

The Economic Club of New York

339th Meeting
86th Year

The Honorable Lloyd M. Bentsen
United States Secretary of the Treasury

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Questioners: Marshall Loeb, Managing Editor
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Introduction

Chairman Donald B. Marron

Good evening ladies and gentlemen. I'm Don Marron, and welcome to the 339th meeting in the 86th year of the Economic Club of New York. And it will be a very good evening. We are very delighted to have with us this evening Lloyd Bentsen, the Secretary of the Treasury and the principal spokesman for the Clinton Administration on the U.S. economy.

The post of Treasury Secretary caps for Secretary Bentsen a very long and ultimately distinguished career in Congress. It began with his election to the House in 1948. At that time, he was 27, the youngest member in the House. He served three very productive terms in the Congress and then launched an equally successful career creating Lincoln Consolidated, a financial services holding company. He showed his good judgment then picking exactly the right industry.

In 1970, drawn back to politics, he defeated incumbent Senator Yarborough from Texas, and then squared off against a Republican we've heard a lot of since, George Bush, and won. Following that victory, he served three successive terms, distinguished for many activities but culminating in the 1988 time that he was on the national scene. And in that presidential campaign he showed an intelligence and a wit and a determination that was recognized throughout the world.

During his career in the Senate, he was Chairman of the Senate Finance Committee beginning in 1986, and in that period he worked closely with the Reagan Administration and the Bush Administration to pass important tax legislation and also became a leading figure in shaping and advocating U.S. government trade policy. And, of course, now he is a critical member of President Clinton's effort to pass NAFTA – I'm sure something we'll hear more about this evening. When President Clinton nominated Secretary Bentsen, he said I wanted someone who had the unique capacity to command the respect of Wall Street while showing an unrelenting concern for the Americans who make their living on Main Street. I'm very pleased and proud to introduce the Secretary of the Treasury, Lloyd Bentsen. (Applause)

The Honorable Lloyd M. Bentsen

United States Secretary of the Treasury

By golly, he is tall, isn't he? I told him I was 6'1" in the mornings. (Laughter) I'm delighted to be here and to be back with you. The last time I was here was in 1987. Back in 1987, I was talking about trade, and I was talking about trade with Japan. I remember during the questions that they really beat up on me on tax questions because we had just done the '86 tax reform. Really the only applause I really remember that night was when I finally said there will be no other major changes in the tax law for some time. (Applause)

Well, I don't want to be a Johnny-One-Note, but I'm going to be talking about trade again

tonight. And I'm going to be talking about trade with Mexico and with Canada. And then I suspect I'll get hit with a few tax questions and probably not with any applause tonight. Ever since I took this job, I've felt an obligation to tell the United States people, the taxpayers, how we're doing. I can recall in that '88 debate that we had, in running then, that one of the things I said was, well, you let me write \$200 billion worth of HUD checks a year and I can make you feel good too. Now I'm writing \$300 billion worth of HUD checks a year and I don't feel good about it at all. And that's why it's important that we get this deficit down.

Tonight, instead of telling you how many HUD checks I've written, let me tell you about a check I received this week. It was for \$83,644. It came from a man named Clement Dorn, a poultry farmer in Upper State New York. And he wrote in his will, and I quote, "It is my desire to leave these funds to the United States of America because I arrived in the United States of America in 1923 from Germany and this country has been good to me." It makes you proud to be an American, doesn't it? (Applause)

I remember a couple of years ago I was in Denmark. My grandfather came from Denmark. The American ambassador said to me, well, I guess, Senator, you're over here looking at some of your ancestral castles. I said, let me tell you something, Mr. Ambassador, if my family had had castles, they'd never left this place. (Laughter) There are just not many kings and queens in our genes. But I tell you what we do have; we have risk takers, risk takers, people that left families and friends and a language they understood to come to a new country, to raise the standard of

living of their people. That's what's in our genes.

I've seen many leaders coming to Washington, particularly since the end of the Cold War, tell us how we were their example, how they wanted their country to be like ours. There's kind of an irony in this one, though, because just as we're helping reshape the world, inspiring it, leading it, we're torn in this country over a free trade agreement. We have two neighbors who want to do a little business with us. And we're acting like this little guy sandwiched between two bullies out to beat up on us. Pretty laughable to say that if NAFTA passes we're in danger of being inundated by Mexico, an economy that is just 5% the size of ours. But that's what's happening.

