the economy has scrambled much of the GOP thinking about the importance of a tax cut. During the campaign, Bush said a tax cut was necessary to return growing budget surpluses to taxpayers. Now he says a tax plan is necessary as part of an "economic recovery," and Republican congressional leaders who just weeks ago advised Bush to take a piecemeal approach are climbing aboard.

Yesterday, Senate Republican Leader Trent Lott (Miss.) signaled his support for a proposal this week by House Majority Leader Richard K. Armey (R-Tex.) for a rapid reduction in income tax rates and an expansion of individual retirement accounts and 401(k) savings plans to help head off a recession.

In hopes of giving the economy an immediate boost, Lott told reporters he favors making any tax cuts retroactive to Jan. 1, an idea also backed by Armey. Lott said he is urging the incoming administration to consider making a tax cut one of its first orders of legislative business.

"I think that's actually the way to go. . . .I think to make it retroactive—or parts of it retroactive—is a very good idea," Lott said. "I assume and hope that President-elect Bush will recommend that."

A spokesman for House Speaker J. Dennis Hastert (R-IL) said the speaker also is interested in using a tax cut to stimulate the economy. "We don't want to dip into a recession, and the best way to avoid that is to keep paying down the debt and providing immediate and meaningful tax relief," said Pete Jeffries, Hastert's communications director.

Bush spokesman Ad Fleischer said Bush and his advisers are "reviewing a number of options" on the tax cut plan. "The president-elect is committed to the plan on which he ran," Fleischer added. "He is aware of some of the discussions about trying to speed it up. He has made no determination about whether he would do that or not."

Republican leaders will face a series of procedural hurdles if they try to tackle a tax cut before a budget blueprint is enacted, budget experts say. Moreover, efforts to speed up the tax cut will run into resistance from Democrats. Although support among congressional Democrats for a larger tax cut has grown as a result of worrisome economic signs, Democrats say the Bush tax plan is too costly.

At a news conference Tuesday, Senate Democratic Leader Thomas A. Daschle (S.D.) rejected the notion of a retroactive tax cut, saying it could harm the economy. He said retroactive cuts are difficult to pass and are rarely done. "In this case, it would be even more harmful to the economy," he said.

Senate Democratic Whip Harry M. Reid (Nev.) said yesterday that "I can't imagine we would be talking about a big tax cut before we even do a budget I think we have the cart before the horse."

The Bush tax cut plan likely will need to be significantly altered if it is to have much impact on the economy, economists said. While the Bush plan is estimated to cost \$1.6 trillion over 10 years, it was designed to be phased in slowly because Bush officials were trying to boost spending in other areas and not eliminate the budget surplus.

According to the Joint Committee on Taxation, an arm of Congress, the Bush plan would reduce revenue by \$21.1 billion in the first fiscal year and by \$57.4 billion in the second year—a small portion of the \$10 trillion U.S. economy.

If the tax cut were made retroactive to Jan. 1, as Arney and Lott suggested, it would deliver only about \$37 billion to taxpayers.

Moreover, almost 60 percent of Bush's tax cuts would go to people making more than \$100,000, who would be more likely to save and thus not provide the economy much of a spending boost. Allen Sinai, chief executive of Primark Decision Economics, said people in that income range generally save about 90 percent of a tax cut. He estimated that only about 40 percent of the Bush tax cut—about \$15 billion—would find its way back into the economy in the form of additional consumer spending in the first year.

"That's a minuscule tax cut," said Sinai, who estimated it would add perhaps one-tenth of 1 percent in growth to the economy, similar to the impact of the Federal Reserve's recent cut in interest rates. "It would be one of the smallest tax cuts in history."

Fleischer said that even if the tax cut were not phased in faster, it would provide a boost to the economy. "There is a psychological boost that comes with it," he said, because people will know they will get more money over time in their paychecks. "That should not be minimized as a factor."

The Congressional Budget Office estimates that the budget surplus in fiscal 2002, which begins Oct. 1, will be about \$126 billion, excluding Social Security. This would seem to give the Bush administration and Congress room to enlarge the tax cuts. But increasing the cuts in the early years would inflate the size of the overall cut and crowd out other spending priorities.

During his meeting with reporters yesterday, Lott dismissed the Democrats' idea of a \$700 billion package of targeted tax cuts over the coming decade, saying, "We could wind up with a great big package of little targets that are fine and good except that they don't add up to much in terms of impact on the economy. That should be the highest priority right now."

