The Economic Club of New York

317th Meeting
80th Year

The Honorable Lloyd Bentsen
United States Senator

February 18, 1987

Waldorf Astoria
New York City

Questioners: John Petty
Chairman and Chief Executive Officer, Marine Midland Bank

John Welch
Chairman and Chief Executive Officer,
General Electric Company

Introduction

Chairman Dwayne Andreas

Senator Bentsen, ladies and gentlemen. I want to welcome you to this 317th dinner in the 80th year of the Economic Club of New York. Now before we begin the program I have two announcements.

First, I want to remind you of our dinner next Tuesday night with Prime Minister Shamir of Israel. This dinner was called together on very short notice because Mr. Shamir agreed at the last moment to stay over two days in order to come to our dinner. He will be alone on the podium and that will give us an ample period for questioning. And I'm sure it is going to be an interesting and fascinating session, and I hope as many of you as possible will see it as an opportunity to bring some of your favorite guests.

Second, as you know we planned tonight's dinner with Senators Lloyd Bentsen and Bill Bradley. I'm very sorry to report that Senator Bradley had to call in a little while ago and say due to a personal matter he was unable to be with us and we're sorry that he is not here. However, this will give us a double shot at Senator Bentsen and I'm sure you're going to find out he knows how to handle it.

Furthermore, there is some good news. I read in the papers all last week that people are clamoring in Washington to pay $10,000 to have breakfast with Senator Bentsen. Now quite apart from the fact that a dinner is worth more than a breakfast, there are 900 of us here and that's $9 million that your Board of Trustees has saved for you. (Applause) But that proves he's a very special senator.

First he's a Texan. And as my good friend, Bob Strauss, who is here with us tonight can tell you, Texans have a proud tradition all their own. Not only in the country but also in the Democratic Party. Second, he's a businessman, a very successful one, who founded and ran a major insurance-based financial services holding company. And he knows our language and he knows our problems. I can tell you that from experience. And as a matter of fact, when his friends drafted him and coerced him into the Democratic presidential campaign in 1976, he called the economy of the United States the paramount issue before this nation.

In World War II in Europe, he was awarded the Distinguished Flying Cross and the Air Medal with three Oak Leaf Clusters. He was only 27 when he won his first election to the U.S. House of Representatives. That was in 1948, the year we all remember, when the Dixiecrats split the party and Dewey beat Truman, oh, pardon me, Truman beat Dewey. (Laughter) It was also the year that both Lyndon Johnson and Hubert Humphrey were first elected to the Senate proving that Lloyd Bentsen travels in good company. After six years in the House, he left politics in 1954 to make a fortune for his family in the private sector. And then in 1970 he came back with a bang, 16 years later, setting his eye on the Senate. And you will remember he beat the incumbent

Ralph Yarborough for the Democratic nomination and then in the general election he beat George Bush. He's now served 16 very distinguished years in the Senate. As one example of his skill, when he chaired the Congressional Joint Economic Committee in 1979 and 1980, he produced that committee's first unanimous report ever. It called for lower taxes on capital gains and greater incentives for investments.

Now, so that you won't feel, so that you won't underestimate the enormity of the task that Senator Bentsen has before him in producing a trade bill in the Finance Committee of the United States Senate, I thought I would just remind you of some of the grotesque things that are going on in this world in terms of trade. I'm just going to give you four or five examples so that you will see what an almost insoluble problem the senator is up against.

Let's take a case of butter. The EEC supports the price of butter at about $1.70 a pound and sells it on the world market at $.20 a pound breaking all other producers of butter. The EEC buys sugar at $.27 a pound and sells it on the world market at $.03 to $.05 a pound smashing the economies of the Third World all over the world, ruining the economies of Central America, driving the price of sugar down to less than cost, even in the tropical areas of the world. Oilseeds were once a $7 billion a year export of this country. The EEC, in order to stop those imports from the United States, now buys oilseeds from its farmers at $500 a ton and sells them to the processors at $150 a ton. Cement, seven countries ship cement into this country, closing down many cement companies. Seven countries ship cement into this country at less than half the price they sell it for at home. Purely illegal and our government is not interested.