In trade battles such as this one that I've seen, there are two extremes. There are the elitists, and all they know is the word free trade. Probably never spent a day in their life working in a business where they had a foreign competitor. Probably never tried selling a product to Japan. But they have this knee-jerk reaction opposing anyone who preaches anything but totally free trade. And then you get on the other side, and there you have the protectionists. They'd have us put up the walls. They'd have us return to the protectionism of Smoot-Hawley. They'd have us go back to the 55% tariffs that we had at that time.

You know, last week, out there on that White House lawn, when I watched Rabin and I watched Arafat, I saw Rabin fidgeting because it was wrenching what he was doing for his country. And I heard his remarkable words and I saw Arafat, his outstretched hand. And I saw those two

extremes come together. They left ideology behind and Israelis and Palestinians came together because it was the only practical thing to do.

The next day at the signing of the NAFTA side agreements, I saw four presidents, different parties, different ideologies, come together. Come together because it was the only practical thing to do in supporting NAFTA. They recognized that the world has changed, that you can't be just pure free traders or pure protectionists. Not when the jobs can go to any low-wage country in the world, treaty or no treaty, and you can't put up enough walls to stop it. Not when you see how free trade fails miserably unless it's fair trade. Low tariffs in one country and high tariffs in the other will not increase jobs for both.

The only trade agreements we ought to sign are those that create jobs for both parties. Those are the ones that will last. One in eight jobs in this country is owed to trade, one in six in Canada, one in six in Mexico. No country can create jobs unless its businesses export and they can't export unless we play by comparable rules. So we're not going to send our team out there in tennis shorts while the other guys are in football pads and say, Play Ball. This is a practical treaty concerned with pocketbook issues and jobs. But so far it has not been very practical, it has been mainly emotional.

Organized labor sincerely believes those jobs will go south, but they're wrong. Those jobs can go south whether we have a treaty or not. One of the reasons they have gone south is because

Mexico has been protectionist, because they have built walls where they've made it difficult for our products to get in, where you had to put a plant down there in order to be able to sell in that domestic market. This treaty will not be easy to pass. If we tried it tonight, the odds would be against us in the House of Representatives. Better in the Senate, but tough in the House. But, you know, passage of trade treaties have been tough in every one I've been involved in. And we've generally started behind because those who are objecting are the loudest while those who support it come on slow. But as we get those facts out there, we have won those fights time and time again and I think in the end we'll win this one.

Now, some skeptics, particularly in the business world, don't think that the president has his heart in this one, that he's more worried about healthcare and when the shooting really starts, that he'll take a walk. That is not the case. This president has his heart and his soul in this one. You saw former presidents last Tuesday endorse it. I don't know a president in the last 50 years that hasn't been trying to improve relations with Mexico. I was born and reared on that Mexican border. When I go to bed at night on the ranch, I can look across the Rio Grande and see the lights of Reynosa.

All through that period of time, I listened to politicians from Mexico campaigning against those gringos del norte, the Colossus of the north. What an incredible change is taking place, first with de la Madrid taking them into GATT and now with Salinas privatizing, opening up markets, lowering tariffs, looking to us as a trading partner, a true one. For the last six years, they've

opened markets, bought our products, and we've increased our jobs by some 400,000 by exports to Mexico. They didn't do it because we held a gun to their head, but they thought it was a good deal for both of us.

I don't understand why the opposition is so strong against this one. What do you need in business to sell products? Well, you need growing markets. I have people tell me that Mexicans are too poor to buy our products. They buy more per capita from us than do the more affluent Japanese or the Europeans. They love U.S. products. Of all their imports, 70% of them come from the United States.

Where are the exploding economies around the world? Asia, the way it's growing. And we must continue to be involved but we have to admit that the Japanese and the Chinese have an edge on us. Where's the second largest growing market in the world? Latin America, the changes that are taking place there – the privatizing, the lowering of tariffs. Go down to Chile, meet Alejandro Foxley, the Minister of Economics there, and what he's been able to do and Aylwin supporting him as president. Go down to Argentina, to a Peronista. Can you imagine a Peronista privatizing, lowering tariffs, opening up markets? But that's what Menem is doing, and that's what Cavallo, his Finance Minister, is encouraging. That's what you're seeing.

Now let me tell you, my friends, when we talk about NAFTA, we're talking about giving an edge in Mexico to U.S. products and to Canadian products – not to Japanese, not to European,

but to our products. You let this agreement go down the tube and you watch the Japanese and the Europeans moving in and helping take over that market.