Lott said he has discussed with Bush officials the option of taking up a tax package next month. But the Bush team has to weigh the fact that if it acts before Congress approves a budget plan for fiscal 2002, it will face amendments and a possible filibuster by Democrats. "There are certain risks involved and we need to evaluate that," Lott said.

He stressed that the new administration must decide the timing quickly. "I told them . . . they better start thinking about it now, not in three weeks."

Bush conferred with his budget advisers yesterday to begin mapping out a strategy for getting his budget through Congress.

RESPONSES TO QUESTIONS FROM SENATOR TOM DASCHLE

FISCAL AND MONETARY POLICY COORDINATION

Background

One of the hallmarks of economic policy in recent years has been the effective implicit coordination between monetary and fiscal policy. Our policy of fiscal restraint and responsibility has provided the Federal Reserve with tremendous flexibility on the monetary side of the policy ledger.

It is very welcoming to read that you and Federal Reserve Chairman have had a long and solid relationship since the two of you worked together in the 1970s. Your relationship should help continue the effective policy coordination of recent years.

Question: Mr. O'Neill, do you agree that we must avoid doing anything on the fiscal side that will make it harder for the Federal Reserve to address aggressively any economic slowing now or in the future?

Answer: Let me start by saying that I strongly support the independence of the Federal Reserve with regard to its decisions on monetary policy. It is my intention to work closely with Chairman Greenspan to ensure that the Treasury Department and the Federal Reserve work together in a complementary and not counter-productive manner. I do not believe that any of the President-elect's proposals, including the tax plan, will have a negative impact on the Federal Reserve's ability to address a slowing economy. Finally, I do agree that the Administration should not do anything that would inhibit the Federal Reserve with regard to its conduct of monetary policy.

Question: Mr. O'Neill, do you agree that there is a risk that if we go too far on the tax or spending side, especially in the out-years, that this will place upward pressure on long-term interest rates and the fiscal policy could end up effectively fighting the Federal Reserve's monetary policy?

Answer: There are many factors that influence long-term interest rates, including inflation expectations and the overall direction of the economy. The greatest challenge at this point is to raise the confidence level of consumers and businesses in the near-term state of the economy. A tax cut would help with this goal and improve the long-range growth prospects of the nation. It is important to remember that any tax cut proposal will be financed from the non-Social Security surplus. The President-elect has pledged to save the Social Security surplus. This means that even with our tax cut, debt will still be falling sharply under the President-elect's overall budget plan, leading to lower interest rates, not higher ones.

CONSENSUS ON TRADE AND WORKER ADJUSTMENT

Background

In reading about your record in preparation for this hearing, I was struck with how you as a CEO of a major company were able to work and communicate so effectively with average workers. George Becker, the longtime President of the steelworkers, had this reaction to your nomination: "Most of our relationships with employers are confrontational by nature. But we found that Paul had a very keen interest on the side of working people."

I hope you will bring some of the success you have had and help us address what I see as a key problem. While elite opinion in this country is strongly in favor of globalization, there is not a consensus among average Americans.

In a recent study, "Americans on Globalization," Steven Kull found that people would be much more supportive of increased globalization if the government did more to help people who lose out from trade.

Question: Mr. O'Neill, I hope this is an issue that you will take a look at. I know you will be busy on many fronts but I believe it is important. I feel strongly that we must do more to help people who lose from trade and we must do more to empower people to be in a position to seize the increased opportunities that exist today. Do you agree?

Answer: I am convinced that free trade is not a zero sum game but instead will increase the standard of living for millions of Americans. I believe that on a level playing field the American workers and farmers win. I intend to do as much as I can to open new markets and further open existing ones. However, I agree that we have to be sensitive to the negative effects of trade on real people and their communities that may occur in some cases. However, we are now finding that in many parts of the country affected by declines in trade sensitive industries are the bene-

ficiaries of new investment, including foreign investment, and resulting job growth. State governments have been especially aggressive in seeking out these new opportunities. I believe that we should coordinate as much as possible at the Federal level with the states in this regard. I would be happy to take a look at this issue and look forward to working with you on it.

MARRIAGE PENALTY AND LOW-INCOME PEOPLE

Background

One tax priority on all sides of the dais this morning is to address the marriage-tax penalty. There is a consensus that the marriage penalty needs to be addressed.

As you begin to focus on this issue, I just wanted to ask you to take a look at how many low-income people face some of the highest marriage penalties.