Now why do these things happen? In the first place, it's very clear that farmers and workers no longer compete with other farmers and workers in the world. Indeed, they compete absolutely with governments. Our five biggest trading partners, Japan, Brazil, Germany, France have all got managed economies, tight socialist states, with managed trade.

I was looking to find out a little more about this issue some time ago, talking about it with a Russian diplomat. And he made this comment to me. He said, "We were negotiating the other day with Norway about fishing rights." And he said, "I finally brought it into focus by saying; let's look at it through the eyes of the fish." Well, I'm looking at it, more or less, through the eyes of a businessman. I chaired a task force for President Reagan on foreign trade. We found that there were 13 entities in the United States government doing things for foreign governments, major things, big money. We had them all in as witnesses. Not a single one of the 13 is authorized to do anything in the form of a quid pro quo. None of them are permitted to say I will do this for you if you will do that for me. Indeed, this country is operating today, as most businessmen can see, as an island of free trade in a world of governments engaged in business. In Brazil, of the nine biggest companies in Brazil, of the ten biggest companies in Brazil, nine are totally government-owned.

Now to solve the trade problem by negotiating at GATT one commodity at a time, I might be exaggerating just a little, but I would say it would take 4,000 years. So, of course, if there is a trade bill it has to be a trade bill that endeavors to a certain extent to reorganize the world. Ladies and gentlemen, that is the task that Senator Bentsen has before him. He is a great senator and I am honored to introduce him to you tonight. (Applause)

The Honorable Lloyd Bentsen

United States Senator

Thank you very much, Dwayne, for your generous introduction. When Dwayne said that he saved you $9 million tonight, I couldn't help but think about the President's budget he just presented to us and some of the accounting practices that took place there. (Laughter)

It's a pleasure for me to appear before such an urbane, sophisticated audience in America's financial capital. And I really appreciate the efforts that you have gone to here in New York to make a Texas senator feel at home. But frankly, I'd really like to know whose idea it was to have me met at the airport with a pickup truck with dice hanging and a gun rack on the back. (Laughter)

I'd like to use my visit here to discuss and carry on the discussion that Dwayne Andreas has spoken of on trade. I want to explain to you why I think America needs a trade policy, and why I don't think we've had one. And then I want to talk to you about how the 100th Congress is going to try to deal with this most difficult issue. I don't have to tell the New York Economic Club that when it comes to trade, placebos just will not do the job. There are no easy choices and no obvious answers. There's no denying that the United States is losing the battle for world markets. And lately that rate has been accelerating. We established a new standard of futility last year when we reached a deficit in trade of some $169 billion. It was only ten years ago when we had a deficit for an entire year of $12 billion. And last year in one month alone we exceeded that.

America runs a trade deficit with every major industrial nation in the world, every one of them. Over the last year we've lost, over the last six years we've lost one million manufacturing jobs. In the short period of three years, we have moved from being the number one creditor nation in the world to the number one debtor nation in the world. And that's the kind of riches to rags story that no nation can withstand. So far we've been fortunate. The Japanese have been moving in and buying our short-term securities. But it's no Marshall Plan they have in mind. They expect to be paid back. And to be paid back with interest and those bills will be in the mail before long.

Benjamin Franklin once observed that no nation was ever ruined by trade. It's taken us almost 200 years to disprove the wisdom of Benjamin Franklin. Despite the overwhelming evidence that we need to take a hard look at a trade policy, many Americans cling stubbornly to cherished notions about free trade and rising tides learned in the classroom. They place great faith in the invisible hand of the free market system. I think that concept of a perfectly working market is appealing, but it's at odds with reality.

Trade takes place in the marketplace and not in the classroom. And the world trade today has some very glaring imperfections, whether we're talking about a return to mercantilism or subsidies or non-tariff barriers. You don't have to take my word for it. There was a study recently that showed that there are 28 ways worldwide that governments can intervene in trade. That the Japanese exercise 25 of those, that the South Koreans exercise 22 of them, that the Brazilians exercise 21, the Germans 17, and we're not pure, we exercise 6 of them. Unfortunately, whenever anyone dares to mention that the present system is not effective, and that it's unfair in many places, you hear murmuring of Smoot-Hawley, protectionism, The Great Depression.