Now, in spite of the liberalization that you've seen by Salinas, you're still seeing a tariff in their country on our products going down there two and a half times as much as our tariff on their products coming here. You're seeing a situation where their products coming in to this country, 50% of them, zero tariff. The others, 4%. You're seeing a situation with NAFTA, if we get it in effect, where for Mexico in the first year 50% of the products will be tax-free and tariff-free. And in five years, two-thirds of them will be. That's the kind of opportunity that we ought to be fighting for. That's what we should be working for.

If you look at what's been happening, you have seen in five years our going from a \$6 billion deficit in trade to Mexico to a \$5 billion surplus. It will help all industry – financial services, it'll help small business. The risk takers in this country are creating those jobs and there's a market waiting for them in Latin America.

Last Thursday I was in Chicago talking to a company with 450 employees, a foundry. In the last three years, 15% of its market now has become sales to Mexico. I asked the owner in front of his 450 workers, I said, if we pass NAFTA, are you going to move any of those jobs to Mexico. He said absolutely not, we will not.

Let me give you an example of automobiles because that's where we're getting the strongest opposition in organized labor there, feeling that those jobs will go to Mexico. What you saw last year in the sale of automobiles of the ten top models, you saw 2.1 million of them sold in this country, manufactured in this country, 162 went to Mexico. The Big Three tell me that the first year that this is in effect, that they will sell, they estimate, 60,000 automobiles to Mexico. Jobs created in this country, high paying jobs that average 12% more than domestic jobs normally would.

Now let me give you another one that they tell me. From the Office of Technology Assessment, it costs \$410 more to build a car in Mexico than it does here. Why? Because of infrastructure problems, because of transportation problems, because we have the most productive workers in the world today in this country. Those things coupled together mean that we build that car cheaper here than they build it in Mexico with the differential in wages.

Who are our toughest competitors in automobiles? Countries that have higher wage scales than ours. Germany, Japan – Japan's wage is 30% higher now for automobile workers than our own. When Europe opened up its market to Spain and Portugal, the opponents all said that's going to be a disaster, all the jobs are going to go to Spain and Portugal. That isn't what happened. What you saw was an increase in markets and then increased jobs throughout Europe.

Big companies that tell me they're not selling there will be selling after we get NAFTA. Now

what happens if we don't do it? What can happen? They can decide it's just not working trying to be a trade partner of the United States. These tariffs that have been brought down to an average of 10%, those tariffs can go back up to 50% and still be GATT-compatible. And that sort of thing can happen to us, and it must not happen. It would be a big failure on our part.

Then talk about environmental concerns. I can look at Nuevo Laredo, 26 million gallons of raw sewage going into the Rio Grande every day and going on down that river. I look at Brownsville where two or three years ago they had brain-damaged children being born because they thought that it was chemical waste coming out of some of the Maquiladora plants. You won't get those environmental concerns addressed without this. And how do you talk to the GATT people and say open up your markets and let's get GATT passed and let's do it by December, the 15th if we can't even do it with our own neighbors.

They talk about our importing immigrants from Mexico. That's right. We do. But I'll tell you this, they say if Mexicans don't have jobs, Americans will have Mexicans. In all my years, I can't remember a political debate like this one. You got 41 out of 50 governors for it and those governors wake up every morning thinking about jobs for their state and they're supporting this one.

Economists tell us it will create another 200,000 jobs in the first two years, and the opposition is led principally by one businessman, a friend of mine. He says there's that great sucking sound as

the jobs move south. Well, my friend has a hearing problem. (Laughter) That great sucking sound, that is products going south, not jobs going south. And I want some of you CEOs to stand up, and stand up to him. I want you talking about how this is good for the United States of America and for Mexico and for Canada. And I want you to talk to your employees and have them talk to their congressmen and write their congressmen. And don't give them some canned message to sign their name to. It didn't take me long after going to the Senate from Texas to understand the difference between grassroots and Astro turf. (Laughter) So get the grassroots to speak.

But tonight, although I wanted to focus on NAFTA, let me say something about healthcare reform, because the president will be going before the Congress tomorrow night. He's not the first president to try to achieve affordable universal coverage, but he'll be the first one to frame the issue in economic terms and he's absolutely right on that one. Right now our system is the most expensive. We spend 50% more on healthcare than the average industrial country and we don't have universal coverage.