This is because many low-income people lose the EITC when they get married. In my view, the earned income tax credit is one of the most important features of the tax code. It represents welfare reform at its best. A better name for it would be the "make work pay tax credit."

In my view, we need to make sure that we encourage people to work and make sure that people who work full time should not have to raise their families in poverty. While we encourage work, we must not discourage marriage, especially at the bottom of the income scale where we need to do all we can to encourage marriage. Therefore, it is critical that any marriage penalty relief address these low-income families.

Question: Mr. O'Neill, you do not need to respond now, but I hope you will focus on this issue.

Answer: I would be happy to review the issue of marriage penalty relief and the EITC. I believe that there are many areas in which the EITC needs to be reviewed, and this is one of them. For example, the 25% EITC payment error rate was also just cited by GAO as a top area of concern.

RURAL ECONOMIC DEVELOPMENT

Mr. O'Neill, in my view one of the most important responsibilities of the Treasury Department concerns the administration of laws dealing with community economic development. I am from a rural state and for that reason I am quite interested in issues involving rural economic development. I strongly support existing laws and programs that encourage the private sector to make capital available in areas of the country that have suffered from a lack of investment, particularly rural areas.

I am especially concerned that the Treasury Secretary gives appropriate attention to the offices within the agency responsible for administering such programs as the Community Reinvestment Act, Community Development Financial Institutions Fund, and the recently enacted New Markets Tax Credit.

These are valuable programs that help ensure that the lifeblood of our economy—investment capital—is available in poorer communities.

Question: First, let me ask you; are these issues that you have thought about?

Answer: The Bush Administration will fully enforce all laws currently on the books including the Community Reinvestment Act, Community Development Financial Institutions Fund, and the New Markets Tax Credit. As you may know, the President-elect supported these initiatives throughout his campaign and I agree with his views. In general, I am supportive of measures that encourage the private sector to invest in underserved communities.

Question: Although the CRA has been a tremendous success in ensuring that capital is available for investment in communities throughout the country, there have been recent attempts in Congress to effectively kill the program. Fortunately, those efforts were turned back. Mr. O'Neill, are you very familiar with the Community Reinvestment Act, and if so, do you intend to fully and vigorously support the program?

Answer: The Bush Administration will fully enforce all laws currently on the books, including the CRA. In general, I am supportive of measures that encourage the private sector to invest in underserved communities. Throughout the campaign, the President-elect expressed his support for the CRA and promised to vigorously enforce the laws on the books related to the CRA. I am familiar with the Community Reinvestment Act (CRA) and agree with the President-elect's position on this issue.

As I hope you are aware, Congress recently passed legislation with strong bipartisan support, the Community Renewal Act, which is designed to encourage capital investment in lower-income communities. The legislation includes an expansion of empowerment zones, an increase in the Low-Income Housing Tax Credit cap, and the creation of a New Markets Tax Credit program. The latter program will require

the issuance of regulations this spring by the Treasury Department. I understand the Community Development Financial Institutions Office at Treasury is now working on those regulations and I just want to take this opportunity to stress the importance of providing guidance for this program on a timely basis.

Answer: I would certainly intend to provide the necessary guidance to implement this important program in a timely manner.

RESPONSES TO QUESTIONS FROM SENATOR BOB GRAHAM

Question: The Administration should establish as a policy goal that every American has the opportunity to have income in retirement of between 70 and 75 percent of pre-retirement income. This goal would then necessitate that Congress and the Administration think in terms of "retirement reform" which encompasses Social Security, employer-sponsored retirement plans, and individual savings. Each of these three components will be critical to reaching the 70-75% goal. Do you agree? Would the Administration be willing to consider broadening its Social Security Commission to encompass employer-sponsored retirement plans and individual savings as well?

Answer: The President-elect has stated his support for a bipartisan commission on Social Security. The exact details of such a proposal are still being developed. I will make sure your views on retirement security are considered in that process. However, the task of saving Social Security itself is probably a sufficiently broad enough purview for such a commission.

Question: Because more and more Americans are exposed to the risks and rewards of the financial markets through the advent of IRAs and 401(k)s, would you agree that Social Security should remain a guaranteed benefit which provides a safety net for retirement?

Answer: Social Security is a defining American promise that must be kept. We will not change benefits in any way for current retirees or those near retirement.