Well, I don't believe in protectionism. I never have and I never will. But I do maintain that America needs a tough comprehensive trade policy that recognizes the reality, that strives for fairness, that protects our national interests. And I think it's just absolutely imperative that any country that has full access to our markets that we have a right to demand full access to their markets. (Applause)

Trade has to be raised to the same priority in this country that it is in other countries. Earlier this month I introduced trade legislation in the Senate. It's co-sponsored by 58 senators, Republicans and Democrats alike. That legislation does not build walls. It does not crank up tariffs. It's tough, but I think it's fair. It says that the best way to solve the problems of trade is to increase world trade. For the past six years, trade has stagnated at $2 trillion. If we didn't have this enormous deficit of trade in our own country, world trade would have decreased by some 5%. The pie has not been getting larger. The only thing that's been growing is our trade deficit. All around this world industrial nations are single-minded – sell it to America. They get richer. They get the surpluses. We get poorer and we get the trade deficits. That creates another problem. We're going into a new round on GATT. We've been able to get things like services and agricultural finally on the agenda. But if every other major industrial nation in the world has a trade surplus with us, what's the incentive to change the rules? Where's the pressure? How do you bring about the compromise? When volume does not increase, then trade becomes a zero sum game with clear winners and losers. But when the pie is getting larger, when trade is expanding, then we can all prosper.

Let me give you an example of what I mean. In world trade today, the United States buys approximately 60% of the manufactured products of the Third World countries. Europe buys about 27%. The Japanese buy less than 9%. Now if the countries of Europe and Japan would buy from these Third World countries their manufactured products on the same per capita basis as we do, world trade would increase by over $250 billion. And Third World country debts would become more manageable. That's what we have to work to try to bring about.

If we accept the premise that America has almost a crisis in trade, then we ask the question, can we solve those problems with legislation? The honest answer is no, of course not. But we can sure help. But the last thing I want to do is to oversell the trade bill, because legislation can be effective only at the margins. Eventually it can help expand trade, increase exports, reduce debt in Third World countries, and produce more balance in the system. But legislation alone is not the answer.

Last year our trade deficit with Japan was almost $60 billion. But if you were able to knock down all the trade barriers in Japan, knock out the unfair trade practices, that would only improve our deficit in trade by approximately $20 billion. I think it's wrong to try to place all the blame for our trade problems on other countries. We also have to look in the mirror and look at ourselves. We have to begin by getting our own house in order and making America more productive.

One of the things we can start on is by cutting back on this federal deficit. If you can do that, you're going to put a downward pressure on interest rates. That's going to help stimulate the economy. It's going to make our products more competitive. Another reason we're in trouble is on the business sector. In the business sector productivity has increased last year by seven-tenths of 1%; and the year before that by a half of 1%. And we find our competitors all around the world beating us at that, and that's a prescription for disaster.

Even if we knock down all of these barriers, America will not regain these markets by default. We must earn our way by investing more in plant and equipment, by increasing our productivity, by devoting more to research and development. It's no secret that America has its problems.

We've got our work cut out for us. But let's also remember the fundamental strength and the power of the American economy. Some people would have us believe that in the short period of four years, that American management pulled the plug; that they ran up the white flag. That's just not right. That's not true. I don't believe it for a minute. All over the world the smart money is still betting on America. We have the peace. We have the stability.

But for much of the recent past, we have seen a situation where exchange rates have priced America out of the market and other nations have moved in with a vengeance to take up that slack. Back in April of 1985, I chaired a study group in the United States Senate that called on the administration to enter into negotiations with our five major trading partners to try to get some adjustment in the race on our currencies. The administration at that time denounced my recommendation, said it wouldn't work, and besides that the strong dollar was a sign of the strength of America.