Corporations in this country pay a higher percentage of their expenses toward health coverage than their foreign competition, and healthcare costs are rising two and three times inflation. And that's a drag on the economy we just can't afford. Today it is 14% of our GNP and the Germans and the Japanese are fighting because it's between 8 and 9% and they think it's too high for them. If we don't turn this thing around, it'll be 20% by the end of this decade, and the average

for the other industrial countries will probably be about 10%. And that'll make us really internationally not competitive. It's going to be a tough fight. It's going to be a very tough one. And I think NAFTA is also going to be a tough one. But that's what we hired out for, and we'll work for these kinds of reform.

Now let me wind it down with this one. I was in Evian, France at the Bilderberg Meeting about three years ago. I can't help but remember a man who stood up and said, look at the great changes in this world – the end of the Cold War, Europe and Asia emerging as the leaders of the world, and America on the decline. That was just three years ago. It's a little bit ironic now that you see Europe in a recession, you see it with a negative GDP, you saw Japan last year with a negative GDP, and America is not just a military and a political leader, but it is an economic leader for the rest of the world.

We are the engine of growth, not as fast as we'd like to be, but nevertheless, as compared to what's happening – to see American business the most competitive in the world today and to see the American worker the most productive. And we finally started cutting the deficit. And insofar as the market responses, despite a few bobbles in the last couple of days, the highest stock market we have ever seen, and to see 30-year bonds at the lowest rate they've been in over 20 years, and this country of ours growing faster than any other G-7 country. I went to a G-7 meeting in London to talk about the economy in February. I was its most junior member. Eight months later I am the second senior member. (Laughter)

So things are upbeat for our country. And if we have learned anything from the last week's ceremonies, let's put ideologies aside. Let's learn that old thinking doesn't always work and that holding on to special interests for a few will bring everyone down. And we can do better if we set policies that will bring everybody up in the world. Thank you very much. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN DONALD B. MARRON: Marvelous talk, Mr. Secretary, Lloyd. As is our custom, now we're going to have two speakers, Marshall Loeb, Managing Editor of Fortune Magazine, and Jack Hennessy, Chairman and CEO of C. S. First Boston. Marshall, we're going to give the honor for the first question.

MARSHALL LOEB: Thank you Don. Mr. Secretary, according to the news reports today from Moscow, Russian President, Yeltsin, suspended the parliament and called for elections in either November or December. What do we know about the fast developing, unfolding situation in Russia? And what do you think our policy should be?

THE HONORABLE LLOYD M. BENTSEN: That is a good question. I was there in June. In June, I met with _____ and again I met with President Yeltsin just before he had his convention. What we had seen through June was the privatization of some 60,000 to 100,000 small businesses and they're not going to turn back from that one. But what we also saw was total

obstructionism insofar as the deputy, the Chamber of Deputies, their Congress, their Parliament. What we saw then as we got into August, where Federov somewhat pushed aside and you saw Gerashchenko begin to get the ruble in trouble again and not limiting the printing or the expansion of credit to old industries. So the reforms were beginning to falter. Now what you've seen is Yeltsin bring back in some of the reformists in that regard and I think that's a major plus. The president talked to Yeltsin today and I talked to the president. I think the president is absolutely right in supporting Yeltsin when Yeltsin makes a total commitment to democratic free elections for all of the deputies, for the Congress, and for the presidency, and leave it up to the Russian people. And I would support that and the president does, and I think he's right.

MARSHALL LOEB: Just a followup question, how do you think the economy in Russia and the other former Soviet states will develop within the next year or two?

THE HONORABLE LLOYD M. BENTSEN: It is going to be very tough bringing that together. You've seen the situation. You look at our GDP which is modest coming out but still growing, but then you look at the country in Europe and the one that's showing, I suppose, the largest increase in its GDP is Poland. It's because they took the plunge and they did the reform. But they also paid the political price for that. And so it is very difficult to see how well the Russian people will meet those kinds of sacrifices to get to a free market system when they have what they think has been total employment even though it is gross underemployment.

JACK HENNESSY: Mr. Secretary, you've spoken very forcefully and very, very eloquently tonight in favor of NAFTA. I think many of us in the business community, however, remain somewhat skeptical for perhaps two or three reasons. And those reasons are that if there was this degree of commitment to NAFTA and the president's heart and soul was truly in this, would he have allowed this to become sandwiched between the tax bill and the health bill? And if his heart and soul is really in this, since his total support on the Republican side, how has he let the opposition get organized and become an issue within his own party? And I guess the threshold question is, is he really willing to spend the political capital that's obviously necessary now to get NAFTA through?