Question: President Bush's tax plan did not include any proposals to encourage more employers to offer retirement plans to their employees. The Finance Committee unanimously approved a bill that made several changes to the pension laws that would make it easier for employers, particularly small employers, to offer such plans. That bill also included tax credits for low-income individuals who save for their retirement. Would the Administration support that package?

Answer: Retirement security is an important issue for Americans, especially as the baby boom generation nears retirement age. I would be happy to review these proposals and work with you in this critical area.

Question: Proponents of reforming Social Security through the use of individual accounts argue that investing in private-sector securities would help fill part of the long-term funding gap in the Social Security program. This can also be accomplished by diverting part of the existing Social Security surplus into stocks and bonds without establishing individual accounts. What are your thoughts on the Social Security Trust Fund holding private-sector investments?

Answer: I agree with Federal Reserve Board Chairman Alan Greenspan that the government should not invest Social Security funds in the stock market. Virtually all proposals recognize that one key to reform is to incorporate investment-based options, which would provide an opportunity for higher rates of return. I believe that the investment decisions must reside with individual workers and retirees, not the federal government.

Question: During the campaign President-elect Bush supported 25% tax credit to help the uninsured purchase health insurance. I am concerned that tax credits alone will do little to help low-income individuals purchase health insurance in the individual market. I am intrigued by the proposal put together by HIAA and Families USA, which provides tax credits for employers to encourage them to offer health insurance to their employees. In addition, the HIAA/Families USA proposal builds on existing federal programs—Medicaid and SCHIP—to expand coverage to very low-income families. I believe this comprehensive approach will be much more successful in expanding health coverage than individual tax credits alone. Has the Administration looked at this proposal, and if so, what thoughts do you have on it?

Answer: As you know, the President-elect is committed to making significant progress in the problem of the uninsured. That is why he has promoted the idea of a health tax credit for low- and moderate-income individuals and families that are caught in the gap between government programs and employer-provided insurance. The details of such a proposal are still under discussion. I have not had an opportunity to examine the proposal you discussed, but I would be happy to do so in this context.

Question: During the campaign, Vice President-elect Cheney expressed support for a bill I introduced in the 106th Congress, S. 526, that would make it easier to de-

velop public-private partnerships for the provision of school infrastructure. The bill allows such public-private partnerships to gain access to tax-exempt financing. Will the Administration support this proposal and include it in its FY 2002 budget?

Answer: I agree with the general concept that private sector involvement in this area may have certain advantages. I have not had an opportunity to examine the specific proposal you discussed, but I would be happy to do so in this context of developing the Administration's legislative program.

Question: I am very interested in leveling the playing field between local merchants and remote sellers with respect to the sales tax collection. The moratorium on the imposition of access taxes of multiple or discriminatory taxes on the Internet expires on October 21 of this year. As a former Governor, and coming from a state that relies heavily on sales tax revenues, President-elect Bush should have a keen interest in this matter. Will the Administration oppose a continuation of the existing moratorium if it does not also rectify the sales tax collection inequity that exists today?

Answer: The President-elect has stated that he would support extension of the moratorium on Internet taxes to October 2006, and that he would prohibit access taxes on the Internet. However, I would be happy to work with you on the concerns of local merchants and the States.

Question: During the campaign President-elect Bush expressed support for enriching the tax deduction for long-term care premiums. Chairman Grassley and I introduced legislation last year that included this proposal as well as an income tax credit for individuals with long-term needs. This was originally proposed by HIAA and AARP, both of which endorsed our bill. The bill addresses two public policy goals: (1) helping those with significant longterm care burdens today, and (2) preparing for the future by encouraging individuals to purchase long-term care insurance. Will the Administration support this proposal?

Answer: Thank you for bringing this proposal to my attention. As our population ages, I agree that we should encourage families to prepare for long-term care expenses before they occur. Efforts to increase participation in long-term care insurance would contribute to that goal. I look forward to working with you in this regard.

RESPONSES TO QUESTIONS FROM SENATOR JOHN KERRY

Question: The attached recent AP story (December 22, 2000), reported that Alcoa paid no taxes in 1996 and over the three-year period from 1996–1998 paid only \$266 million in taxes, a tax rate of 15.9 percent. This was based on an October study by the Institute on Taxation and Economic Policy. However, the company's SEC filings indicate an effective tax rate over this period of 32–33 percent. Please explain this seeming discrepancy.