Now that sounds great, but that bloated dollar at that time overvalued by 30%, 40%, what it really meant was that you were giving a 30 to 40-yard head start on a 100-yard race to the marketplace. That's the kind of advantage we were giving our competitors. Six months later, Jim Baker became Secretary of the Treasury and did 180 degree change in direction. And I congratulate him on it. Today we see a welcome coordination in the exchange rate with a dollar that has dramatically lowered with some of our major trading competitors. As a result in many places American products are once more competitive. We still have a problem, though, with countries like Taiwan, which has an enormous capital surplus, a great balance of trade, and we've only been able to get about a 10% adjustment in those rates. Still a problem with South Korea, with Hong Kong, with other countries whose currency is pegged to the dollar, who are rushing in to fill that void.

I think we're also seeing some welcome signs with the administration. All last year and the year before they stiffed the Congress on a trade bill. Now we're seeing some cooperation and they're sending up the trade bill. I'm not looking for confrontation. The members of the Finance Committee are not looking for confrontation. We have met with the president. What we're looking for is cooperation, a bipartisan product that will address the problems of trade. We're reaching out to that administration asking the president to be a part of the process. And I'm hopeful that that will be the result.

The legislation that Senator Danforth and I introduced two weeks ago punishes no country. It rewards no sector. The administration says the bill is too tough. Organized labor yesterday said it wasn't tough enough. You know we may be positioned just right and trying to work out the compromise to bring a good substantive trade bill through. Fifty-eight senators, Republicans and Democrats, say that legislation is reasonable, it's responsible, and it's certainly not protectionist. It acknowledges that Congress cannot and should not negotiate trade agreements. But it also insists that Congress must be a full and equal partner in the policies of our country on trade.

Some of the changes for starters, the bill authorizes a new round of multilateral trade negotiations and expedites Congressional consideration of those negotiations. But as a quid pro quo it says the administration must consult with the Congress. Tell them what the objectives are, where we're trying to go. The whole thrust of that is to let the Congress share in it so that you can have a coordinated effort in that regard.

I must tell you that we wouldn't need this if we had someone that had the muscle of a Bob Strauss in the present situation. I can recall when Bob Strauss was the Ambassador on Trade that he communicated with us so much in the Finance Committee that he finally had us convinced that the ideas of the administration, that we had really thought of them, and that they were our ideas. He finally just coopt us. Now I'm not sure that we need that much communication. But something that approaches that is what we want. We would require the president to retaliate against trade practices that were not fair, like dumping, subsidies. Those are clearly violations of the trade agreements. The president would also have to order import relief to domestic industries. If the International Trade Commission agreed unanimously to grant such protection, we would change the law to encourage import-threatened industries and workers to become more competitive. I just happen to believe there's still some Chrysler's and some Lockheed's out there that are well worth saving. I particularly feel that, Dwayne, because I used to be on the Board of Directors at Lockheed, so I'm a little biased there. Fifty-eight members of the Senate believe that to be a moderate and a responsible approach to trade legislation. We've left the president an out when you get to questions of national security.

The problem that you've got is that trade has just not been a priority for our country. Trade has been a handmaiden for other foreign policy objectives. You've had everybody and nobody in charge of trade. You decide you want to get tough with the European common agricultural policy that Dwayne Andreas was talking about a while ago, and what happens? The Defense Department rushes in and says don't upset the Europeans. You know, we're trying to get in the cruise missile. We're trying to get in Pershing IIs. And then you run into some non-tariff barriers in Japan and you start to get tough with the Japanese. And the State Department rushes in and says you can't do that. You know they're our ally. They vote with us in the United Nations. That's the sort of thing that we've seen in this fight over turf in our trade policy and something I think that we have to turn around.

I think one of the major reasons that we've had for not showing the leadership that we need in trade is that you've had this kind of debate and dissension between the Congress and the president. It needs to be a coordinated effort. I can recall when Lyndon Johnson went out to negotiate on trade and didn't consult with the Congress, went out and worked out the agreements and when he came back to get it ratified by the United States Senate, they turned him down. That lesson is not lost on our trading partners. And that's why it's important, I think, that we work this out together.

I think America has to provide the leadership. The Japanese and the Europeans are not going to do that, and I really don't think they want to. As far as most of the world, trade is working fine when America provides the only importing market. Well, that's the way it's been for the last six years. And we've seen trade flat and the system has to be changed.