THE HONORABLE LLOYD M. BENTSEN: How much time do I have? (Laughter) Let me say this. I think if you had heard that speech he made with the former presidents, the emotionalism, the commitment, the knowledge of the issue, I think that would have convinced you – I think it did me. On the other hand, here's a man where you have organized labor, which plays a significant role in the Democratic party, all out against it. That takes a lot of political courage to face up to that, and that's what he did, without any equivocation at all, and then made tours around the country to assist in that one. Now when we got into that budget fight, you have to remember that the previous four budgets that were sent up were dead on arrival. This one survived by the skin of its teeth. I must say I had never expected when I took this new job that I would end up as the lowest paid lobbyist in town. But that took much longer than we had hoped and a much tougher fight and a great expenditure of political capital. He's turned right around

and is spending political capital on NAFTA. Now when you talk about healthcare, that's not going to be passed this year. That's going to be done next year. And what you have is different sub-committees that will be handling those things as they progress through the Congress. And NAFTA has to be done by the end of this year. And that's what the fast track calls for. And I think we'll win it.

MARSHALL LOEB: Mr. Secretary, I'd like to raise a question about healthcare and the president's program. How are we really going to finance the president's program? Our senior senator from New York is understood to have called the White House's reported financing plans fantasy. How much money will we have to raise and where in fact will it come from?

THE HONORABLE LLOYD M. BENTSEN: Let me state that on that one I think it's the most difficult piece of legislation to put together that I've seen in all the years I was in the Congress. And I worked on a couple of health bills myself – I actually sponsored two that passed the Senate, never passed the House, but passed the Senate – two of them. But let me also say that they have met with over 1,100 different groups, over 1,100, to get their input, to get their ideas, to get their thoughts. I would say then like a laser they have gone to look at the cost of benefits, what premiums ought to be, what the subsidies ought to be. And they even hired outside actuaries and estimators from the five largest accounting firms in the country. HCFA has worked on the estimates. They've had their actuaries doing it. The Labor Department has, the Treasury Department has. And they were still working on the composite and the interaction of those. And

I would anticipate that HCFA and Treasury and OMB helping coordinate it, that we'll have that final estimate out sometime in October. But what you're seeing, it is in transition. It is developing. And I promise you the Congress will have its input on it, imprint on it. Because you have fellows that have been very interested in healthcare – Jay Rockefeller, George Mitchell, you can go down the list. And I can look at Pete Stark on the House side and Henry Waxman and others that have been very much involved in those health issues and they're going to be involved. And you've got Republicans like John Chafee and others that will be very much involved. I think it'll be a bipartisan bill. It'll have to be a bipartisan bill or it will not pass. And I think it should be bipartisan. But I think it's going to be accomplished. And I think the estimates are not slanted. I think they're the best efforts that they could make. Now getting back to what Pat said, I think what Pat is really referring to, and the one thing you cannot pin down, is the political reality of accomplishing each of these things. Because you see one of the things that's being done in this is cutting back very much on Medicare and Medicaid and that's like the third rail of politics to do that one. Touch that one and you get defeated. But they're doing it and doing it by leavening it, by saying to the elderly that we're going to give you drug benefits insofar as Medicare. Now we're talking about long-term care, to try to moderate picking up revenues from cutting back. You take Medicare, expanding at the rate of 16%...no, Medicare expanding at the rate of 11%, Medicaid expanding at 16%, and by the year 2000, that is anticipated to be cut down to 4.6%. Those are tough targets and tough goals. So some very courageous stands have been taken on that one. But the problem again is politically getting those things accepted. I think probably that's what Pat was referring to when he said fantasy. He thinks that you can't sell those. I think

you can. You won't sell all of them.

MARSHALL LOEB: There will be a significantly expanded demand for services upon a limited supply. In order to finance that, won't we have to have a substantial tax increase?