AP Online, December 22, 2000

Copyright 2000 Associated Press
AP Online

December 22, 2000; Friday

SECTION: National political

LENGTH: 857 words

HEADLINE: O'Neill's Tenure at Alcoa Mixed

BYLINE: LARRY MARGASAK

DATeline: WASHINGTON

BODY:

Alcoa Chairman Paul O'Neill, President-elect Bush's choice for treasury secretary, led a company that markedly improved revenues and workplace safety while settling recent pollution violations for nearly \$10 million, records show.

He once backed a gas tax increase that is raising the antennae of Sen. Charles Grassley, the incoming Finance Committee chairman who will shepherd the nomination through the Senate.

While revenues increased by 96 percent during O'Neill's 12 years as chief executive officer, employees in **Alcoa's** Mexican plants near the U.S. border confronted O'Neill directly about the small numbers on their paychecks and their working conditions.

Alcoa officials provided a written fact sheet saying the corporation "is committed to being a responsible employer in all regions of the world where it operates, with particular focus on three key areas: environment, health and safety; community support; and quality of life."

The company said its plants in **Mexico** "have reached benchmark status in safety and cleanliness" and pay scales there are "at competitive compensation levels." **Alcoa** also said O'Neill's emphasis on workplace safety reduced lost work days by 93 percent over his dozen years as CEO.

Sister Susan Mika of the Benedictine Resource Center in San Antonio brought Mexican workers to **Alcoa's** annual meeting in 1996 to confront O'Neill directly about low pay and conditions in which employees had limbs caught in machines, were overcome by toxic fumes and had bathrooms that lacked toilet paper.

Mika said O'Neill never has given the workers enough of a raise to make ends meet. She did credit him with moving quickly to improve safety after the 1996 confrontation in front of the stockholders. Bathrooms were made functional, safety systems were inspected, pay was raised slightly and the president of the Mexican operations was fired for failing to follow through properly after the toxic fume incidents.

"I would have to say he was the first CEO, after he heard this information at an annual meeting, who went down to see the conditions and see if it were true," said Mika, whose order owns **Alcoa** stock and also has confronted executives of other companies on behalf of low-paid workers. But she said the wages "are still not sustainable" to earn a living wage.

Bush has proposed a \$1.3 trillion tax cut over 10 years and O'Neill said Wednesday he supports

the president-elect's economic program. But **O'Neill** told a Clinton-Gore economic summit in 1992, "It certainly has been clear to me, and has been for a long time, that we need a gasoline tax" increase. At the time, **O'Neill** sought to lower the nation's deficit and promote energy conservation.

Bush spokesman Ari Fleisher said the earlier statement "is not an issue," but it remains a concern to Grassley, R-Iowa.

"I'm going to be interested in talking with him to find out what he was thinking eight years ago," Grassley said. "It's not very good for us in rural America and agriculture and it's inflationary."

He quickly added that "there's nothing at this point" that would prevent **O'Neill's** confirmation.

The Pittsburgh-based **Alcoa** did well with its own tax bill with **O'Neill** at the helm, according to a study this year by the Institute on Taxation and Economic Policy, a nonprofit research and educational organization funded by foundations.

The October study said that with a federal corporate tax rate of 35 percent, **Alcoa** paid no taxes in 1996, thanks to tax breaks. In fact, the company got a \$17.6 million refund. For the three-year period of 1996-98, the company paid \$266 million in taxes, a rate of 15.9 percent.

Company officials neither disputed nor confirmed the tax figures.

Records provided by the Environmental Protection Agency showed that since **O'Neill** joined **Alcoa** he was CEO and chairman from 1987-99 and just chairman since last year the company was ordered to pay \$9.6 million as a result of anti-pollution enforcement actions by the U.S. and state governments.

The U.S. Public Interest Research Group, a consumer watchdog organization, said **Alcoa** has seven plants among the 100 primary metals manufacturing facilities releasing the largest amount of toxic chemicals. Among the top 25 polluting plants in the category, two were **Alcoa's**, according to the organization, which maintains an environmental database.

More than 47 **Alcoa** facilities were cited by state and federal anti-pollution regulators since 1987, the EPA said. While some of the penalties were in the hundreds of dollars, the largest case involved an \$8.8 million settlement of a suit filed against the company's Warrick County plant in Newburgh, Ind. **Alcoa** also has had serious pollution problems in a Rockdale, Texas, plant.