As the nation that built that particular system, as the world's leading economic power, the United States has a responsibility to press for that change and to lead by example. And I think it's time that we do that. We know that that leadership is not going to be easy and it's not always going to be pleasant. But if we can help to open up world markets, if we can insist on a new era of growth and prosperity and fairness in trade, then America can spark greater prosperity and opportunity throughout this world. I think that's an exciting challenge and one that demands a renewed sense of national unity and purpose. I hope that our public and our private sectors can work together to bring about that end. I hope we can set aside our differences and search together for the answers that will help America lead us into the future. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN DWAYNE ANDREAS: Thank you very much Senator Bentsen. I want to tell you that you can count me among the many people who would like to see you run for president again. But now that I have you here and in a totally private conversation, I must tell you that we need a lot more cooperation from you to get you elected. (Laughter)

At this point in the program it is our tradition to call on two distinguished members of the club to put questions to our speaker. Our two questioners tonight are John Petty, Chairman and Chief Executive Officer of the Marine Midland Bank, and John Welch, Chairman and Chief Executive Officer of the General Electric Company. Our first question will be put by Mr. Welch.

JOHN WELCH: First of all, Senator Bentsen, let me say that your speeches reflect your trade legislation, and representing a company that exports some $5 billion of high technology products and imports, some $2 billion to $3 billion of low technology products to survive, we are very proud and happy you are representing us on the Senate Finance Committee. In the background, you outlined the first question in your speech, but you didn't give me the remedy. We sat here and listened to how proud we ought to be while the dollar went skyrocketing against the D-Mark and the yen and we all got murdered. Now we're sitting watching the Korean Won and the Taiwanese dollar potentially do the same thing to us. And we don't need any rhetoric policy; we need action to deal with the Koreans and the Taiwanese. How are we going to do it?

THE HONORABLE LLOYD BENTSEN: Well, I think you put on pressure. Any time that we're providing the military protection for those people living on a peninsula, and U.S. troops up there on the, I guess that's the 98th parallel, and you look at the Taiwanese, an island empire depending on sea lanes, with the kind of protection we're giving them, certainly we ought to be able to put on enough pressure to get some movement. And I think we have to be tough about it in trying to bring that about. You have to have an adjustment. What you've seen on the Taiwanese, you've seen about a 10% adjustment in rate and just no concession at all on the part of the South Koreans. I think you need to make them understand how important it is and I don't think you need someone from the State Department telling them.

JOHN PETTY: Mr. Chairman, I was impressed with your comments. I've heard many trade policy speeches over the years in different administrations and been involved in many of them myself, and I particularly appreciated the balance I heard. I have a question that it strikes me that with the new Congress, it's been announced by leadership on both Houses that trade legislation is the first priority of Congress. I have a question about that. We say that trade and the balance of the deficit of the budget are interconnected. We say that America must strike, regain its competitiveness. We appreciate the devaluation of the dollar was necessary. I would think rather that the first priority of Congress would be to go after decisively towards achieving balance in our budget through expenditure reductions and revenue raising devices. I think our second priority would be driving more towards competitiveness. In this area I would suggest that investment legislation, export stimulus, fiscal devices that we're all familiar with should be considered. And then with those decisive actions underway, our trading partners would better appreciate and understand the legislation which you're outlining which seems to make good sense.

THE HONORABLE LLOYD BENTSEN: All right, first let's talk about the budget deficit. There's no reason why we can't and we will be working on all three of those at the same time.