THE HONORABLE LLOYD M. BENTSEN: I think that what, I think you're going to have some very dramatic savings. And I think the competition for services and the HMOs will help substantially. You know when you go to talk to a surgeon about an operation, you don't really bargain a lot about the price, except I can recall one fellow that did. I can recall when I was twelve years old and I was running a fever and couldn't seem to get over it, my parents took me into the little town of Mission, Texas. That was back during the depths of the Depression. And my father said to the doctor, he said, how much...the doctor said I'd have to have my tonsils out, and my father said how much would that cost? And the doctor said, well, that'll be \$35. Well, in the depths of the Depression that was a lot of money. My father said, that's pretty high. He said let me ask you something. He said, do all children have to have their tonsils out ultimately? And the doctor said, well, just about. In those days they thought so. He said, well, if it's \$35 for one, what would you charge for five? (Laughter) The doctor said, Mr. Bentsen, I know your family, you only have three children. And my father said, no, no, he said, my brother has two. So over the next two days, five of us had our tonsils out at a discount. But there are not many folks who will do that. But these HMOs can provide some of that competition.

JACK HENNESSY: Mr. Secretary, let me switch gears for a moment and ask you a couple of easy questions here. Many of us make our living in the financial markets here in New York. The Treasury's new debt management policies which basically put an enormous burden on the bill market because you're out of the long-term markets...

THE HONORABLE LLOYD M. BENTSEN: Not really. We've lessened it some.

JACK HENNESSY: It raises questions in some people's minds. And also at the same time we've seen a massive transfer of household wealth into the stock and bond markets through the medium of mutual funds on the order of magnitude of \$450 billion a year. And there are reports that the Treasury perhaps would like lower interest rates yet again which might even exacerbate this. Are you worried about the stability of financial markets? And does the over-reliance on bills and the massive transfer of household wealth directly into the markets give you cause for concern?

THE HONORABLE LLOYD M. BENTSEN: Let me say first insofar as 30-year money and what we did on the bonds there, we moved it more back to what the average has been over the last 25 years. It is not any major move to short-term money. Let me further state, well, in a modest way I used to be in the mutual fund business. One of the subsidiaries of the company I headed was in the mutual fund business. Once I left it, they did very well. They got up to about \$15 billion in assets. And I haven't been in Washington long enough, but that number still impresses me. (Laughter) Let me state that when I look at the other financial markets around the

world, when I look at the scrutiny, the oversight of mutual funds, I feel pretty good about the stability of our markets. Would I try to say that these price/earnings multiples are not high, that we won't have some downturns in the market possibly? Of course not. If I knew all the answers to that, I'd be phoning you from my yacht. So I would not try to predict that. Insofar as money markets, insofar as currency exchange rates, I think we ought to depend on that one, on the underlying economic support and that ought to evolve that and that ought to adjust that, and not through some manipulation of government.

MARSHALL LOEB: Mr. Secretary, President Clinton has said that he will seek more budget cuts this fall and Vice President Gore's Reinventing Government Plan is pitched largely at reducing spending. So specifically, where can we and where should we get more cuts in the federal budget deficit?

THE HONORABLE LLOYD M. BENTSEN: I mean beyond what we have done, well, I think that's going to be extraordinarily difficult. I think there will be some tough fights on that. The President has stated that he'll come up with those and propose them and we're in the process, as late as two days ago, of working on some of those but we are not ready to propose them and draw the kind of fire we're going to draw this early. When you're cutting back on popular programs, that is not easy. So with all due respect, sir, I shall not outline them tonight.

MARSHALL LOEB: Well, can I give you another chance then and put it in a different way?

(Laughter)

THE HONORABLE LLOYD M. BENTSEN: Marshall, I've been worked on by experts.

MARSHALL LOEB: Do you think there will be more spending cuts approved by the Congress this year?

THE HONORABLE LLOYD M. BENTSEN: Yes.

MARSHALL LOEB: Can you give us some idea...(Laughter)

THE HONORABLE LLOYD M. BENTSEN: No.

JACK HENNESSY: Mr. Secretary, financial reform failed in the last administration and many people thought it was part and parcel of the comparative advantage of the United States if we deregulated further and had a level playing field in the financial services business. Is this likely to be a concern of this administration, arriving at a level playing field between banks, securities companies, and generally reforming our financial system?

THE HONORABLE LLOYD M. BENTSEN: There seems to be a growing interest in that. But there are other priorities ahead of it. I would anticipate that within that four years, that you're

going to see some further reform in financial services, but that's down the road away.

MARSHALL LOEB: Mr. Secretary, how are we going to create enough jobs in the United States in the future? The president feels deeply about this and says that every country seems to be wrestling with this particular problem without solution. In your view, what kinds of businesses will be creating the most jobs? And what role should the government play to stimulate job creation?