Like most corporate executives, **O'Neill's** \$157,000 Cabinet pay would be a massive cut in compensation. In 1999, **O'Neill** received a \$950,000 salary, a \$2 million bonus and had stock options covering 700,000 shares.

While the options are for future years, news reports said **O'Neill's** compensation would have totaled \$36.2 million if exercised at one point last year.

LOAD-DATE: December 22, 2000

Answer: Under my tenure, Alcoa has fully complied with the Federal tax laws and paid all taxes due. The instance cited in 1996 was the result of net operating losses from prior years and the tax treatment of employee stock options. The SEC filing cited do not contain the necessary data with which to determine tax liability and are not an appropriate source for this purpose. The tax benefits associated with the net operating losses are recorded in prior years for financial reporting purposes, and therefore would not be reflected in the SEC filings.

RESPONSES TO QUESTIONS FROM SENATOR BLANCHE LINCOLN

Question: As I am sure you are aware, the Office of the National Taxpayer Advocate recently issued its Annual Report to Congress. Listed as a number one on the list of most serious problems faced by taxpayers was "the complexity of the tax laws affecting individuals" and specifically the Individual Alternative Minimum Tax was highlighted. The Alternative Minimum Tax has become, or will soon become, a surprise burden for millions of middle-income taxpayers unless meaningful changes are made to our tax code. Do you advocate reform for the Individual Alternative Minimum Tax to prevent its burden from falling upon middle-income families, and if so, do you have an insight as to what course of action our government should take in reaching this reform?

Answer: I absolutely agree that the individual AMT must be reformed so that individuals aren't trapped in what's been referred to as a "ticking tax time bomb." I will certainly work with you to fix this problem that will ensnare millions of middle-income Americans.

Question: As you may be aware, the existing moratorium on Internet access taxes will expire in October 2001. Do you believe the incoming Administration should encourage an extension of this moratorium and, if so, should such legislation be used as an opportunity to put Internet and local sellers of goods on a level-playing-field as to sales and use tax collection?

Answer: The President-elect has stated that he would support extension of the moratorium on Internet taxes to October 2006, and that he would prohibit access taxes on the Internet. However, I would be happy to work with you on the concerns of local merchants and the States.

PREPARED STATEMENT OF HON. RICK SANTORUM
U.S. SENATOR FROM PENNSYLVANIA

Distinguished Members of the Finance Committee, I regret that I am unable to be here in person to speak to the nomination of Mr. Paul O'Neill for Secretary of the Treasury.

As you know, Mr. O'Neill hails from the Commonwealth of Pennsylvania, where since 1987 he served as the Chairman of Alcoa Corporation, the world's leading producer of aluminum, and headquartered in Pittsburgh.

Based on his long and distinguished career in both the public and private sectors, his experience as an international businessman who has wrestled with the challenges of the new economy, combined with his government budget expertise, gives Mr. O'Neill the deep understanding and broad perspective on both the U.S. economy and global markets that the new Administration's top economic post requires.

Mr. O'Neill's understanding of the federal budget process and procedures stems from his accomplished 10-year tenure at the U.S. Office of Management and Budget (OMB), one of the epicenters of Washington policy-making. From 1967 to 1977, he served in a variety of capacities at OMB, starting off as a policy analyst, then moving his way up to associate director in charge of social programs and policies, and eventually his work merited him the position of deputy director for the agency. He began his public service career as a computer systems analyst with the U.S. Veterans Administration, where he served from 1961-1966.

After serving in top executive posts at International Paper Company from 1977 to 1987, Mr. O'Neill brought his business and financial acumen to Alcoa, where under his financial and managerial stewardship the company dramatically increased in profitability and broadened its global reach.

In addition to his professional accomplishments, Mr. O'Neill has offered his energies and intellect to blue-ribbon commissions on health care, education and the operation of Pittsburgh's city government, and he has served on the boards of several prominent think tanks.

Mr. O'Neill certainly comes to the Treasury Department with impressive credentials in both the public and private sectors, with respect from colleagues and peers, and with a solid reputation for hard work, effectiveness and sincerity. He is eminently qualified to meet the many and varied policy challenges that will be incumbent on the next Treasury Secretary, ranging from sustaining and expanding America's engine of global economic growth, to assessing options on how best to put Social Security on sound financial and actuarial footing for the long term.

The American people have in Paul O'Neill a valued and committed public servant. Through your hearing today, I believe that you will come to recognize his abilities to guide the dynamics of the American economy.