We've learned to chew gum and walk at the same time. We can handle it. But on the budget deficit what you've seen presented by the administration, even Beryl Sprinkel the other day said they achieved $108 billion target of Gramm-Rudman with the addition of smoke and mirrors. We saw the Congressional Budget Office make an estimate that they were approximately $30 billion short of achieving that. Now frankly, when I was in business if I had used the same kind of accounting principles to show my stockholders my profit and loss statement, I would have been hauled up before the SEC. And if I had been a doctor practicing medicine, I would have probably had a malpractice suit filed against me. Now if the Congress uses the same economic assumptions and the same accounting, we can contend we reached the $108 billion too, but it just isn't reality. That isn't what is happening. The good news is, and this is overlooked, and the press doesn't focus on that, we're talking about bringing down that deficit by approximately $61 billion. They don't reach the $108 billion by about $30 billion. But that does mean they're cutting it by about $31 billion. And that is a very significant cut. And I think that will have a positive effect. So you're going to see that. We'll be moving on the trade bill at the same time. The budget committees are meeting. The chairman of the budget committee meets with me next week to talk about what we can do on the Finance Committee for our part of it. Now the other part of it is the Young Commission which I thought was excellent and was set up by the president, the administration, on the subject of competitiveness, has been gathering dust for two years. It's now being dusted off and we're seeing legislation introduced in that regard. But I'm all for it, but there's no reason why we shouldn't move on all three at the same time, and we can.

JOHN PETTY: Mr. Chairman, do you have an attitude towards the revenue side of the equation? Thought being given towards excise revenue devices or a value-added tax? I know the administration isn't very strong on it, but what about the leadership of the Senate?

THE HONORABLE LLOYD BENTSEN: That's the understatement of the year. The administration is adamant against it, on the Super Fund. I put on a tax, passed it through the Finance Committee – it was my amendment – and passed it through the Senate over the adamant opposition of the administration, which was a tax, a very modest one, but was placed on, was taken off the exports and placed on imports, on manufactured products. And they were strongly against that and finally helped defeat it in the House. So I don't think there's much chance of a value-added tax with that kind of opposition from the administration. You can't pass; politically you just can't pass any kind of a tax increase unless you get both parties working for it. It just can't be accomplished. It isn't a politically popular thing to do anyway. So if one party hangs back to lay the blame on the other, it isn't attempted. You have to have a coordinated effort in that regard and you obviously haven't been able to get that.

JOHN WELCH: Senator Bentsen, assuming that the world didn't stand still and the Tax Reform Act of 1986 does not generate the revenues that perhaps one thought they might generate, what will the Senate Finance Committee's posture be towards corporate rate changes in '87 and '88?

THE HONORABLE LLOYD BENTSEN: Well, let's say first that the administration in their proposal, and I had Jim Miller, the Head of the Budget, Director of the Budget, testifying before me this morning and I'll have Secretary Jim Baker testifying tomorrow morning, but in the budget that they've presented to us they have $22 billion in additional revenue raised. They prefer not to call it taxes, but whatever you want to call it. There's $22 billion extra money that taxpayers are going to pay. That's in there. I'm convinced that in the Finance Committee and in the Congress that we'll see that that much money is raised. I believe that will happen, that you'll get that in there. Now to the other part of your question, insofar as what we will do with the tax bill, the tax legislation in 1987 and '88, let me say particularly for '87, '88 gets out a-ways, but the one thing I remember as a businessman is wanting some stability and some continuity in the tax laws so I would know what I could count on as I made a capital investment and tried to figure out what my return was going to be. We have had four major tax bills in the last six years. So as far as I'm concerned, there's not going to be a major change in the tax law in 1987. (Applause)

JOHN WELCH: Now we only have one definitional problem "major." (Laughter)

THE HONORABLE LLOYD BENTSEN: Well, okay. I expect to push and support a technical corrections bill. (Laughter) And that is high risk in the United States Senate. High risk in the House, not quite as much because they have the Rules Committee, they can give them a closed rule. We've got a germaneness rule. They can hang anything they want on that thing as it goes by. But I, well, I've already met with Danny and the two of us have talked it over and we're going to push a technical corrections bill and try to keep anything else from being put on it. And that won't be easy, I can't guarantee that, but that's going to be the thrust of it. I would expect that to be later in the year with the priority now being given to the budget and to the trade legislation. But we'll be trying to bring that about. Now again insofar as great changes, when we're talking about those things that the administration has asked for in the way of revenue raisers, I expect us to provide those. As I recall, of the $22 billion, $6 billion of it comes to the Finance Committee. Most of it is in so-called user fees, some of them in other committees.