THE HONORABLE LLOYD M. BENTSEN: Well, we've had, since the beginning of the year; we've created a little over a million jobs. They're being created at approximately 150,000 a month. In '92, they were being created at about 80,000 jobs a month. Part of the problem is a lot of those are part-time jobs. That's part of it. There's an adjustment taking place in this country and part of it is where you have two earners in a family – a voluntary choice of a part-time job. There is more being able to do jobs from home than there was before. We have an enormous advantage over the Japanese and over the Europeans insofar as having more portability amongst our workers and being able to adjust and move to where the jobs are regionally and they've done it time and time again. The Germans have an extremely difficult time doing that. So do the French. So do most Europeans. And so lifetime employment is not the case anymore in Japan. What we have seen is the American business person become far more competitive than he has been in the past. What you have also seen is small business creating most of those jobs but a lot of that is outsourcing from big business in creating those kinds of

jobs. I think that you're going to see us respond to it better than the others. Insofar as a major stimulus to the economy, we can't do it, because here we are trying to cut back on that deficit. And we can't spend a lot of money to stimulate. And if we did that at this point, I think we'd lose confidence in the bond market and I think you'd have some problems on your interest rates so that concerns me. What you saw in housing starts, in August they were up 7.8%, substantially above what was anticipated. What we're seeing in the second half is a GDP that we estimate will be between 2.5 and 3%. As compared to the rest of the world, that is good. So we're not doing as good as we would like, but insofar as the major economies around the world we are the engine for growth.

MARSHALL LOEB: Are there some particular areas of industry and business where you think job creation will be the most rapid? Lots of people want to know what to tell their children to prepare for the job realities and markets of the future.

THE HONORABLE LLOYD M. BENTSEN: Well, I'll tell you what I told my children. I said don't you take any job where they pay you off in plaques. I said either get something you can eat or put in the bank. Now I'm being a bit, I'm kidding on that one. Obviously the high tech field is going to grow. Obviously the information field is going to grow. Manufacturing and heavy manufacturing, unless we create additional growing markets, are going to have a tough time of it. People get concerned about capital goods going to Mexico. They shouldn't be. We're the leader in so much of technology and capital goods. What we're doing is refurbishing them, making

them more productive, and by the time they get that, we'll be on to more additional advances in capital equipment. It is a creative area for us in exports and we've utilized it quite well and it's growing.

JACK HENNESSY: Mr. Secretary, could I return to GATT for a moment. What is the administration's game plan to move forward on GATT? Did I understand tonight that first NAFTA, then GATT?

THE HONORABLE LLOYD M. BENTSEN: Oh, yes. Well, let me put it this way. GATT has to be by December, the 15th. We have to have NAFTA by the end of the year. I would anticipate that the bill, the president's bill on NAFTA, will be introduced on November, the 1st approximately. What you're having is the hearings taking place and the procedures for fast-track being accomplished and that will take up to that time. So that's why the bill waits until then. Insofar as GATT, you have seen a slowdown in negotiations as they had the jumbo meeting in Europe because people wondered what that meant and so they slowed down in Geneva. I'm deeply concerned about any opening up of the Blair Agreement. Our farmers, just as the French farmers, thought they got the short end of the stick. If you open it up, our farmers are going to ask for more just as the French farmers asked for more. As we're talking about it, and they now say what has come out of Europe and I haven't studied all of the communique, that they're talking about a difference in interpretation and not opening it up. I want to be sure I understand what that means. You know if they move the interpretation too far, they might as well have

opened it up. And I'll tell you what happens to farmers, when they talk about the Europeans doing a 15% set aside, what that really means, they set aside 15% of the land but what do farmers do, they pick the bog, or they pick the rocky land. And then they plant the burrows closer together, and they throw on more fertilizer, and they come up with the same amount of product. The gain we made was in cutting the subsidy on exports back, and that's an imperative for us and that has to be. I've said to the Japanese, I've said what we really ought to do to you, we ought to take the U.S. supermarket ads out of the newspapers, translate them to Japanese and put your Japanese prices for steak and rice and the rest of it right alongside ours. And I said, if you do that, you'll have some of those families beating on the door of the Diet to try to get the kind of prices we have. So we have a serious problem insofar as opening up those.

MARSHALL LOEB: Secretary Bentsen, is there a VAT in our future? Recently President Clinton went further than we had ever heard him before in praising the virtues of a value-added tax and he said that we should have a major national debate on the subject. What are your views?