JOHN PETTY: Senator, you used the phrase that trade was not the priority of the country. That indeed has been our tradition. At the basic issue, it attacks very much the question of how we go about exporting. And how do you change it? I've frequently referred to how young people in this country go off to a business school and their first lecture at the business school, they're taught about exports as a phase which you pass, that takes ten minutes for the professor. The next two years are directed toward how to position yourself for direct investment, particularly overseas. Contrary wise, in Dusseldorf, the German manufacturer sends his son to Hamburg to work in a trading company for three years and changes the psychology of that. How do you really go about that type of a basic change where you approach business with an export orientation?

THE HONORABLE LLOYD BENTSEN: Mr. Petty, this is a crowd of opinion makers. Not out here. It starts with people like this. It starts with people who are concerned about the future of their country and understand the impact of trade and what it means. It starts with people like this talking to their congressmen and talking to their senators. And if you really want to know somebody that's concerned about what's happening on trade, talk to somebody that's just lost his job because they've closed his plant because of semi-conductors being dumped in this country. Talk to some of these people that I've seen over in East Texas with Lone Star Steel and what's happened to them. And they'll tell you they're concerned about trade. As this thing has gained momentum and as it has mounted and had more a dramatic effect on our country and last year reduced the increase in the GNP by some 30 to 40% they're beginning to understand and it's seeping through the consciousness of our people. Every public opinion poll I have seen shows trade moving up in the order of priority in the concerns of the American people. It's happening.

JOHN WELCH: Senator Bentsen...(CHANGED AUDIO TO NEXT SIDE)...increasing on the oil front now, we're now becoming aware of the dependence on imports. People have enjoyed the luxury of the deflation, if you will, and now we're getting the media starting to pump up the problems of dependency particularly with the OPEC nations getting a little bit of control here. What is your, if you will, 12-month to 18-month remedy for what might be a 5-year crisis?

THE HONORABLE LLOYD BENTSEN: You want a campaign speech or what I think we can do?

JOHN WELCH: A little of both.

THE HONORABLE LLOYD BENTSEN: I'm not totally objective on the issue, considering my roots. But let me make a couple of points to you, because it is a very serious problem facing us. In 1985, we had a 27% dependence on foreign oil in this country. In 1986 in the month of November it got as high as 42%. You can see where you're headed. Today we're more dependent on foreign oil than we were in 1973 and 1974 when they slapped the embargo on us and we had the long lines at the gas pumps. I was just down visiting with the Mexican president, in Mexico City. Their oil production is topped out. This year Canada's were level. Next year the North Sea, with the exception of the Norwegians, will have topped out. In 1985, the Saudis were number fifteen and supplying us with oil. Last year they were in the top four. What have we seen happen? We've seen an increase in the utilization of oil and gasoline and gas in this country. We've seen a situation where they've said don't worry anymore about the thermostats in the public buildings, where they've said we no longer want the strict requirements on increasing gasoline mileage for automobiles. Headed absolutely in the wrong direction. Reducing conservation and losing production here. Stripper wells being plugged and you won't bring them back on stream. Production budgets severely curtailed by domestic oil companies. I've introduced legislation that says to the president, we'll put the ball in your court. Give us a forecast every year for what we're going to have in the way of dependency on foreign oil for the next three years. And the year that it exceeds 50% that ought to set off all the alarm bells. And then propose to the Congress what do you want us to do to help turn that around, whether it's conservation, whether it's incentives to the industry, or whether it's an oil import fee. I happen to support all three of them. But often I get a visceral reaction in the Northeast when I talk about an oil import fee. But I promise you that national security is at stake in this country and we better start facing up to it. I just wish that on that show Dallas they'd have someone take Chapter 11. (Laughter) And then people would begin to understand what's happening.

JOHN WELCH: That sounds like, Senator; in 1988 you might have a tax bill in our future with some of the features on encouraging exploration.

THE HONORABLE LLOYD BENTSEN: An oil import fee?

JOHN WELCH: How would they do that?

THE HONORABLE LLOYD BENTSEN: That's possible. But I don't think there's a chance of passing an oil import fee without the support of the president. And up to now, he's been adamant in his opposition to it. I'm hopeful that will turn around. But it doesn't have to be an oil import fee. It can be other ways. You can have incentives to the industry to go out and drill more, to try to find those new reserves. They're going to cost you more, but they're worth it to try to cut back on the dependency on a very unstable area that's going to have a higher and higher percentage of oil that's coming to this country.

JOHN PETTY: Senator, in your Bentsen-Danforth legislation, I believe you give the president authority to negotiate a solution to the Third World debt problem. I wonder if you could give us a little background as to what you have in mind in that regard.

THE HONORABLE LLOYD BENTSEN: Well, I wish my friend Bill Bradley was here. That's his favorite, to get on that subject. I frankly feel that some of those are never going to be paid, some of those Third World country debts. But that's not something we can go in and legislate and say across the board you reduce them so much. That's something for the regulators to do. I used to be in the financial business, have some modest understanding of it. And I think that's beyond the scope, the capabilities of legislation. I leave that to the regulators.

JOHN WELCH: Senator Benson, in your bill you've got a very creative idea of an escape clause for when an industry is in trouble, it can make its case and then Congress or somebody will judge whether or not it can become competitive or it's putting the mechanisms in place to become competitive. I think the concept is terrific in that it puts a time frame and pressure on management. I don't know how you ever propose to politically get government to determine the effectiveness of the competitive process and how one should be allocated this relief?

THE HONORABLE LLOYD BENTSEN: Well, you see you have this now that if you can show injury, then you can be granted relief. And I think that's much too loose a criterion. I think there are some companies that will never be world-competitive. And I think it's a serious mistake for us to grant them relief, give them protection, and obviously run up the cost to the consumer to that degree when at the end of that period of protection, they're going down the tube anyway. So what we have done is try to toughen the criterion by saying that you cannot get the relief unless you can prove that you're willing to make the capital commitments, that you can do the things that are going to increase your productivity to be world-competitive at the end of that period of protection. And we turn that over to an appointed body, the International Trade Commission, who have an extended period of time with service to try to give them some independence in arriving at that judgment. A perfect solution, certainly not. But I think an improvement on what we now have.

JOHN PETTY: Mr. Chairman, a lot of opinions have been expressed about the exchange value of the dollar, and I can't miss the opportunity to give you the opportunity to make some comments.

THE HONORABLE LLOYD BENTSEN: On the exchange rate of the dollar, I don't think anyone can give you an absolute precise level. And it varies too over the years, as you go along with the productivity rate increase of nations. The question, the productivity rate increase amongst the Japanese is faster than it is in ours. So over a period of time you're going to see that dollar come down some more as related to the Japanese. What you don't want is a free-fall. And you don't have any assurance that you can keep from having that happen. There is risk in that dollar coming down, and we have to understand that and accept that. But there's no question about that the dollar became substantially overvalued and was bloated and had to be brought down. And I congratulate Jim Baker on what he's done. And I don't want to see any precipitous drop, but I do think, as I said, that there are a number of those countries where they have their currency pegged to our dollar, that we have to have some adjustment or otherwise they just fill in and fill that void, rush in and fill that void.

JOHN WELCH: Senator Bentsen, I opened up by saying we're lucky to have you. Since I'm supposed to ask the next question, you've answered everything I can think of. I still feel we're very lucky to have you and thanks for being...

THE HONORABLE LLOYD BENTSEN: You're very kind, Jack. Thank you very much.

PRESIDENT DWAYNE ANDREAS: Well, thank you very much Senator Bentsen. And thank you Mr. Welch. Thank you Mr. Petty. One of our many club traditions, Senator Bentsen, is that we like to present the Big Apple to our guests. Will you please accept this with our thanks and our best regards.

THE HONORABLE LLOYD BENTSEN: Thank you very much.

PRESIDENT DWAYNE ANDREAS: I would like you all to please stay three or four minutes while our guests go out because they have to get right to the airport with a minimum of traffic. So we will excuse you, and other than that, our meeting is adjourned.

End of Meeting