THE HONORABLE LLOYD M. BENTSEN: Insofar as the consumption tax, I think we'll move in that direction, but I can't give you a timetable for that. It is not without problems. You go, as I recall, it's about 17.5% in France. It's approximately up to 33% in Ireland. And then you get to different levels of luxury as to how high the value tax is. I can remember Nakasone and Takeshita as they debated in Japan and had riots in the streets and one couldn't and the other contributed to his loss of office. I looked at Mulroney where they had a manufacturing tax, an

eroding manufacturing base, so they had to move to a value-added tax. And from the time they put the value-added tax in, I saw the popularity of Mulroney starting downhill. So those are all the kinds of political considerations that you think about. I then talked to; I had Dr. Solow in, Nobel Prize winner, economists, Liberal. And he said he was for a consumption tax. I said, well, that's interesting. I said I've been talking to Conservative economists and they tell me the same thing. He said, well, that's because it's all that's left. And I said, how do you take care of the regressivity problem? He said, well, I would say if the level of poverty was \$10,000, and that's not it, it's more than that, but if it was \$10,000, and you had a 5% value-added tax, he said I would give every man, woman, and child \$500 and when they got to \$10,000, they'd be even. And then I wouldn't worry about regressivity, about that one. And I said, for God sakes, George McGovern, it was \$1,000, though, wasn't it? But those are the types of things. So I can tell you, Marshall, that I think we're moving in that direction, but I can't tell you how fast.

JACK HENNESSY: Mr. Secretary, could you clarify for us the U.S. government's policy vis-a-vis the dollar and exchange rate stability of the dollar? We noticed that there seemed to be a managed exchange rate policy vis-a-vis the yen and yet during the recent ERM debacle, the administration stood on the sidelines. Is there one policy for the rest of the world and one for Japan in respect of exchange rates?

THE HONORABLE LLOYD M. BENTSEN: No. No, I think that the underlying economic fundamentals ought to control in that situation. And I think the only time that we have intervened

in that regard is when we see very dramatic fluctuations over a short period of time that destabilize the market. I think that's as far as we go. And insofar as the Europeans and their currency exchanges, that's for them to decide. We have not intervened in spite of the allegations by some of the French.

CHAIRMAN DONALD B. MARRON: I'd like to ask the questioners for their last questions. Marshall...

MARSHALL LOEB: Mr. Secretary, we all in our jobs have joys and frustrations. Can you tell us some of the joys and some of the frustrations of your job? (Laughter) And how long do you plan to hold that job? (Laughter)

THE HONORABLE LLOYD M. BENTSEN: Well, I'll tell you one that Theo Waigel told me. He said, Lloyd, he said, if you're the Minister of Finance in a country that is having budgetary problems, and you are popular, you are not doing your job. But let me also say to you, public service is an interesting life. Sometimes it takes quite a while to get something done that you've been working on. But when you get it done and you feel like you've made a difference, that's when it's fun and that's when it pays off. A different piece of legislation, people think of me from an economic standpoint normally because I've been in those areas, but I've played a major role in prenatal and neonatal healthcare because I feel very strongly about doing what we can to see that we have children born with sound minds and bodies. And we got that one, and I felt

pretty good about it. I had a situation where in a Sunday school where my wife was teaching years ago, I had a dear friend there who was reaching retirement age and bought a little house up in Conroe, Texas and he had been with this company for just about 30 years. Just before he hit the 30 years, they fired him. And that pension he thought he was going to get wasn't there because it was not funded, and it took 30 years for him to vest. And I said that's an outrage, and found out the company had done it before. So when I got to the Senate, I went to work on ERISA, and you can't do that anymore. And that's when you think you've done one which you enjoy.

JACK HENNESSY: Final question, Mr. Secretary. You've been working the other side of the street now for about nine months. You worked the other side for about 30 years. Do you care to share with us your impressions of the Congress now and any suggestions on how you might improve the overall system?

THE HONORABLE LLOYD M. BENTSEN: Well, I must tell you, I would tell you, Jack, that for 22 years, I marveled at the power of the other end of Pennsylvania Avenue. For eight months, I've marveled at the power of the opposite end of Pennsylvania Avenue. (Applause)

CHAIRMAN DONALD B. MARRON: Thank you very much. We are very happy that you are at both ends of Pennsylvania Avenue. Thank you very much. The evening is adjourned.